General Mills (GIS)

Updated June 29th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	$71	**5 Year CAGR Estimate:**	5.9%	**Market Cap:**	$43.0 B
Fair Value Price:	$68	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	7/7/22
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.9%	**Dividend Payment Date:**	8/1/22
Dividend Yield:	3.0%	**5 Year Price Target**	$83	**Years Of Dividend Growth:**	3
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Hold

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 $43.0 billion. General Mills has not cut its dividend for 121 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. Another headwind is the growing health trends in packaged food.

In late June, General Mills reported (6/29/22) financial results for the fourth quarter of fiscal 2022. Net sales and organic sales grew 8% and 13%, respectively, over the prior year's quarter, mostly thanks to strong volume and price hikes in the pet segment as well as price hikes in the other segments. Gross margin shrank from 34.5% to 33.8% mostly due to double-digit cost inflation, but adjusted earnings-per-share grew 23%, from $0.91 to $1.12, and exceeded the analysts' consensus by $0.11 thanks to strong sales. Thanks to solid business momentum, management raised the dividend by 6%. General Mills posted excellent results despite exceptionally high cost inflation, thus proving the strength of its brands.

General Mills is facing tough comparisons, as the pandemic has begun to subside. The company generates 85% of its total sales from at-home food demand. Moreover, the packaged food giant is facing exceptionally high cost inflation, which is likely to persist for a considerable period. Nevertheless, thanks to strong price hikes, management provided guidance for organic revenue growth of 4%-5% and growth of earnings-per-share of 0%-3% in fiscal 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.69	$2.83	$2.86	$2.92	$3.08	$3.11	$3.22	$3.61	$3.79	$3.94	***$4.00***	***$4.87***
DPS	$1.32	$1.55	$1.67	$1.78	$1.92	$1.96	$1.96	$1.96	$2.02	$2.04	***$2.16***	***$2.50***
Shares[1]	640.8	612.3	598.7	596.8	576.9	593.0	605.0	616.1	619.4	604.9	***600.0***	***580.0***

General Mills has grown its earnings-per-share at a 4.3% average annual rate in the last decade. In recent years, this decelerated, but the company has accelerated again since the onset of the pandemic. We expect approximately 4.0% annual earnings-per share growth until 2028, 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. Moreover, despite concerns that the tailwind from strong at-home food demand amid the pandemic will fade after the end of the health crisis, management has repeatedly stated that it expects the pandemic to have a permanent boosting effect on at-home food demand.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15.7	17.8	18.6	20.0	20.5	17.0	14.1	15.0	16.0	16.3	***17.8***	***17.0***
Avg. Yld.	3.1%	3.1%	3.1%	3.1%	3.0%	3.7%	4.3%	3.6%	3.3%	3.2%	***3.0%***	***3.0%***

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[1] In millions.

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General Mills is trading at a price-to-earnings ratio of 17.8, which is slightly higher than its 10-year average price-to-earnings ratio of 17.0. If the stock trades at its average valuation level in five years, it will incur a -0.9% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	49.1%	54.8%	58.4%	61.0%	62.3%	63.0%	60.9%	54.3%	53.3%	51.8%	***54.0%***	***51.5%***

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.

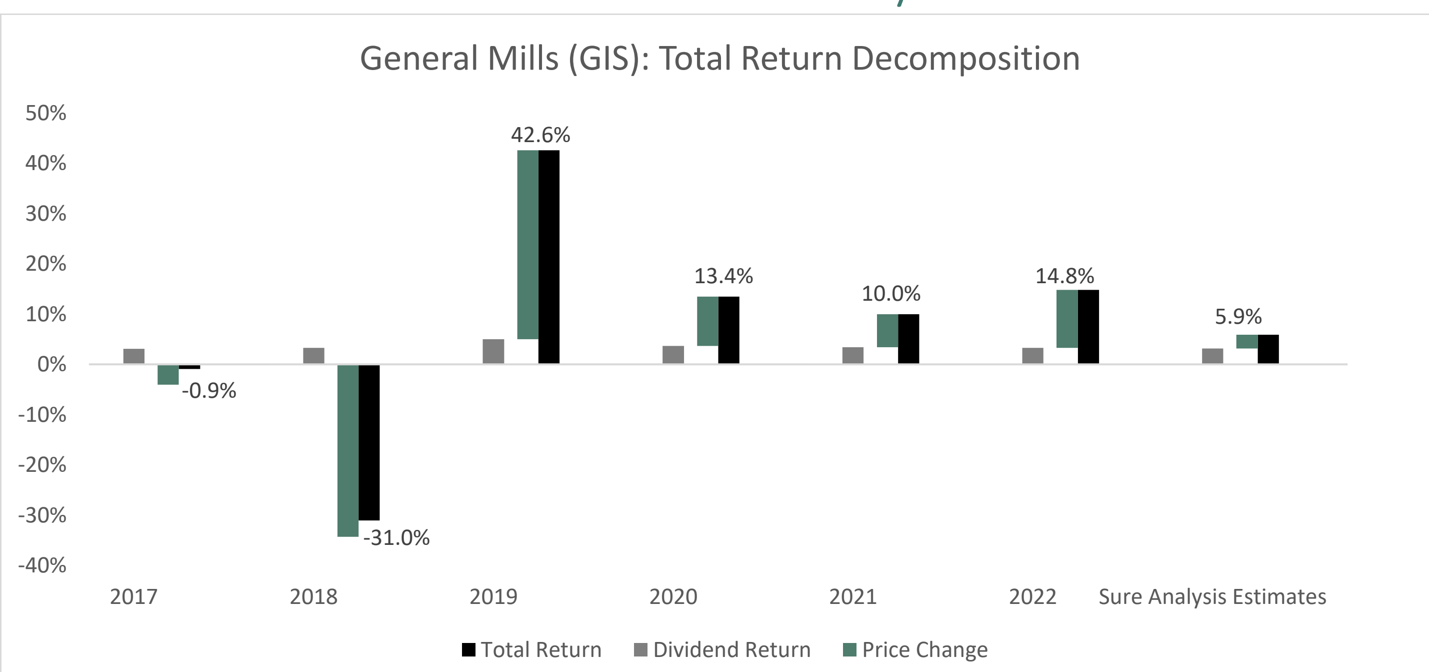
Due to the acquisition of Blue Buffalo, the debt load of General Mills increased materially. In fiscal 2019, interest expense jumped 40% due to this acquisition, from $374 million to $522 million. However, the company has reduced its debt at a fast pace since then and thus its annual interest expense has returned close to pre-acquisition level, at $380 million. In fiscal 2022, interest expense decreased -10%, from $420 million to $380 million, and boosted pre-tax income by 1.3%.

