



# General Mills (GIS)

Updated July 1<sup>st</sup>, 2021 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$61	<b>5 Year CAGR Estimate:</b>	6.9%	<b>Market Cap:</b>	\$36.9 B
<b>Fair Value Price:</b>	\$64	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	7/8/21
<b>% Fair Value:</b>	96%	<b>5 Year Valuation Multiple Estimate:</b>	0.9%	<b>Dividend Payment Date:</b>	8/2/21
<b>Dividend Yield:</b>	3.4%	<b>5 Year Price Target</b>	\$74	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	4.1%

## 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 \$36.9 billion. General Mills has not cut its dividend for 119 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 at the time. Investors may be afraid that management does not see promising prospects in the core business while the takeover may prove too large to assimilate smoothly. Also, growing health trends in packaged food caused General Mills to stagnate in recent years.

On March 23<sup>rd</sup>, 2021, General Mills announced an agreement to sell its 51% stake in European Yoplait yogurt to Sodial, in exchange for full ownership of Canadian Yoplait and a reduced royalty rate for the use of the Yoplait and Liberte brands in the U.S. and Canada. Management expects this transaction to increase the earnings of the company.

In late June, General Mills reported (6/30/21) financial results for the fourth quarter of fiscal 2021. Net sales fell -10% and organic sales fell -6%, reflecting the comparison against the surge in at-home food demand at the outset of the pandemic last year. Adjusted earnings-per-share decreased -19%, from \$1.12 to \$0.91.

In the full fiscal 2021, General Mills posted record earnings-per-share thanks to the surge in at-home food demand amid the pandemic. On the other hand, the company will face tough comparisons this year, as the pandemic subsides. The company generates 85% of its total sales from at-home food demand. As a result, it expects a -1% to -3% decrease in organic sales in fiscal 2022 and adjusted earnings-per-share between flat and -2%.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$2.56	\$2.69	\$2.83	\$2.86	\$2.92	\$3.08	\$3.11	\$3.22	\$3.61	\$3.79	<b>\$3.75</b>	<b>\$4.35</b>
<b>DPS</b>	\$1.22	\$1.32	\$1.55	\$1.67	\$1.78	\$1.92	\$1.96	\$1.96	\$1.96	\$2.02	<b>\$2.10</b>	<b>\$2.30</b>
<b>Shares<sup>1</sup></b>	648.5	640.8	612.3	598.7	596.8	576.9	593.0	605.0	616.1	619.4	<b>619.0</b>	<b>600.0</b>

General Mills has grown its earnings-per-share at a 4.5% average annual rate in the last decade. In recent years, this decelerated, with the company growing its earnings-per-share at a 2.6% average annual rate in the five years leading to 2019, before the tailwind from the pandemic. We expect approximately 3.0% annual earnings-per share growth until 2027, mostly thanks to Blue Buffalo. Earnings-per-share will also benefit from the resumption of share repurchases now that the balance sheet has strengthened. Buybacks had paused due to the high debt load caused by the acquisition of Blue Buffalo.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
<b>Avg. P/E</b>	15.1	15.7	17.8	18.6	20.0	20.5	17.0	14.1	15.0	16.0	<b>16.3</b>	<b>17.0</b>
<b>Avg. Yld.</b>	3.2%	3.1%	3.1%	3.1%	3.1%	3.0%	3.7%	4.3%	3.6%	3.3%	<b>3.4%</b>	<b>3.1%</b>

<sup>1</sup> In millions.

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General Mills is trading at a price-to-earnings ratio of 16.3, which is slightly lower than its 10-year average price-to-earnings ratio of 17.0. If the stock reverts to its average valuation level over the next five years, it will enjoy a 0.9% annualized gain in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	47.7%	49.1%	54.8%	58.4%	61.0%	62.3%	63.0%	60.9%	54.3%	53.3%	56.0%	52.8%

The strong brands of General Mills provide some competitive advantage but the fierce competition in its business, which caused the company to stagnate in the last five years (before the pandemic), indicates that this moat is narrow.

