General Mills (GIS)

Updated June 29th, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$77	**5 Year CAGR Estimate:**	7.5%	**Market Cap:**	$45.1 B
Fair Value Price:	$77	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	7/7/23
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	-0.1%	**Dividend Payment Date:**	8/1/23
Dividend Yield:	3.1%	**5 Year Price Target**	$98	**Years Of Dividend Growth:**	4
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 $45.1 billion. General Mills has not cut its dividend for 122 consecutive years. The stock underperformed the market by a wide margin in 2015-2019 due to stagnation of sales amid increased health consciousness of consumers, but it has returned to growth mode in the last four years, mostly thanks to the acquisition of Blue Buffalo and the pandemic, which greatly increased food consumption at home.

In late June, General Mills reported (6/28/23) financial results for the fourth quarter of fiscal 2023. Net sales and organic sales grew 3% and 5%, respectively, over the prior year's quarter thanks to price hikes, which more than offset a volume decline caused primarily by a reduction in retailer inventory in North America. Gross margin shrank from 36.2% to 34.4% due to high cost inflation and earnings-per-share grew only 1%. General Mills posted record annual earnings-per-share despite high cost inflation, thus proving the strength of its brands, but it decelerated sharply in the latest quarter.

General Mills is facing tough comparisons, as the pandemic has subsided. It generates 85% of its sales from at-home food demand. It is also facing high cost inflation, which is likely to persist for a considerable period. Nevertheless, thanks to strong price hikes, it raised its dividend by 9% and provided positive guidance for fiscal 2024. It expects organic revenue growth of 3%-4% and growth of earnings-per-share of 4%-6%. Accordingly, we expect earnings-per-share of about $4.50 in the new fiscal year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.83	$2.86	$2.92	$3.08	$3.11	$3.22	$3.61	$3.79	$3.94	$4.30	***$4.50***	***$5.74***
DPS	$1.55	$1.67	$1.78	$1.92	$1.96	$1.96	$1.96	$2.02	$2.04	$2.16	***$2.36***	***$2.76***
Shares[1]	612.3	598.7	596.8	576.9	593.0	605.0	616.1	619.4	604.9	591.0	***580.0***	***550.0***

General Mills has grown its earnings-per-share at a 4.8% 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 5.0% annual earnings-per-share growth until 2029, 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.8	18.6	20.0	20.5	17.0	14.1	15.0	16.0	16.3	18.5	***17.1***	***17.0***
Avg. Yld.	3.1%	3.1%	3.1%	3.0%	3.7%	4.3%	3.6%	3.3%	3.2%	2.7%	***3.1%***	***2.8%***

[1] In millions.

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General Mills is trading at a price-to-earnings ratio of 17.1, which is marginally 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 -0.1% annualized valuation drag.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	54.8%	58.4%	61.0%	62.3%	63.0%	60.9%	54.3%	53.3%	51.8%	50.2%	***52.4%***	***48.1%***

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

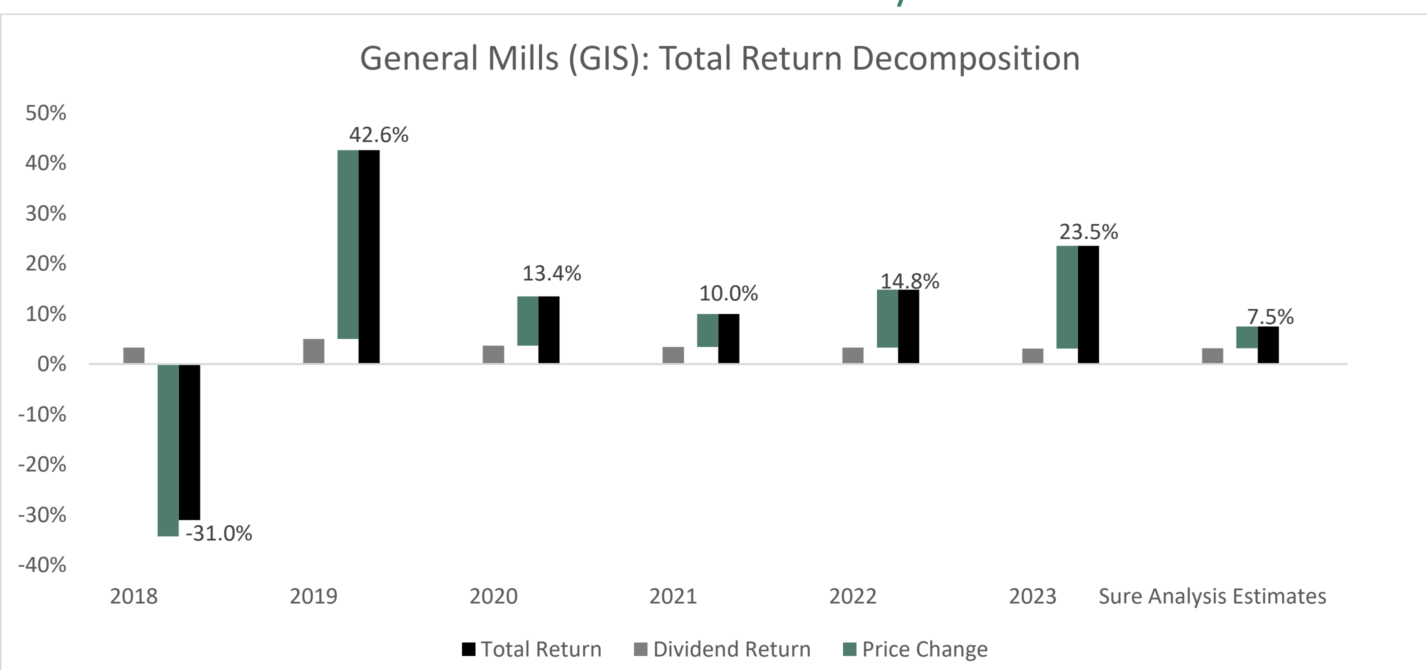
Due to the acquisition of Blue Buffalo, the debt load of General Mills increased materially. In fiscal 2019, interest expense jumped 40% due to this acquisition, from $374 million to $522 million. However, the company has reduced its debt at a fast pace since then and thus its annual interest expense has returned close to pre-acquisition level, at $382 million. Interest expense decreased -10% in 2022 but it edged up 1% in 2023.

