General Mills Reports Fiscal 2022 Second-Quarter Results

- **Net sales increased 6 percent to $5.0 billion; organic net sales[1] were up 5 percent**
- **Operating profit declined 13 percent to $800 million; constant-currency adjusted operating profit was down 6 percent, reflecting significant input cost inflation and elevated costs related to supply chain disruptions**
- **Diluted earnings per share (EPS) totaled $0.97, down 13 percent from the prior year; adjusted diluted EPS of $0.99 was down 7 percent in constant currency**
- **Company updates full-year fiscal 2022 outlook to reflect stronger net sales growth, higher costs, and the impact of the European Yoplait divestiture**

[1] Please see Note 7 to the Consolidated Financial Statements below for reconciliation of this and other non-GAAP measures used in this release.

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MINNEAPOLIS--(BUSINESS WIRE)--General Mills (NYSE: GIS) today reported results for the second quarter ended November 28, 2021.

“We continued to compete effectively and execute well this quarter in a challenging operating environment,” said General Mills Chairman and Chief Executive Officer Jeff Harmening. “In the face of an unprecedented combination of input cost inflation and supply chain disruptions, we’re moving quickly to keep our trusted brands on store shelves for consumers while driving net price realization to protect our bottom line. As a result, we now expect to meet or exceed each of our financial targets for the year. We also advanced our portfolio reshaping efforts in the quarter, and we’re more confident than ever that General Mills will emerge from the pandemic a stronger company better geared to generate profitable growth in line with our Accelerate strategy.”

General Mills is executing its Accelerate strategy to drive sustainable, profitable growth and top-tier shareholder returns over the long term. The strategy focuses on four pillars to create competitive advantages and win: boldly building brands, relentlessly innovating, unleashing scale, and being a force for good. The company is prioritizing its core markets, global platforms, and local gem brands that have the best prospects for profitable growth and is committed to reshaping its portfolio with strategic acquisitions and divestitures, including its recent pet treats acquisition and European Yoplait divestiture, to further enhance its growth profile.

General Mills expects changes in consumer behaviors driven by the COVID-19 pandemic will result in ongoing elevated consumer demand for food at home, relative to pre-pandemic levels. These changes include more time spent working from home and increased consumer appreciation for cooking and baking. In addition, an increase in the pet

population and further humanization and premiumization of pet food during the pandemic are expected to create tailwinds for the pet food category. The company plans to capitalize on these opportunities, addressing evolving consumer needs through its leading brands, innovation, and advantaged capabilities to generate profitable growth.

Second Quarter Results Summary

- **Net sales** increased 6 percent to $5.0 billion, including 1 point of favorable foreign currency exchange. Organic net sales increased 5 percent, reflecting 5 points of positive organic net price realization and mix.
- **Gross margin** was down 400 basis points to 32.5 percent of net sales, driven by higher input costs and unfavorable mark-to-market effects, partially offset by favorable net price realization and mix. Adjusted gross margin was down 330 basis points to 32.2 percent of net sales, driven by input cost inflation and higher other cost of goods sold, including elevated costs related to supply chain disruptions, partially offset by favorable net price realization and mix and Holistic Margin Management (HMM) cost savings.
- **Operating profit** of $800 million was down 13 percent, driven primarily by lower gross profit dollars and higher transaction costs and acquisition integration costs. **Operating profit margin** of 15.9 percent was down 350 basis points. Constant-currency adjusted operating profit declined 6 percent, driven by lower adjusted gross profit dollars, partially offset by lower adjusted selling, general, and administrative (SG&A) expenses. Adjusted operating profit margin decreased 200 basis points to 16.3 percent.
- **Net earnings attributable to General Mills** was down 13 percent to $597 million and **diluted EPS** was down 13 percent to $0.97, primarily reflecting lower operating profit. Adjusted diluted EPS of $0.99 was down 7 percent in constant currency, driven primarily by lower adjusted operating profit.
- **On a 2-year compound growth basis**, relative to pre-pandemic levels, second-quarter results included: net sales and organic net sales up 6 percent; operating profit down 1 percent and adjusted operating profit flat in constant currency; and diluted EPS and constant-currency adjusted diluted EPS each up 1 percent.

