

## General Mills, Inc. (GIS) Memo

Name: Sharon Ze Zhang	College/School: CLAR	Year: 2nd year
-----------------------	----------------------	----------------

<b>Important Company Financial Data</b>					
Share Price: \$38.23			Diluted EPS: 2.61		
Market Cap: 24.6B			Profit Margin: 11.40%		
Enterprise Value: 32.38B			Operating Margin: 17.7%		
52 Week Change: 7.84%			Qtrly Revenue Growth: 8.9%		
52 Week Range: 34.54 – 40.25			Asset Turnover: 0.8		
Beta: 0.21			Inventory Turnover: 5.55		
Diluted EPS: 2.61					
Valuation		Liquidity		Effectiveness	
P/E (trailing)	14.65	Current Ratio	0.84	ROE	26.11%
P/B	3.76	Debt/Equity	103.65	ROA	8.23%

**Thesis / Key Points**

- **Compelling leadership in Packaged Food Industry**
  1. Brand Loyalty
 

General Mills has a number of well-known 50-year-old brands, such as *Cheerios* and *Pillsbury*, as well as 30-year-old brands such as *Yoplait* and *Nature Valley* that consumers trust. Especially *Cheerios*, America's best-selling cereal, **has market share of 13.6%** according to estimates of 2011. (See exhibit2 for specific market shares) For last decade, *Cheerios* successfully doubled its market share by its distinctive product. It is also the only ready-to-eat cereal that has been clinically proven to lower blood cholesterol levels. The brand loyalty is definitely a comparative advantage General Mills has.
  2. Successful Marketing and Advertising
 

Packaged food industry is perfectly competitive. After the big fall in 2008/2009 most of the firms increase marketing and advertising expense to compete for market share. General Mills also realizes that it is particularly important to support well-known brands during the current economy. In its most recent quarter, the company spent 16% more on marketing than it did in '08.

General Mills has two **special marketing strategies**, which are specific and on target. Firstly, it is emphasizing the health benefits of some of its foods and introducing more health oriented offerings as part of its strategy. As aging boomers, the 1 billion consumers globally who are 55 or older, are focused increasingly on health and wellness concerns, General Mills' emphasis on healthy food will attract more elderly market. Secondly, it has a special marketing campaign of for Hispanics, who will contribute more than half of the U.S. population growth by 2015. General Mills' marketing campaign, "Que Rica Vida (What a rich, wonderful life)," specifically targets Hispanic group. General Mills' attempt to market its product to differentiated groups gives it the potential opportunities in various market segments.
  3. Product Diversification
 

According to General Mills' annual report, the company is providing ready-to-eat cereal, *Yoplait* yogurt products, *Pillsbury* cookies, *Green Giant* vegetables and *Häagen-Dazs* ice cream worldwide. As a manufacturer, General Mills is stepping into economic of scale. Product Diversification also allows them to meet different kinds of customers' preference.
- **Successful International Market Penetration**
  1. Shift from Domestic to International Market
 

Revenue from international segments has been increasing these years. As the US market is becoming more and more competitive, General Mills are actively seeking opportunities internationally. Nowadays General Mills sells products in more than 100 countries, with offices or manufacturing facilities in more than 30 countries. In fiscal 2011, 19 percent of consolidated net sales, which is \$2876M, were generated outside of the United States, **displaying a 7% growth** from fiscal 2010. And its market penetration, especially in developing countries, is solid and successful. (See exhibit3 for specific growth in different regions)
  2. Specific success in China
 

General Mills' penetration in Chinese market is distinctively successful. Currently, General Mills in China is focused on *Häagen-Dazs*, *Wanchai Ferry* frozen convenience meals, and *Bugles and Trix* snack products. Total sales in China have grown to \$350 million, with nearly 8,000 employees and five manufacturing facilities. General Mills also aims to generate \$900m through its wholly owned local businesses by 2015. China has a huge **underexplored market** not only because it has a big population but also because the wealth of this population is emerging. According to estimates, the number of middle-class and affluent families across China is expected to double to 200 million households by 2020. General Mills' product in China targets mainly China's middle class families; therefore there are huge opportunities of growth in the future.
  3. Successful marketing strategy and sustainable business model
 

General Mills markets *Häagen-Dazs* outside the United States with a joint venture with Nestlé, after the company acquired *Pillsbury* in 2001. According to estimates, Global *Häagen-Dazs* sales, in 81 countries, are up 11% for the 2011 fiscal year to

