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| **Company: General Mills, Inc** | **Ticker: GIS Current Price: $55.21** | **Industry: Consumer Staples Sub Industry: Food Products** |
| Target Price: $62Stop Loss: $44.152 Week High/ Low: $47.43/ $59.87  | TTM P/E: 23.4Forward P/E: 17.85EPS: $2.02 | Beta: 0.74Credit Rating: A3 (Moody)Rating Outlook: Stable  | Market Cap: $33.78 billionAvg Vol : 3.5 millionDividend Yield: 3.2% |
|  **Company Background:**  |
| General Mills (GIS) is one of the largest U.S. producers of ready-to-eat breakfast cereals, and a leading producer of other well-known packaged consumer foods. The U.S. Retail segment, which accounted for 60% of net sales in FY 15 (May) and had 21% operating margins, includes cereals, refrigerated yogurt, soup, dry dinners, vegetables, dough products, baking products, snacks, and organic products. The Convenience Stores and Foodservice segment (11%) had operating margins of 17.1% and includes products sold to distributors, convenience stores, restaurant operators and cafeterias. In FY 15, Wal-Mart Stores, Inc., and affiliates accounted for 21% of GIS's consolidated net sales and 30% of U.S. retail segment sales. The International segment accounted for 29% of FY 15 net sales and had operating margins of 10.2%. This excludes sales from unconsolidated joint ventures. In FY 15, U.S. product categories included snacks (20% of FY 15 sales), cereal (22%), meals (25%), baking mixes (19%), Yogurt and other (13%). The company had sales of $570 million in FY 15 within the natural and organic food category. Internationally, the company's largest market was Europe (41% of FY 15 sales), following by Canada (22%), Asia /Pacific (20%) and Latin America (17%).  |
| **Industry Outlook:**  |
| Outlook for the Packaged Foods & Meats sub-industry is neutral. U.S. and Western European food markets are relatively mature, but there are some opportunities for faster Longer - term growth from places such as China and Latin America. However, emerging international markets can also bring additional risk from factors such as currency fluctuation and regulation. Further improved prospects and the realization of a large crop harvest in 2015 to support favorable ingredient costs for most food manufacturers in2016. However, for a number of food products, ingredient costs as a relatively small part of the overall retail price paid by consumers. In the past year or two, there are some indications of food industry volume softness in the U.S., which we at least partly attributable to a cumulative impact from price increases and lackluster economic growth. With less of a negative impact from higher prices, volumes in the next six to 12 months to generally look better than they have in the past year. Changing consumer preferences toward perishable foods found on the perimeter of food stores is also resulting in slower near term sales growth within. However, progress toward both the re-positioning and shifting of product portfolio's toward faster growing categories to be made in 2016. |
| **Investment Thesis:**  |
| General Mills operates as a leading packaged food firm with 30% share of the U.S. ready-to-eat cereal aisle, 70% share of refrigerated baked goods, and more than 40% share of grain snacks, making it a valued partner for retailers. It possesses the resources to launch new products and market them in front of consumers (spending 6.5% of sales or $1.1 billion annually in the aggregate on marketing and R&D) to drive customer traffic, enhancing the stickiness of its retailer relationships. So trusted manufacturers like General Mills that maintain a mix of products spanning the store are critical to retailers, which are reluctant to risk costly out-of-stocks with unproven suppliers. These solid retail relationships support one aspect of General Mills' intangible asset moat source. General Mills also has eliminated unprofitable offerings in its convenience and food-service segment (11% of sales and 17% of operating profit). The results--from a profit standpoint-- have been striking; the segment margin gains realized (more than 300 basis points of operating margin expansion over the past four years, to nearly 18% in fiscal 2015) indicate to the profit potential from scrutinizing the portfolio. These efforts provide the fuel to support the intangible asset resulting from General Mills' retail relationships. |
| **Investment Risks:**  |
| Despite falling from unprecedented highs, input costs (such as oats, wheat, corn, soybean, and oil) have proved volatile. For instance, after incurring mid-single-digit cost inflation in fiscal 2011 followed by 10% raw material inflation in fiscal 2012, the company realized 4% higher costs in fiscal 2014 (propped up by dairy inflation) and 2% inflation in fiscal 2015--a level it expects to persist in fiscal 2016. Further, offsetting cost pressures with higher prices may continue to constrain sales volume growth, if consumers balk at these higher prices--particularly in places where unemployment remains elevated and austerity measures are constraining discretionary spending. The firm is also facing tough category trends. For one, cereal consumption remains in decline, falling at a low- to mid-single-digit rate on average over the past several years, as consumers have sought out alternatives like yogurt and snack bars (which have posted low- to mid-single-digit category growth rates in the aggregate, far in excess of the less than 1% growth chalked up by center-of-the-store categories overall). With 30% of its consolidated sales generated by international operations, General Mills is also exposed to currency rate fluctuation. |
| **3-5 take away from last quarter investor call transcript: Q3 2015** |
| * New products launch is expected in the second half and so based on that there is more promotional event oriented promotional activity and there is also media support.
* Margin expansion to continue during second half of year
* Focusing efforts on emerging markets first China, Brazil and then EMEA trying to broaden out footprint
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| **Financial Performance:** | **Discounted Cash Flow**  |
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| --- | --- | --- | --- | --- | --- | --- |
|  | 2013 | 2014 | 2015 | Q4-2015 | Q1-2016 | Q2-2016 |
| Revenue | 17,774.1 | 17,909.6 | 17,630.3 | 4,298.8 | 4,207.9 | 4,424.9 |
| Operating Profit | 2,851.8 | 2,957.4 | 2,077.3 | 423.6 | 683.3 | 905.7 |
| Net Income  | 1,855.2 | 1,824.4 | 1,221.3 | 186.8 | 426.6 | 529.5 |
| Revenue Growth % | 6.70% | 0.76% | -1.56% | 0.35% | -1.42% | -6.10% |
| EBITDA | 3,439.8 | 3,542.8 | 2,665.6 | 568.2 | 827.2 | 1,054.3 |
| Operating Profit % | 16.04% | 16.51% | 11.78% | 9.85% | 16.24% | 20.47% |
| Profit Margin  | 10.44% | 10.19% | 6.93% | 4.35% | 10.14% | 11.97% |
| D/E | 98.43 | 109.97 | 149.46 | 149.46 | 153.68 | 147.49 |
| Interest Coverage  | 9.27 | 9.90 | 6.68 | 5.25 | 9.29 | 12.33 |
| EPS | 2.86 | 2.90 | 2.02 | 0.31 | 0.71 | 0.88 |
| PE Ratio  | 17.35 | 19.71 | 20.57 | 20.61 | 19.64 | 19.99 |
| Current Ratio | 0.81 | 0.81 | 0.77 | 0.77 | 0.81 | 0.81 |
| ROE | 24.89 | 24.07 | 18.37 | 18.37 | 20.20 | 24.39 |
| ROA | 8.48 | 7.97 | 5.41 | 5.41 | 5.70 | 6.49 |
| Dividend Per share  | 1.32 | 1.55 | 1.67 | 0.44 | 0.44 | 0.44 |