Six Month Results Summary

- **Net sales** increased 5 percent to $9.6 billion, including 1 point of favorable foreign currency exchange. Organic net sales increased 4 percent, reflecting 4 points of positive organic net price realization and mix.
- **Gross margin** was down 270 basis points to 33.8 percent of net sales, driven by higher input costs and unfavorable mark-to-market effects, partially offset by favorable net price realization and mix. Adjusted gross margin was down 250 basis points to 33.4 percent of net sales, driven by input cost inflation and higher other cost of goods sold, including elevated costs related to supply chain disruptions, partially offset by HMM cost savings and favorable net price realization and mix.
- **Operating profit** of $1.6 billion was down 7 percent, driven primarily by lower gross profit dollars and higher transaction costs and acquisition integration costs.

Operating profit margin of 17.2 percent was down 230 basis points. Constant-currency adjusted operating profit declined 4 percent, driven by lower adjusted gross profit dollars, partially offset by lower adjusted SG&A expenses. Adjusted operating profit margin decreased 150 basis points to 17.2 percent.

- **Net earnings attributable to General Mills** was down 8 percent to $1.2 billion and **diluted EPS** was down 7 percent to $1.99, primarily reflecting lower operating profit. Adjusted diluted EPS of $1.98 was down 4 percent in constant currency, driven primarily by lower adjusted operating profit.
- **On a 2-year compound growth basis**, relative to pre-pandemic levels, six-month results included: net sales and organic net sales each up 6 percent; operating profit up 6 percent and adjusted operating profit up 4 percent in constant currency; diluted EPS up 5 percent and adjusted diluted EPS up 6 percent in constant currency.

Portfolio Reshaping

General Mills took important steps to further advance its portfolio reshaping efforts in the second quarter, in line with its Accelerate strategy. On November 24, the company announced the conclusion of agreements to sell its European dough businesses to Cérélia. These transactions, which are expected to close by the end of fiscal 2022 subject to competition approvals, are not expected to have a material impact on adjusted diluted EPS. On November 30, the company completed the sale of its European Yoplait operations to Sodiaal. The company estimates the European Yoplait transaction will reduce fiscal 2022 adjusted operating profit and adjusted diluted EPS by approximately 1 percent. With these divestitures and the pet treats acquisition that closed in the first quarter, General Mills is increasing its focus on its faster-growing global platforms, enhancing its organic net sales growth rate, and improving its adjusted operating profit margin profile.

Operating Segment Results

Note: Tables may not foot due to rounding.

Components of Fiscal 2022 Reported Net Sales Growth

Second Quarter	Volume	Price/Mix	Foreign Exchange	Reported Net Sales
North America Retail	(6) pts	7 pts	--	2%
Pet	14 pts	15 pts	--	29%
Convenience Stores & Foodservice	8 pts	15 pts	--	23%
Europe & Australia	(3) pts	1 pt	1 pt	(1)%
Asia & Latin America	(4) pts	6 pts	2 pts	5%
Total	(1) pt	7 pts	1 pt	6%
Six Months				
North America Retail	(6) pts	5 pts	1 pt	Flat
Pet	13 pts	13 pts	--	27%
Convenience Stores & Foodservice	10 pts	13 pts	--	23%
Europe & Australia	(1) pt	--	3 pts	2%
Asia & Latin America	(5) pts	8 pts	3 pts	6%
Total	(1) pts	5 pts	1 pt	5%

Components of Fiscal 2022 Organic Net Sales Growth

Second Quarter	Organic Volume	Organic Price/Mix	Organic Net Sales	Foreign Exchange	Acquisitions & Divestitures	Reported Net Sales
North America Retail	(6) pts	7 pts	1%	--	--	2%
Pet	9 pts	4 pts	14%	--	15 pts	29%
Convenience Stores & Foodservice	8 pts	15 pts	23%	--	--	23%
Europe & Australia	(3) pts	1 pt	(2)%	1 pt	--	(1)%
Asia & Latin America	4 pts	1 pt	5%	2 pts	(2) pts	5%
Total	--	5 pts	5%	1 pt	1 pt	6%
Six Months						
North America Retail	(6) pts	5 pts	(1)%	1 pt	--	Flat
Pet	10 pts	6 pts	16%	--	10 pts	27%
Convenience Stores & Foodservice	10 pts	13 pts	23%	--	--	23%
Europe & Australia	(1) pt	--	(1)%	3 pts	--	2%
Asia & Latin America	3 pts	3 pts	5%	3 pts	(2) pts	6%
Total	--	4 pts	4%	1 pt	1 pt	5%

