General Mills (GIS)

Updated March 23rd, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$53	**5 Year CAGR Estimate:**	8.1%	**Market Cap:**	$32.2 B
Fair Value Price:	$59	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	04/08/20
% Fair Value:	90%	**5 Year Valuation Multiple Estimate:**	2.1%	**Dividend Payment Date:**	05/01/20
Dividend Yield:	3.7%	**5 Year Price Target**	$68	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	0.0%

Overview & Current Events

General Mills is a packaged food giant, with more than 100 brands and operations in more than 100 countries. It has a market capitalization of $32 billion.

General Mills has not cut its dividend for 118 consecutive years. However, the stock underperformed the market by a wide margin in recent years, partly due to the acquisition of Blue Buffalo, with the $8 billion acquisition representing 25% of its market cap. Investors may be afraid that management does not see promising prospects in the core business of the company while the takeover may prove too large to assimilate smoothly. Also, growing health trends in packaged food have caused General Mills to stagnate.

In mid-March, General Mills reported (3/18/20) financial results for the third quarter of fiscal 2020. The pet segment maintained its strong momentum and grew its net sales by 11% over last year's quarter thanks to strong volume growth and price hikes. However, the legacy business remained under pressure. As a result, total net sales and organic sales remained flat. Moreover, the company boosted its media investment materially and thus its currency-neutral adjusted earnings-per-share decreased -6% over last year's quarter.

While the stock dramatically underperformed the market in the last four years of the 11-year bull market, it has greatly outperformed the market during the recently born bear market, which has resulted from the coronavirus. While its Haagen-Dazs business is adversely affected by the virus, its retails sales have greatly benefited. Thanks to this tailwind, management now expects the adjusted earnings-per-share of this fiscal year to grow 6%-8%. We have thus raised our estimate for this fiscal year from $3.36 to $3.50.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.30	$2.48	$2.56	$2.69	$2.83	$2.86	$2.92	$3.08	$3.11	$3.22	***$3.50***	***$4.06***
DPS	$0.96	$1.12	$1.22	$1.32	$1.55	$1.67	$1.78	$1.92	$1.96	$1.96	***$1.96***	***$2.08***
Shares[1]	656.5	644.8	648.5	640.8	612.3	598.7	596.8	576.9	593.0	605.0	***612.0***	***600.0***

General Mills has grown its earnings-per-share at a 4.9% average annual rate in the last decade. In recent years this has decelerated, with the company growing its earnings-per-share at a 2.6% average annual rate in the last five years. We continue to expect approximately 3.0% annual earnings-per share growth until 2025, mostly thanks to Blue Buffalo, whose growth may continue to partially offset the poor results of the legacy business. Earnings-per-share will also benefit from lower interest expense, as the deleveraging process continues.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.3	14.7	15.1	15.7	17.8	18.6	20.0	20.5	17.0	14.1	***15.1***	***16.8***
Avg. Yld.	2.9%	3.1%	3.2%	3.1%	3.1%	3.1%	3.1%	3.0%	3.7%	4.3%	***3.7%***	***3.1%***

[1] In millions.

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General Mills is trading at a price-to-earnings ratio of 15.1, which is lower than its 10-year average price-to-earnings ratio of 16.8. If General Mills were to recover to its average historical mark in the next five years, the security would enjoy a 2.1% annual tailwind in this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	41.7%	45.2%	47.7%	49.1%	54.8%	58.4%	61.0%	62.3%	63.0%	60.9%	***56.0%***	***51.3%***

The strong brands General Mills owns provides some sort of competitive advantage but the fierce competition in its business, which has caused the company to stagnate in the last six years, indicates that this moat is narrow.

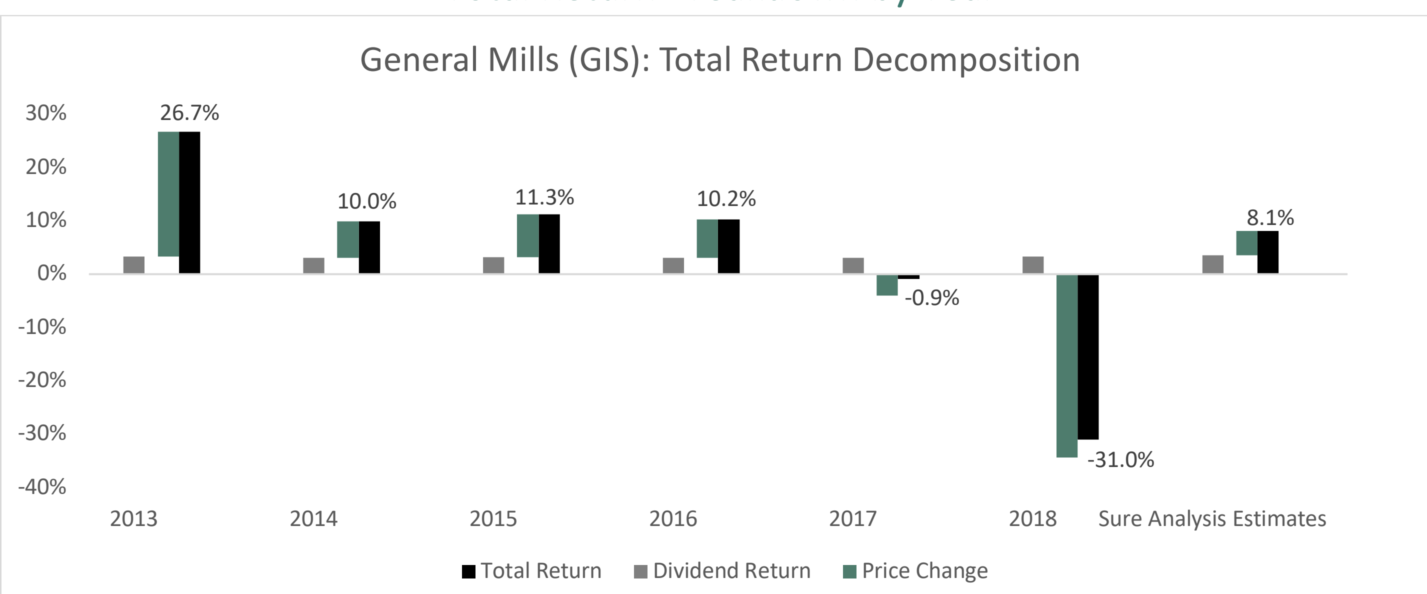
Due to the acquisition of Blue Buffalo, General Mills has frozen its dividend until it reduces its debt load to a more comfortable level. In fiscal 2019, interest expense jumped 40% due to this acquisition, from $374 million to $522 million. However, the company reduced its debt by $1.2 billion in fiscal 2019 and is on track to reduce it by a similar amount in this fiscal year. The benefit from lower interest expense was evident in the results of the first nine months of this fiscal year. During that period, interest expense decreased -12%, from $397 million to $348 million, and thus boosted pre-tax income by 3%.