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 proved its resilience once again, as it posted record earnings in fiscal 2020, 2021 and 2022.

Final Thoughts & Recommendation

General Mills proved its safe-haven nature during the pandemic. On the other hand, it is one of the few companies that are adversely affected now that the pandemic has subsided, though it will again offer a safe haven in the event of a potential recession, which has become more likely lately. We expect General Mills to offer a 7.5% average annual return over the next five years thanks to 5.0% earnings-per-share growth and its 3.1% dividend, partly offset by a -0.1% valuation headwind. The stock maintains its hold rating but it has become more attractive after its recent correction.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	17,910	17,630	16,563	15,620	15,740	16,865	17,627	18,127	18,993	20,094
Gross Profit	6,370	5,949	5,830	5,568	5,436	5,757	6,130	6,448	6,402	6,546
Gross Margin	35.6%	33.7%	35.2%	35.6%	34.5%	34.1%	34.8%	35.6%	33.7%	32.6%
SG&A Exp.	3,474	3,328	3,119	2,889	2,850	2,936	3,152	3,080	3,147	3,500
D&A Exp.	585	588	608	604	619	620	595	601	570	547
Operating Profit	2,896	2,621	2,711	2,679	2,586	2,821	2,978	3,369	3,255	3,045
Op. Margin	16.2%	14.9%	16.4%	17.2%	16.4%	16.7%	16.9%	18.6%	17.1%	15.1%
Net Profit	1,824	1,221	1,697	1,658	2,131	1,753	2,181	2,340	2,707	2,594
Net Margin	10.2%	6.9%	10.2%	10.6%	13.5%	10.4%	12.4%	12.9%	14.3%	12.9%
Free Cash Flow	1,878	1,830	2,035	1,731	2,218	2,269	3,215	2,452	2,747	2,089
Income Tax	883	587	755	655	57	368	481	629	586	612

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	23,146	21,832	21,712	21,813	30,624	30,111	30,807	31,842	31,090	31,452
Cash & Equivalents	867	334	764	766	399	450	1,678	1,505	569	586
Acc. Receivable	1,484	1,387	1,361	1,430	1,684	1,680	1,615	1,639	1,692	1,683
Inventories	1,559	1,541	1,414	1,484	1,642	1,559	1,426	1,821	1,867	2,172
Goodwill & Int.	13,665	13,552	13,280	13,278	21,510	21,163	21,019	21,213	21,378	21,479
Total Liabilities	16,140	16,439	16,405	17,127	24,132	22,744	22,457	22,069	20,302	20,752
Accounts Payable	1,611	1,684	2,047	2,120	2,746	2,854	3,248	3,654	3,982	4,194
Long-Term Debt	8,786	9,192	8,431	9,482	15,819	14,490	13,540	12,612	11,620	11,706
Total Equity	6,535	4,997	4,930	4,328	6,141	7,055	8,059	9,470	10,542	10,450
LTD/E Ratio	1.34	1.84	1.71	2.19	2.58	2.05	1.68	1.33	1.10	1.12

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.0%	5.4%	7.8%	7.6%	8.1%	5.8%	7.2%	7.5%	8.6%	8.3%
Return on Equity	27.6%	21.2%	34.2%	35.8%	40.7%	26.6%	28.9%	26.7%	27.1%	24.7%
ROIC	11.8%	8.0%	12.0%	11.9%	11.7%	7.9%	10.0%	10.6%	11.9%	11.6%
Shares Out.	612.3	598.7	596.8	576.9	593.0	605.0	616.1	619.4	612.6	601.2
Revenue/Share	27.74	28.49	27.07	26.12	26.87	27.86	28.74	29.28	31.00	33.42
FCF/Share	2.91	2.96	3.33	2.89	3.79	3.75	5.24	3.96	4.48	3.47

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