Fiscal 2022 Segment Operating Profit Growth

Second Quarter	% Change as Reported	% Change in Constant Currency
North America Retail	(7)%	(8)%
Pet	10%	10%
Convenience Stores & Foodservice	20%	20%
Europe & Australia	(56)%	(61)%
Asia & Latin America	43%	40%
Total	(3)%	(4)%
Six Months		
North America Retail	(9)%	(10)%
Pet	18%	18%
Convenience Stores & Foodservice	33%	33%
Europe & Australia	(31)%	(37)%
Asia & Latin America	17%	14%
Total	(3)%	(4)%

North America Retail Segment

Second-quarter net sales for General Mills' North America Retail segment increased 2 percent to $2.98 billion, driven by favorable net price realization and mix, partially offset by lower pound volume. Organic net sales increased 1 percent. On a 2-year compound growth basis, relative to pre-pandemic levels, second-quarter organic net sales were up 5 percent. Net sales were up 16 percent in U.S. Snacks, up 3 percent in U.S. Cereal, and up 1 percent in constant currency in Canada. U.S. Yogurt net sales essentially matched year-ago levels and U.S Meals & Baking net sales

were down 4 percent. Segment operating profit of $649 million was down 7 percent as reported and down 8 percent in constant currency, driven primarily by higher input costs and lower volume, partially offset by favorable net price realization and mix and lower SG&A expenses. On a 2-year compound growth basis, segment operating profit was flat in constant currency.

Through six months, North America Retail segment net sales were essentially in line with last year at $5.61 billion. Organic net sales were down 1 percent. On a 2-year compound growth basis, first-half organic net sales were up 5 percent. Segment operating profit of $1.27 billion was down 9 percent as reported and down 10 percent in constant currency, driven primarily by higher input costs and lower volume, partially offset by favorable net price realization and mix and lower SG&A expenses. On a 2-year compound growth basis, first-half segment operating profit was up 2 percent in constant currency.

Pet Segment

Second-quarter net sales for the Pet segment increased 29 percent to $593 million, driven by strong volume growth and favorable net price realization and mix, including a 15-point net sales benefit from the pet treats acquisition, which closed on July 6. Organic net sales were up 14 percent despite a difficult comparison to the prior-year period that benefited from an increase in retail inventory. On a 2-year compound growth basis, second-quarter organic net sales were up 16 percent. Segment operating profit increased 10 percent to $132 million, driven primarily by higher volume and favorable net price realization and mix, partially offset by higher input costs and higher SG&A expenses. Profit results in the quarter included a one-time inventory adjustment and other acquisition-related expenses totaling $11 million. On a 2-year compound growth basis, segment operating profit was up 28 percent.

Through six months, Pet segment net sales increased 27 percent to $1.08 billion, driven by positive contributions from volume growth and favorable net price realization and mix. Organic net sales were up 16 percent. On a 2-year compound growth basis, first-half organic net sales were up 14 percent. The Blue Buffalo brand drove strong year-to-date retail sales growth and market share gains in measured channels. In addition, retail sales for the recently acquired pet treat brands were up 22 percent in measured channels in the first half. Segment operating profit increased 18 percent to $247 million, driven primarily by favorable net price realization and mix and higher volume, partially offset by higher input costs and higher SG&A expenses. On a 2-year compound growth basis, first-half segment operating profit was up 24 percent.

Convenience Stores & Foodservice Segment

Second-quarter net sales for the Convenience Stores & Foodservice segment increased 23 percent to $541 million, reflecting ongoing recovery in key away-from-home food channels including schools, restaurants, lodging, and convenience stores, as well as market index pricing on bakery flour. On a 2-year compound growth basis, relative to pre-pandemic levels, second-quarter organic net sales were up 3 percent. Segment operating profit increased 20 percent to $94 million, driven by favorable net price realization and mix and higher volume, partially offset by higher input costs. On a 2-year compound growth basis, segment operating profit was down 10 percent.

Through six months, Convenience Stores & Foodservice net sales increased 23 percent to $1.02 billion. On a 2-year compound growth basis, first-half organic net sales were up 3 percent. Segment operating profit increased 33 percent to $196 million, driven by favorable net price realization and mix and higher volume, partially offset by higher input costs. On a 2-year compound growth basis, first-half segment operating profit was down 2 percent.