Moreover, the stock has proven resilient during recessions and market selloffs because people tend to eat at home more during difficult economic periods. In the Great Recession, while most companies saw their earnings collapse, General Mills grew its earnings-per-share by more than 10% per year from 2007 to 2010. In the fierce ongoing coronavirus crisis, General Mills is proving its resilience once again, as it is growing its sales and its earnings.

Final Thoughts & Recommendation

General Mills is proving its safe-haven nature in the fierce sell-off triggered by the outbreak of coronavirus. The stock has remained flat despite the broad sell-off and could offer an 8.1% average annual return over the next five years thanks to 3.0% earnings-per-share growth, a 3.7% dividend and a 2.1% annualized expansion of its valuation level. We rate the stock as a hold at current prices. It will earn a buy rating if the security's expected annual total returns move towards the 10% threshold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	14636	14880	16658	17774	17910	17630	16563	15620	15740	16865
Gross Profit	5800	5954	6045	6424	6370	5949	5830	5568	5436	5757
Gross Margin	39.6%	40.0%	36.3%	36.1%	35.6%	33.7%	35.2%	35.6%	34.5%	34.1%
SG&A Exp.	3163	3192	3381	3552	3474	3328	3119	2889	2850	2936
D&A Exp.	457	473	542	588	585	588	608	604	619	620
Operating Profit	2638	2762	2664	2872	2896	2621	2711	2679	2586	2821
Op. Margin	18.0%	18.6%	16.0%	16.2%	16.2%	14.9%	16.4%	17.2%	16.4%	16.7%
Net Profit	1531	1798	1567	1855	1824	1221	1697	1658	2131	1753
Net Margin	10.5%	12.1%	9.4%	10.4%	10.2%	6.9%	10.2%	10.6%	13.5%	10.4%
Free Cash Flow	1531	882	1731	2312	1878	1830	2035	1731	2218	2269
Income Tax	771	721	710	741	883	587	755	655	57	368

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	17679	18675	21097	22658	23146	21832	21712	21813	30624	30111
Cash & Equivalents	673	620	471	741	867	334	764	766	399	450
Acc. Receivable	1042	1162	1324	1446	1484	1387	1361	1430	1684	1680
Inventories	1344	1609	1479	1546	1559	1541	1414	1484	1642	1559
Goodwill & Int.	10308	10564	12887	13637	13665	13552	13280	13278	21510	21163
Total Liabilities	12031	12062	14214	15530	16140	16439	16405	17127	24132	22744
Accounts Payable	850	995	1149	1423	1611	1684	2047	2120	2746	2854
Long-Term Debt	6426	6885	7430	7969	8786	9192	8431	9482	15819	14490
Total Equity	5403	6366	6422	6672	6535	4997	4930	4328	6141	7055
D/E Ratio	1.19	1.08	1.16	1.19	1.34	1.84	1.71	2.19	2.58	2.05

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	8.6%	9.9%	7.9%	8.5%	8.0%	5.4%	7.8%	7.6%	8.1%	5.8%
Return on Equity	28.9%	30.6%	24.5%	28.3%	27.6%	21.2%	34.2%	35.8%	40.7%	26.6%
ROIC	12.5%	14.1%	11.3%	12.6%	11.8%	8.0%	12.0%	11.9%	11.7%	7.9%
Shares Out.	656.5	644.8	648.5	640.8	612.3	598.7	596.8	576.9	593.0	605.0
Revenue/Share	21.42	22.38	24.99	26.70	27.74	28.49	27.07	26.12	26.87	27.86
FCF/Share	2.24	1.33	2.60	3.47	2.91	2.96	3.33	2.89	3.79	3.75

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.