



General Mills (GIS)

Updated December 18th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$62	5 Year CAGR Estimate:	12.1%	Market Cap:	\$35.3 B
Fair Value Price:	\$76	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	1/10/25
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	4.1%	Dividend Payment Date:	2/3/25
Dividend Yield:	3.9%	5 Year Price Target	\$97	Years Of Dividend Growth:	5
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

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 \$35.3 billion. General Mills has not cut its dividend for 124 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 five years, mostly thanks to the acquisition of Blue Buffalo and the pandemic, which greatly increased food consumption at home.

On September 12th, 2024, General Mills announced that it agreed to sell its North American yogurt business for \$2.1 billion in cash. The proceeds will be used for share repurchases. The sale of this business, which generated 8% of total sales last year, is expected to reduce earnings-per-share by ~3% in the first year after the sale. General Mills decided to sell its North American yogurt business for its low profit margins. The sale is expected to materialize in calendar 2025.

In mid-December, General Mills reported (12/18/24) results for Q2-2025. Net sales and organic sales grew 2% and 1%, respectively, over last year's quarter thanks to higher volumes, which more than offset a slight decline in the price due to the composition of the product mix. This marked an improvement vs. the marginal decline reported in the previous quarter. Gross margin expanded from 34.4% to 36.9%, as cost savings offset input inflation. Adjusted earnings-per-share grew 12%, from \$1.25 to \$1.40, and exceeded the analysts' consensus by \$0.18.

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 while. In addition, it is currently investing in its pet business to reinvigorate growth, at the expense of short-term earnings. As a result, the company lowered its already modest guidance for fiscal 2025. It expects a -2% decline in organic sales (instead of flat sales in previous guidance) and a similar decline in earnings-per-share. Accordingly, we have lowered our forecast from \$4.50 to \$4.45.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$2.86	\$2.92	\$3.08	\$3.11	\$3.22	\$3.61	\$3.79	\$3.94	\$4.30	\$4.52	\$4.45	\$5.68
DPS	\$1.67	\$1.78	\$1.92	\$1.96	\$1.96	\$1.96	\$2.02	\$2.04	\$2.16	\$2.36	\$2.40	\$2.80
Shares¹	598.7	596.8	576.9	593.0	605.0	616.1	619.4	604.9	591.0	570.4	560.0	530.0

General Mills has grown its earnings-per-share at a 5.2% 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 over the next five years, mostly thanks to Blue Buffalo. Earnings-per-share will also benefit from a decent amount of share repurchases, as the proceeds from the sale of North American yogurt business will be allocated on share repurchases. Buybacks had paused due to the high debt load caused by the acquisition of Blue Buffalo but they have resumed lately. 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.

¹ In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	18.6	20.0	20.5	17.0	14.1	15.0	16.0	16.3	18.5	15.2	13.9	17.0
Avg. Yld.	3.1%	3.1%	3.0%	3.7%	4.3%	3.6%	3.3%	3.2%	2.7%	3.4%	3.9%	2.9%

General Mills is trading at a nearly 10-year low price-to-earnings ratio of 13.9, which is much lower 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 enjoy a 4.1% annualized valuation gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	58.4%	61.0%	62.3%	63.0%	60.9%	54.3%	53.3%	51.8%	50.2%	52.2%	53.9%	49.2%

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.

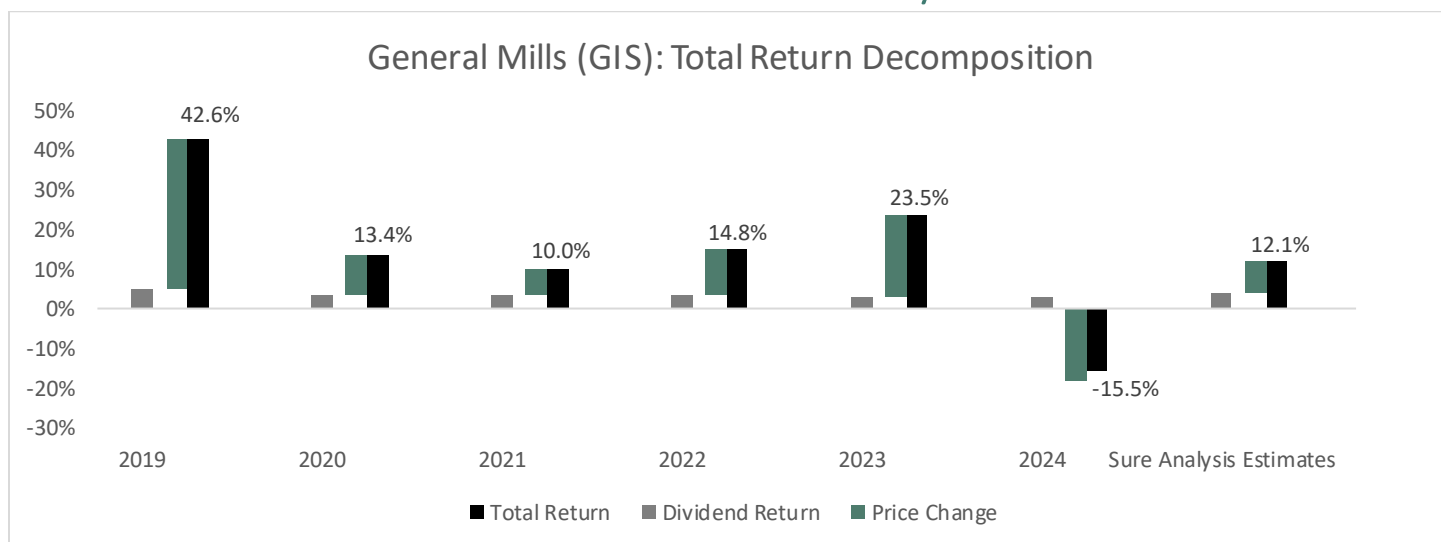
Due to the acquisition of Blue Buffalo, the debt load of General Mills increased materially. In fiscal 2019, interest expense jumped 40% due to this acquisition, from \$374 million to \$522 million. The company then significantly reduced its debt but annual interest expense has increased again to \$479 million due to the surge of interest rates. Interest expense decreased -10% in 2022 but it edged up 1% in 2023 and jumped 25% in 2024 due to high interest rates and aggressive share repurchases.