Europe & Australia Segment

Second-quarter net sales for the Europe & Australia segment were down 1 percent to $464 million, driven primarily by lower pound volume, partially offset by positive net price realization and mix and favorable foreign currency exchange. Organic net sales were down 2 percent. On a 2-year compound growth basis, relative to pre-pandemic levels, second-quarter organic net sales were flat. Net sales performance was driven by declines on yogurt and dough. Segment operating profit totaled $16 million compared to $36 million a year ago, driven primarily by higher input costs and lower volume. On a 2-year compound growth basis, segment operating profit was down 35 percent in constant currency.

Through six months, Europe & Australia net sales increased 2 percent to $981 million, including 3 points of favorable foreign currency exchange. Organic net sales were down 1 percent. On a 2-year compound growth basis, first-half organic net sales were up 2 percent. Segment operating profit of $61 million was down 31 percent as reported and down 37 percent in constant currency, driven primarily by higher input costs. On a 2-year compound growth basis, first-half segment operating profit was down 4 percent in constant currency.

Asia & Latin America Segment

Second-quarter net sales for the Asia & Latin America segment increased 5 percent to $450 million, driven by positive net price realization and mix and favorable foreign currency exchange, partially offset by lower pound volume. Organic net sales also increased 5 percent. On a 2-year compound growth basis, relative to pre-pandemic levels, second-quarter organic net sales were up 7 percent. Net sales performance was led by *Yoki* meals and snacks in Brazil and *Häagen-Dazs* ice cream in China. Segment operating profit of $44 million was up 43 percent as reported and up 40 percent in constant currency, driven primarily by favorable net price realization and mix and lower SG&A expenses. On a 2-year compound growth basis, segment operating profit was up 23 percent in constant currency.

Through six months, Asia & Latin America net sales increased 6 percent to $864 million, driven by positive net price realization and mix and favorable foreign currency exchange, partially offset by lower pound volume. Organic net sales increased 5 percent. On a 2-year compound growth basis, first-half organic net sales were up 9 percent. Segment operating profit of $59 million was up 17 percent as reported and up 14 percent in constant currency, driven primarily by favorable net price realization and mix, partially offset by lower volume and higher input costs. On a 2-year compound growth basis, first-half segment operating profit was up 20 percent in constant currency.

Joint Venture Summary

Second-quarter net sales for Cereal Partners Worldwide (CPW) were down 2 percent in constant currency, reflecting the comparison against elevated demand for food at home a year ago. Constant-currency net sales increased 8 percent for Häagen-Dazs Japan (HDJ), driven by strong new product performance. Combined after-tax earnings from joint ventures were down 9 percent to $33 million, driven by lower profit at CPW. Through six months, after-tax earnings from joint ventures were down 20 percent to $62 million. On a 2-year compound growth basis, after-tax earnings from joint ventures were up 15 percent in the second quarter and in the first half.

Other Income Statement Items

Unallocated corporate items totaled $132 million net expense in the second quarter of fiscal 2022, compared to $48 million net expense a year ago. Excluding mark-to-market valuation effects and other items affecting comparability, unallocated corporate items totaled $112 million net expense this year compared to $100 million net expense last year.

Restructuring, impairment, and other exit costs totaled $2 million in the second quarter and were an insignificant amount a year ago *(please see Note 3 below for more information on these charges)*.

Net interest expense totaled $93 million in the second quarter compared to $101 million a year ago, driven primarily by lower rates and lower average debt balances. The effective tax rate in the quarter was 21.7 percent compared to 22.3 percent last year *(please see Note 6 below for more information on our effective tax rate)*. The adjusted effective tax rate of 22.3 percent was in line with a year ago.

Cash Flow Generation and Cash Returns

Cash provided by operating activities increased 5 percent to $1.50 billion through six months of fiscal 2022, driven primarily by changes in inventories, partially offset by changes in accounts payable. Capital investments of $224 million were down 1 percent from a year ago. Dividends paid increased 1 percent to $623 million. General Mills repurchased approximately 6.2 million shares of common stock through six months of fiscal 2022 for a total of $375 million. Average diluted shares outstanding decreased 1 percent to 614 million.