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 coronavirus crisis, General Mills is proving its resilience once again, as it has posted record earnings in fiscal 2020, 2021 and 2022.

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 5.9% average annual return over the next five years thanks to 4.0% earnings-per-share growth and its 3.0% dividend, partly offset by a -0.9% annualized contraction of its earnings multiple. The stock maintains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	16,658	17,774	17,910	17,630	16,563	15,620	15,740	16,865	17,627	18,127
Gross Profit	6,045	6,424	6,370	5,949	5,830	5,568	5,436	5,757	6,130	6,448
Gross Margin	36.3%	36.1%	35.6%	33.7%	35.2%	35.6%	34.5%	34.1%	34.8%	35.6%
SG&A Exp.	3,381	3,552	3,474	3,328	3,119	2,889	2,850	2,936	3,152	3,080
D&A Exp.	542	588	585	588	608	604	619	620	595	601
Operating Profit	2,664	2,872	2,896	2,621	2,711	2,679	2,586	2,821	2,978	3,369
Op. Margin	16.0%	16.2%	16.2%	14.9%	16.4%	17.2%	16.4%	16.7%	16.9%	18.6%
Net Profit	1,567	1,855	1,824	1,221	1,697	1,658	2,131	1,753	2,181	2,340
Net Margin	9.4%	10.4%	10.2%	6.9%	10.2%	10.6%	13.5%	10.4%	12.4%	12.9%
Free Cash Flow	1,731	2,312	1,878	1,830	2,035	1,731	2,218	2,269	3,215	2,452
Income Tax	710	741	883	587	755	655	57	368	481	629

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	21,097	22,658	23,146	21,832	21,712	21,813	30,624	30,111	30,807	31,842
Cash & Equivalents	471	741	867	334	764	766	399	450	1,678	1,505
Acc. Receivable	1,324	1,446	1,484	1,387	1,361	1,430	1,684	1,680	1,615	1,639
Inventories	1,479	1,546	1,559	1,541	1,414	1,484	1,642	1,559	1,426	1,821
Goodwill & Int.	12,887	13,637	13,665	13,552	13,280	13,278	21,510	21,163	21,019	21,213
Total Liabilities	14,214	15,530	16,140	16,439	16,405	17,127	24,132	22,744	22,457	22,069
Accounts Payable	1,149	1,423	1,611	1,684	2,047	2,120	2,746	2,854	3,248	3,654
Long-Term Debt	7,430	7,969	8,786	9,192	8,431	9,482	15,819	14,490	13,540	12,612
Total Equity	6,422	6,672	6,535	4,997	4,930	4,328	6,141	7,055	8,059	9,470
D/E Ratio	1.16	1.19	1.34	1.84	1.71	2.19	2.58	2.05	1.68	1.33

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	7.9%	8.5%	8.0%	5.4%	7.8%	7.6%	8.1%	5.8%	7.2%	7.5%
Return on Equity	24.5%	28.3%	27.6%	21.2%	34.2%	35.8%	40.7%	26.6%	28.9%	26.7%
ROIC	11.3%	12.6%	11.8%	8.0%	12.0%	11.9%	11.7%	7.9%	10.0%	10.6%
Shares Out.	648.5	640.8	612.3	598.7	596.8	576.9	593.0	605.0	616.1	619.4
Revenue/Share	24.99	26.70	27.74	28.49	27.07	26.12	26.87	27.86	28.74	29.28
FCF/Share	2.60	3.47	2.91	2.96	3.33	2.89	3.79	3.75	5.24	3.96

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