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|  | 2010-15 | 2016-20 |
| Avg Revenue growth  | 3.6% | 1.3% |
| Avg operating Margin  | 20% | 22% |
| Avg Net Income Margin  | 11% | 12% |
| Avg Debt/Equity  | 119 | 120 |
| Avg FCF / Margin  | 11% | 13% |
| Cost of Debt (After Tax) | 1.5% |
| Tax Rate | 32% |
| Cost of Equity  | 7.9% |
| WACC | 6.6% |
| Perpetuity growth rate  | 2.4% |

**Analyst Opinion**

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| --- | --- | --- |
| Buy:4 | Hold: 11 | Sell: 3 |
|  | Rating  | Target  |
| S&P Net Advantage  | 3 | $61 |
| Morning Star | 3 | $57 |
| Value Line  | S:1, T:3 | - |

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| **Relative Valuation** | **Total Return** |
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| Name | KRAFT/HEIN | GIS | KELLOGG  | HORME | Average |
| Mkt Cap (USD bi) | 88.6 | 32.6 | 23.5 | 20.8 | 13.7 |
| P/E | 46.0 | 17.85 | 19.6 | 29.4 | 22.7 |
| P/B | 1.5 | 5.8 | 9.5 | 5.2 | 4.2 |
| Dividend Yield  | 0.8 | 3.2 | 2.8 | 1.3 | 1.4 |
| PEG Ratio | 2.1 | 2.5 | 4.5 | 3.8 | 2.6 |
| Trailing 12M EPS  | 1.6 | 3.0 | 3.7 | 2.7 | 2.3 |
| 5 yr-Revn Grth  | - | 1.7 | 1.1 | 3.1 | 6.5 |
| Profit Margin | -2.0% | 6.93% | 6.2% | 7.8% | 5.6% |
| Operat. Profit M | 6.5 % | 11.78% | 10.0% | 12.2% | 10.5% |
| Debt/Equity  | 37.6 | 149.46 | 297.4 | 10.9 | 124.8 |
| Net Sales T12M | 27576.0 | 17,630.3 | 13905.0 | 9263.9 | 7131.4 |
| Net Income  | 3724.1 | 1,221.3 | 1287.0 | 803.5 | 813.4 |

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|  | GIS | Industry | S&P 500 |
| YTD | -4.11% | 1.25% | -6.44% |
| 1 year | 3.89% | 6.91% | -6.32% |
| Last 3 Years  | 24.00% | 14.83% | 25.82% |
| Last 5 Years  | 55.53% | 14.62% | 45.89% |

**CSR Characteristics**

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|  | GIS | Industry  |
| Governance Disclosure Score | 57.14 | 50.71 |
| ESG Disclosure:  | 42.15 | 23.45 |
| Social Disclosure Score | 33.33 | 29.61 |
| Environmental Disclosure Score | 39.53 | 23.51 |

**Prepared by: Akhilesh Kumar (Feb 2, 2016) using Bloomberg, Value Line, S&P Net Advantage, Morning Star, Yahoo Finance** |