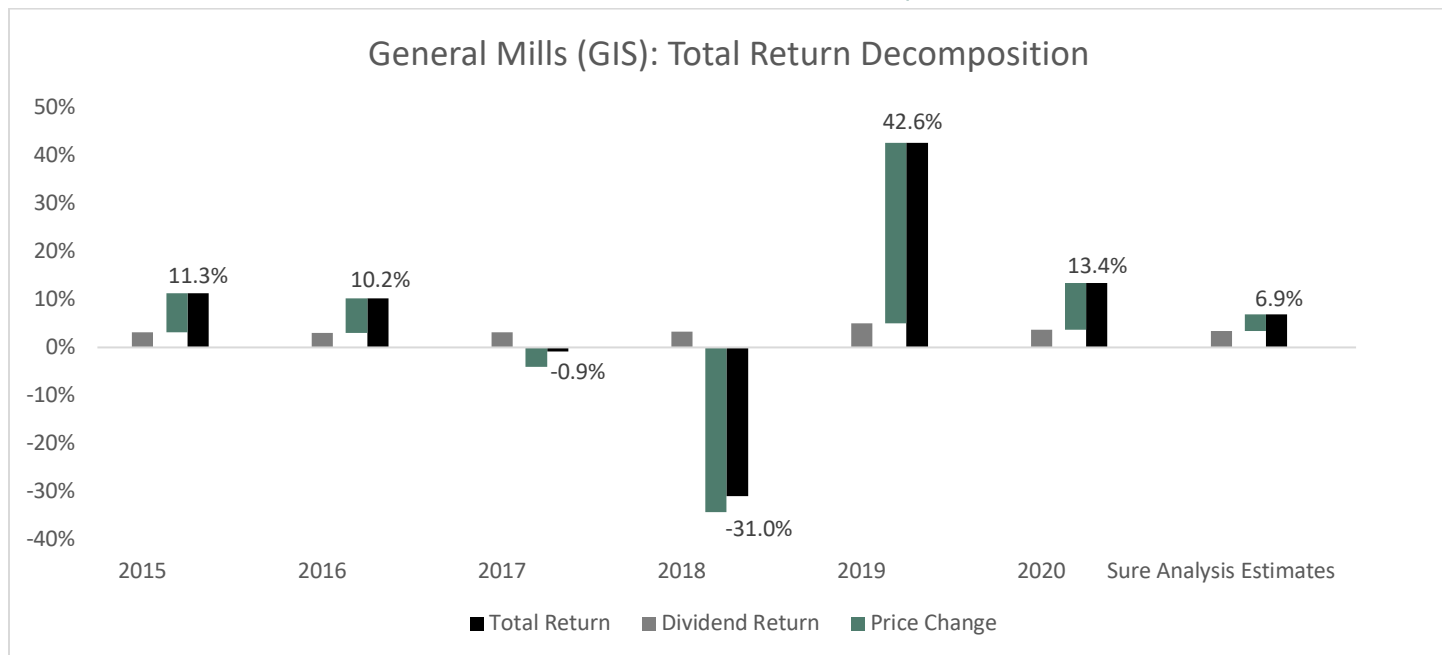
Due to the acquisition of Blue Buffalo, the debt load of General Mills increased materially. In fiscal 2019, interest expense jumped 40% due to this acquisition, from \$374 million to \$522 million. However, the company reduced its debt by \$1.2 billion in fiscal 2019, \$950 million in fiscal 2020 and \$928 million in fiscal 2021. The benefit from lower interest expense was evident in the results of fiscal 2021. During that period, interest expense decreased -10%, from \$466 million to \$420 million, and boosted pre-tax income by 2%.

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 coronavirus crisis, General Mills is proving its resilience once again, as it posted record earnings in fiscal 2020 and 2021.