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. The stock has remained flat this year due to tough comparisons vs. last year but we expect it to return to growth mode in the upcoming years. The stock can offer a 12.1% average annual return over the next five years thanks to 5.0% earnings-per-share growth, its 3.9% dividend and a 4.1% valuation tailwind. It thus receives a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	17,630	16,563	15,620	15,740	16,865	17,627	18,127	18,993	20,094	19,857
Gross Profit	5,949	5,830	5,568	5,436	5,757	6,130	6,448	6,402	6,546	6,932
Gross Margin	33.7%	35.2%	35.6%	34.5%	34.1%	34.8%	35.6%	33.7%	32.6%	34.9%
SG&A Exp.	3,328	3,119	2,889	2,850	2,936	3,152	3,080	3,147	3,500	3,259
D&A Exp.	588	608	604	619	620	595	601	570	547	553
Operating Profit	2,621	2,711	2,679	2,586	2,821	2,978	3,369	3,255	3,045	3,673
Op. Margin	14.9%	16.4%	17.2%	16.4%	16.7%	16.9%	18.6%	17.1%	15.1%	18.5%
Net Profit	1,221	1,697	1,658	2,131	1,753	2,181	2,340	2,707	2,594	2,497
Net Margin	6.9%	10.2%	10.6%	13.5%	10.4%	12.4%	12.9%	14.3%	12.9%	12.6%
Free Cash Flow	1,830	2,035	1,731	2,218	2,269	3,215	2,452	2,747	2,089	2,529
Income Tax	587	755	655	57	368	481	629	586	612	595

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	21,832	21,712	21,813	30,624	30,111	30,807	31,842	31,090	31,452	31,470
Cash & Equivalents	334	764	766	399	450	1,678	1,505	569	586	418
Acc. Receivable	1,387	1,361	1,430	1,684	1,680	1,615	1,639	1,692	1,683	1,696
Inventories	1,541	1,414	1,484	1,642	1,559	1,426	1,821	1,867	2,172	1,898
Goodwill & Int.	13,552	13,280	13,278	21,510	21,163	21,019	21,213	21,378	21,479	21,731
Total Liabilities	16,439	16,405	17,127	24,132	22,744	22,457	22,069	20,302	20,752	21,821
Accounts Payable	1,684	2,047	2,120	2,746	2,854	3,248	3,654	3,982	4,194	3,988
Long-Term Debt	9,192	8,431	9,482	15,819	14,490	13,540	12,612	11,620	11,706	12,930
Total Equity	4,997	4,930	4,328	6,141	7,055	8,059	9,470	10,542	10,450	9,397
LTD/E Ratio	1.84	1.71	2.19	2.58	2.05	1.68	1.33	1.10	1.12	1.38

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	5.4%	7.8%	7.6%	8.1%	5.8%	7.2%	7.5%	8.6%	8.3%	7.9%
Return on Equity	21.2%	34.2%	35.8%	40.7%	26.6%	28.9%	26.7%	27.1%	24.7%	24.5%
ROIC	8.0%	12.0%	11.9%	11.7%	7.9%	10.0%	10.6%	11.9%	11.6%	11.1%
Shares Out.	598.7	596.8	576.9	593.0	605.0	616.1	619.4	612.6	601.2	579.5
Revenue/Share	28.49	27.07	26.12	26.87	27.86	28.74	29.28	31.00	33.42	34.27
FCF/Share	2.96	3.33	2.89	3.79	3.75	5.24	3.96	4.48	3.47	4.36

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

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