## General Mills, Inc. (GIS) Memo

date, almost double the growth rate for all General Mills international brands. General Mills' ability to market this brand to the oversea market shows the special corporate creativity. Also, this business model of *Häagen-Dazs* is not only successful but also sustainable. Firstly, General Mills positions *Häagen-Dazs* as a "superpremium" product. Its main focus is not on ice cream itself but on the indulgent experience delivered to customers. For example, *Häagen-Dazs* products like store-bought "moon cakes" during Mid-Autumn Festival are prized gifts. Some couples in China order *Häagen-Dazs* wedding cakes costing as much as \$2,000. Secondly, *Häagen-Dazs* represents the fashionable culture young people desires, which add more value to the business rather than the ice cream itself. (See VAR for detail)

### ➤ **Currently Undervalued and Stable Financial Position**

1. General Mills is trading at the P/E of 14.76, ranked 24 out of 44 in industry. Compared its major competitors, Kellogg and Kraft Food, it has the lowest P/E ratio. After the sharp decline, General Mills is at its uptrend and the market has not yet fully realized its value. Therefore, now is a good timing to initiate a position.
2. General Mills pays consistent and stable dividend to its investors, which indicates that it is under good financial and cash positions. (See exhibit6 for specific dividend yield)

### Misperception and Catalyst

- The packaged food industry is still weak after the sharp decline in 2009  
The major firms in packaged food industry experienced a major fall in 2009 due to the economic fluctuations. But now the market is undergoing a revival. According to a report from Euromonitor International, the retail value sales of breakfast cereals are forecast to grow by 3% in constant terms over 2010-15 to reach \$10.5 billion. Also, now people are less inclined to dine out so the market for frozen food is going to expand, indicating future revenue growth opportunity for firms like General Mills.
- Competition pressure from Kellogg (K) and Kraft Foods (KFT) may lower market share.  
General Mills is actually more resistant to the economic fluctuations compared to its major competitors such as Kellogg and Kraft Foods. (See exhibit5 for 2yrs stock performance comparison) With its rigorous plan of marketing and advertising, General Mills is actively following customers' preference. Also, its famous brand and product diversification help it to gain more customers from wide range of backgrounds and social classes.

### VAR

See exhibit for detail

### How It Plays Out

- The total demand for packaged food such as cereal and frozen food is increasing and thus leaves a great opportunity for General Mills to increase its revenue
- General Mills' sales revenue growing and earnings beating analysts' expectations due to successful marketing and advertising. It is also gaining more market share.
- In international segments, General Mills continues to market both global and local brands. And the firm successfully maintains good relationships with its joint venture and local corporations. The earnings from overseas increase as General Mills penetrating more market.

### Risks / What Signs Would Indicate We Are Wrong?

- Inflationary Environment and Price increase of input materials  
Significant fluctuations of input price such as wheat could influence General Mills' production cost, thus affect its earnings.
- International exposure increases the risk of loss from currency fluctuation  
If the foreign exchange is significantly unfavorable, the earning growth of part of international market will be offset.
- Pressure From Competitors and Limited Pricing Power  
Though General Mills has distinct comparative advantages such as product diversification and brand loyalty, the market is competitive. Single firm is price taker instead of price setter.

### Signposts / Follow-Up

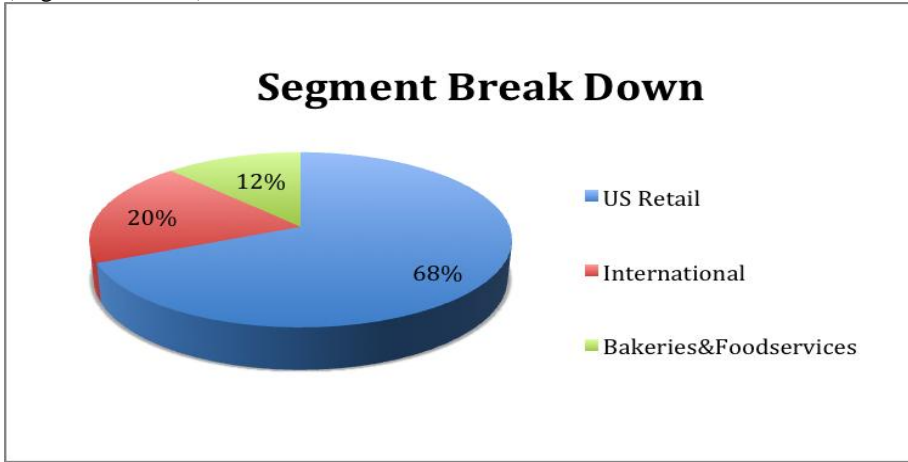
- 12Q2 earning and revenue results  
The ability to maintain revenue and earnings growth under this economic situation is important to support the rigorous advertising and marketing expense and to maintain investors' confidence.
- Marketing and advertising strategy  
General Mills marketing and advertising strategies matter most to compete with its rivals. Only if they maintain sharp advertising to target market could their revenue keep booming up.
- Material (such as wheat) price and currency rate trend  
General Mills usually purchase input materials on the request of production. The fluctuations of such materials will influence its revenue.