## Final Thoughts & Recommendation

General Mills proved its safe-haven nature in the coronavirus crisis. On the other hand, it is one of the few companies that are adversely affected as the pandemic subsides. We expect General Mills to offer a 6.9% average annual return over the next five years thanks to 3.0% earnings-per-share growth, its 3.4% dividend and a modest annualized expansion of its earnings multiple. We rate the stock as a hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	14,880	16,658	17,774	17,910	17,630	16,563	15,620	15,740	16,865	17,627
<b>Gross Profit</b>	5,954	6,045	6,424	6,370	5,949	5,830	5,568	5,436	5,757	6,130
<b>Gross Margin</b>	40.0%	36.3%	36.1%	35.6%	33.7%	35.2%	35.6%	34.5%	34.1%	34.8%
<b>SG&amp;A Exp.</b>	3,192	3,381	3,552	3,474	3,328	3,119	2,889	2,850	2,936	3,152
<b>D&amp;A Exp.</b>	473	542	588	585	588	608	604	619	620	595
<b>Operating Profit</b>	2,762	2,664	2,872	2,896	2,621	2,711	2,679	2,586	2,821	2,978
<b>Op. Margin</b>	18.6%	16.0%	16.2%	16.2%	14.9%	16.4%	17.2%	16.4%	16.7%	16.9%
<b>Net Profit</b>	1,798	1,567	1,855	1,824	1,221	1,697	1,658	2,131	1,753	2,181
<b>Net Margin</b>	12.1%	9.4%	10.4%	10.2%	6.9%	10.2%	10.6%	13.5%	10.4%	12.4%
<b>Free Cash Flow</b>	882	1,731	2,312	1,878	1,830	2,035	1,731	2,218	2,269	3,215
<b>Income Tax</b>	721	710	741	883	587	755	655	57	368	481

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	18,675	21,097	22,658	23,146	21,832	21,712	21,813	30,624	30,111	30,807
<b>Cash &amp; Equivalents</b>	620	471	741	867	334	764	766	399	450	1,678
<b>Acc. Receivable</b>	1,162	1,324	1,446	1,484	1,387	1,361	1,430	1,684	1,680	1,615
<b>Inventories</b>	1,609	1,479	1,546	1,559	1,541	1,414	1,484	1,642	1,559	1,426
<b>Goodwill &amp; Int.</b>	10,564	12,887	13,637	13,665	13,552	13,280	13,278	21,510	21,163	21,019
<b>Total Liabilities</b>	12,062	14,214	15,530	16,140	16,439	16,405	17,127	24,132	22,744	22,457
<b>Accounts Payable</b>	995	1,149	1,423	1,611	1,684	2,047	2,120	2,746	2,854	3,248
<b>Long-Term Debt</b>	6,885	7,430	7,969	8,786	9,192	8,431	9,482	15,819	14,490	13,540
<b>Total Equity</b>	6,366	6,422	6,672	6,535	4,997	4,930	4,328	6,141	7,055	8,059
<b>D/E Ratio</b>	1.08	1.16	1.19	1.34	1.84	1.71	2.19	2.58	2.05	1.68

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	9.9%	7.9%	8.5%	8.0%	5.4%	7.8%	7.6%	8.1%	5.8%	7.2%
<b>Return on Equity</b>	30.6%	24.5%	28.3%	27.6%	21.2%	34.2%	35.8%	40.7%	26.6%	28.9%
<b>ROIC</b>	14.1%	11.3%	12.6%	11.8%	8.0%	12.0%	11.9%	11.7%	7.9%	10.0%
<b>Shares Out.</b>	644.8	648.5	640.8	612.3	598.7	596.8	576.9	593.0	605.0	616.1
<b>Revenue/Share</b>	22.38	24.99	26.70	27.74	28.49	27.07	26.12	26.87	27.86	28.74
<b>FCF/Share</b>	1.33	2.60	3.47	2.91	2.96	3.33	2.89	3.79	3.75	5.24

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

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