

General Mills

Catching up with General Mills

Maintain Rating: NEUTRAL | PO: 68.00 USD | Price: 65.74 USD

M&A, Pet and existing portfolio priorities in focus

We hosted meetings this week with Jeff Harmening (CEO) and Jeff Siemon (VP, Investor Relations and Treasurer). Investor interest was focused on capital allocation (is M&A a likely option to support weak organic sales growth?), thoughts & plans to address Pet weakness, priorities/path to normalize sales and profits in North America Retail and recent management changes. Our overall takeaways: 1) M&A, GIS is interested in doing sensible deals but not pressured to transact, 2) Pet recovery is dependent on a combination of company specific and category trends, 3) North America Retail largely consumer driven, 4) management changes partly a reflection of Pet needs & routine rotation.

M&A in the hot seat

With slow stabilization of organic sales (Exhibit 1 for 2Q24 Reported vs Nielsen data), investors probed management's thoughts on inorganic actions to supplement growth. GIS noted that its capital allocation strategies have not changed, focusing first on organic sales growth, then increasing dividends and earnings potential, followed by M&A and share repos. However, our takeaway is that GIS remains curious to investigate potential acquisitions that make sense, enhancing position in Pet, Snacks and potentially international.

What's next for Pet?

GIS' Pet segment has continued to see trade down as consumers seek value while also seeing positioning issues in its Wilderness brand. Trade down is most notable within the wet food and treats category. GIS is in the process of adding capacity (Richmond, IN facility) in dry-dog food, the category it currently sees the least trade down in (though still struggled). Repair efforts are focused on repositioning Wilderness from "wolves" to "humanization", optimizing wet price points and the value proposition for treats. Longer term, international expansion (China) has started.

Organic growth priorities

In terms of its existing portfolio, three priorities come to mind for GIS: 1) Investments into strong brands/categories (Fruit Snacks, Totino's, Old El Paso, all \$1bn brands). 2) Potential to premiumize and launch innovation on Haagen Dazs. 3) Gaining back share in cereal, though not expecting outsized share growth.

Maintain Neutral rating & \$68 PO

We maintain our Neutral rating & \$68 PO based on 15.0x our CY25E EPS. This is in-line to the center store peer group average which we think balances the near-term volume pressures with the positive medium term growth prospects across key geographies and categories.

05 January 2024

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Stock Data

Price	65.74 USD
Price Objective	68.00 USD
Date Established	21-Dec-2023
Investment Opinion	A-2-7
52-Week Range	60.33 USD - 90.89 USD
Mrkt Val (mn) / Shares Out (mn)	39,293 USD / 597.7
Free Float	99.7%
Average Daily Value (mn)	280.77 USD
BofA Ticker / Exchange	GIS / NYS
Bloomberg / Reuters	GIS US / GIS.N
ROE (2024E)	25.8%
Net Dbt to Eqty (May-2023A)	103.9%
ESGMeter™	High

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Timestamp: 05 January 2024 05:00AM EST

Key charts

Exhibit 1: GIS 2Q24 NAR/Pet segments vs Nielsen L12W pd end 12.2.23

GIS reported significant dislocation in Pet volumes for the quarter, coming in much weaker than Nielsen

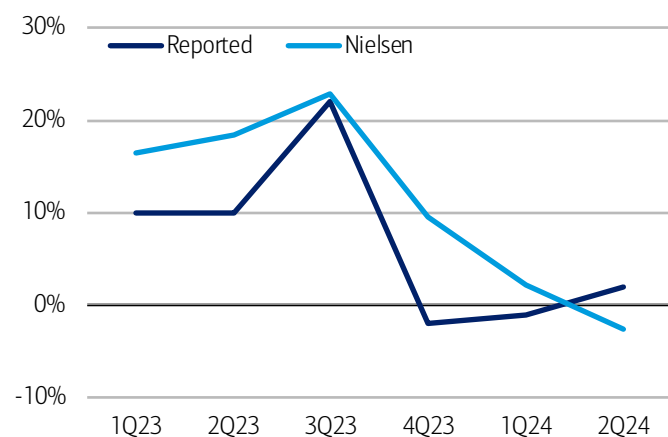
NAR	Organic Sales	Volume	Price
Reported	-1.0%	-4.5%	3.5%
Nielsen	-3.1%	-6.5%	3.7%
Delta	2.1%	2.0%	-0.2%
Pet	Organic Sales	Volume	Price
Reported	-4.0%	-10.5%	6.5%
Nielsen	0.8%	-2.6%	3.5%
Delta	-4.8%	-7.9%	3.0%

Source: GIS, NielsenIQ

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Exhibit 2: US Meals & Baking Solutions Reported vs Nielsen (1Q23-2Q24)