Fiscal 2022 Outlook

General Mills updated its guidance for fiscal 2022 to reflect stronger topline growth and significantly higher input costs than originally expected, as well as the impact of the European Yoplait divestiture. The company's updated full-year fiscal 2022 financial targets are summarized below:

- **Organic net sales** are now expected to increase 4 to 5 percent, due to stronger-than-expected performance in the first and second quarters and incremental Strategic Revenue Management actions that will take effect in the second half. Full-

year organic net sales were previously expected to be toward the higher end of the range of down 1 to 3 percent.

- Constant-currency **adjusted operating profit** is now expected to decline 1 to 4 percent, reflecting the increased guidance on organic net sales, significantly higher input costs than originally expected, and the impact of the European Yoplait divestiture, which is estimated to reduce fiscal 2022 adjusted operating profit by approximately 1 percent. For the full year, the company now anticipates cost of goods sold headwinds will be approximately $500 million higher than what was assumed in its initial fiscal 2022 outlook, inclusive of higher input cost inflation, which is now expected to be 8 to 9 percent, as well as elevated costs related to supply chain disruptions. Adjusted operating profit was previously expected to be toward the higher end of the range of down 2 to 4 percent.
- Constant-currency **adjusted diluted EPS** are now expected to range between down 2 percent and up 1 percent, driven by the same changes impacting the adjusted operating profit outlook, including an estimated 1 percent reduction from the European Yoplait divestiture. Adjusted diluted EPS were previously expected to be toward the higher end of the range of flat to down 2 percent.
- **Free cash flow conversion** is expected to be at least 95 percent of adjusted after-tax earnings.
- The net impact of divestitures, acquisitions, and foreign currency exchange is expected to reduce full-year reported net sales growth by approximately 1 percent, and foreign currency exchange is not expected to have a material impact on adjusted operating profit or adjusted diluted EPS.

General Mills will issue pre-recorded management remarks today, December 21, 2021, at approximately 6:30 a.m. Central time (7:30 a.m. Eastern time) and will hold a live, webcasted question and answer session beginning at 8:00 a.m. Central time (9:00 a.m. Eastern time). The pre-recorded remarks and the webcast will be made available at www.generalmills.com/investors.

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on our current expectations and assumptions. These forward-looking statements, including the statements under the caption “Fiscal 2022 Outlook,” and statements made by Mr. Harmening, are subject to certain risks and uncertainties that could cause actual results to differ materially from the potential results discussed in the forward-looking statements. In particular, our predictions about future net sales and earnings could be affected by a variety of factors, including: the impact of the coronavirus (COVID-19) pandemic on our business, suppliers, consumers, customers, and employees; disruptions or inefficiencies in the supply chain, including any impact of the coronavirus (COVID-19) pandemic; competitive dynamics in the consumer foods industry and the markets for our products, including new product introductions, advertising activities, pricing actions, and promotional activities of our competitors; economic conditions, including changes in inflation rates, interest rates, tax rates, or the availability of capital; product development and innovation; consumer acceptance of new products and product improvements; consumer reaction to pricing actions and changes in promotion levels; acquisitions or dispositions of businesses or assets; changes in capital structure; changes in the legal and regulatory environment, including tax legislation, labeling and advertising regulations, and litigation; impairments in the carrying value of goodwill, other intangible assets, or other long-lived assets, or changes in the useful lives of other intangible assets; changes in accounting standards and the impact of significant accounting estimates; product quality and safety issues, including recalls and product liability; changes in consumer demand for our products; effectiveness of advertising, marketing, and promotional programs; changes in consumer behavior, trends, and preferences, including weight loss trends; consumer perception of health-related issues, including obesity; consolidation in the retail environment; changes in purchasing and inventory levels of significant customers; fluctuations in the cost and availability of supply chain resources, including raw materials, packaging, energy, and transportation; effectiveness of restructuring and cost saving initiatives; volatility in the market

value of derivatives used to manage price risk for certain commodities; benefit plan expenses due to changes in plan asset values and discount rates used to determine plan liabilities; failure or breach of our information technology systems; foreign economic conditions, including currency rate fluctuations; and political unrest in foreign markets and economic uncertainty due to terrorism or war. The company undertakes no obligation to publicly revise any forward-looking statement to reflect any future events or circumstances.