~82% correlation between Reported and Nielsen historical data

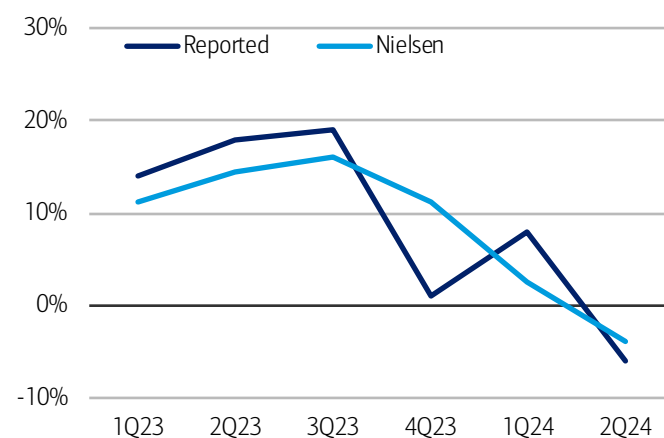


Source: GIS, NielsenIQ

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Exhibit 3: US Snacks Reported vs Nielsen (1Q23-2Q24)

~81% correlation between Reported and Nielsen historical data

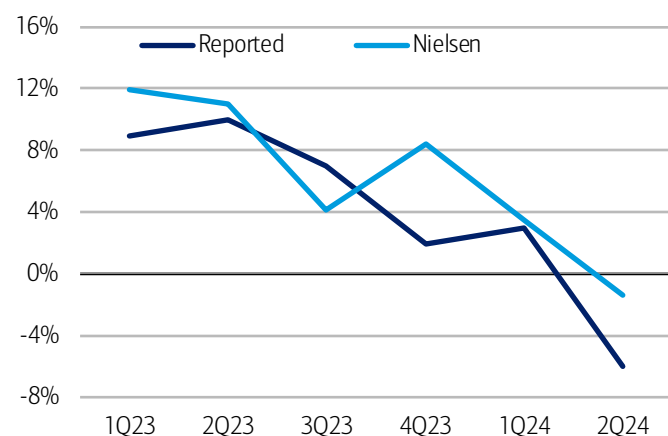


Source: GIS, NielsenIQ

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Exhibit 4: US Morning Foods Reported vs Nielsen (1Q23-2Q24)

~83% correlation between Reported and Nielsen historical data



Source: GIS, NielsenIQ

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Price objective basis & risk

General Mills (GIS)

Our price objective of \$68 is based on 15.0x our CY25E EPS. This is in-line to the center store peer group average which we think balances the near-term volume pressures with the positive medium term growth prospects across key geographies and categories.

Upside risks to our PO are lower volume elasticity, better retention rates of household gains related to COVID-19 that will benefit center of the store categories in North America, better-than-expected price elasticities as GIS announces additional actions, as well as upside to market share gains for Blue Buffalo.

Downside risks to our PO are consumers trading down to private label, higher-than-expected commodity cost inflation, stalled momentum in pet food, and weaker-than-expected sales in international/emerging markets.

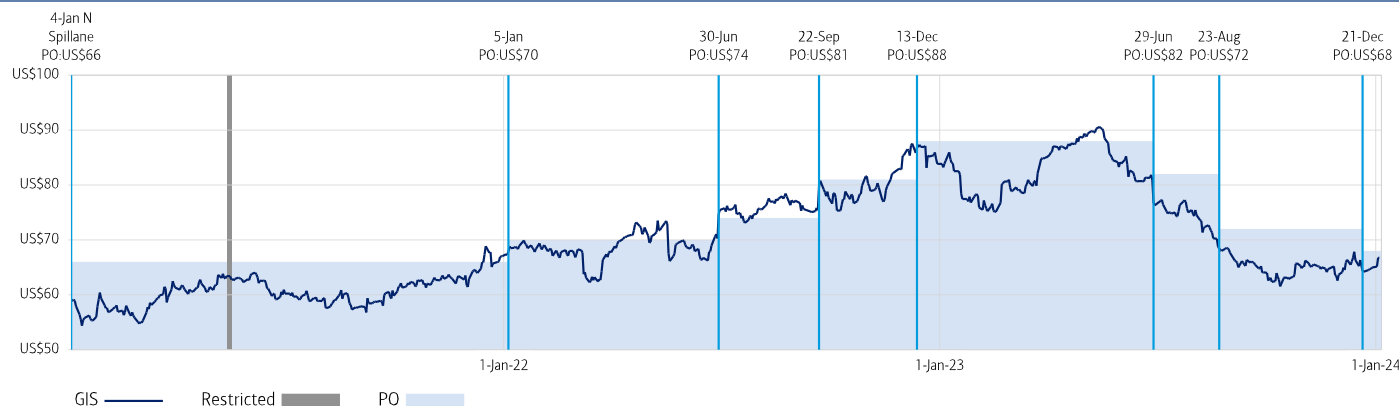
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General Mills (GIS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	33	49.25%	Buy	16	48.48%
Hold	17	25.37%	Hold	10	58.82%
Sell	17	25.37%	Sell	8	47.06%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
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Sell	807	22.84%	Sell	383	47.46%

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