### Company Description

General Mills is now a leading global manufacturer and marketer of branded consumer foods, such as ready-to-eat breakfast cereals, refrigerated dough and other baking items, snack foods, ice cream, and yogurt. Its revenue could be broke down into three segments: U.S. Retail, International and Bakeries & Foodservice. U.S. Retail includes seven segments that market brands such as Cheerios, Yoplait yogurt, Pillsbury refrigerated dough and Betty Crocker baking products. Internationally, General Mills sells products in more than 100 countries, with offices or manufacturing facilities in more than 30 countries. It also has shares of two joint ventures:  
Cereal Partners Worldwide and *Häagen-Dazs* Japan.

## General Mills, Inc. (GIS) Memo

(Page of Exhibit/s)



US Retail: \$10.2B  
 International: \$2.9B  
 Bakeries & Foodservices: \$1.8B

Exhibit 1 Revenue Segment Break Down

### Most Popular Cereal Brands

Market share for 1995, 1999, 2005, 2008 and 2011.  
 Figures are rounded to the nearest 1/10 of a point.

Cereal	1995	1998	2005	2008	2011
General Mills Cheerios	6.5%+	7.6%+	11.3%	12.6%	13.6%
Kellogg's Special K	< 2.0%	< 2.0%	4.0%	5.4%	6.1%
Post Honey Bunches of Oats	< 2.0%	< 2.0%	4.1%	4.9%	5.2%
Kellogg's Frosted Flakes	4.2%	3.9%	4.1%	3.8%	3.9%
Kellogg's Frosted Mini Wheats	< 2.0%	2.9%	3.2%	3.5%	3.5%
General Mills Cinnamon Toast Crunch	< 2.0%	1.9%	2.6%	2.4%	3.1%
General Mills Lucky Charms	2.0%	2.2%	2.4%	2.4%	2.5%

Exhibit 2 Cereal Brand Market Share (Source: lavasurfer)

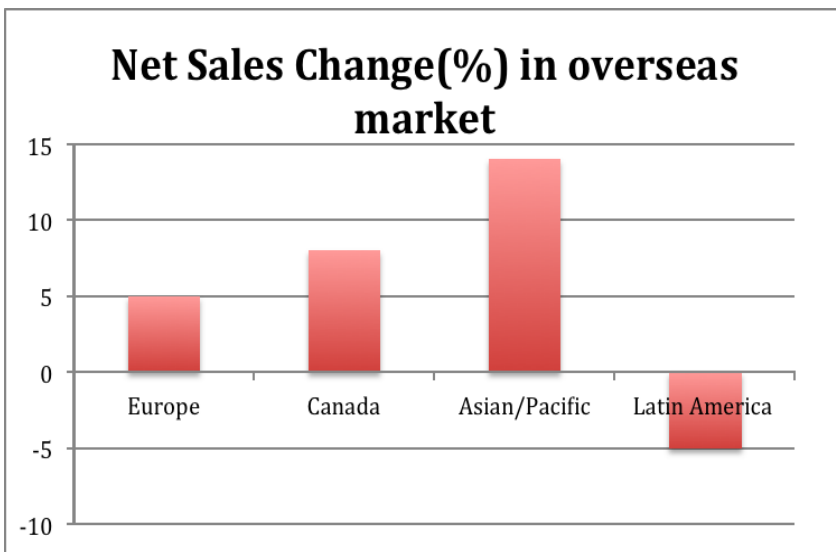


Exhibit 3 Net Sales Change Overseas (data from Company Presentation)

Reason of Net Sales Change:  
 Europe: growth in *Häagen Dazs* and *Nature Valley* in the United Kingdom, and *Old El Paso* in France and Switzerland, partially offset by unfavorable foreign exchange.  
 Canada: growth in ready to eat cereals and favorable foreign exchange.  
 Asian/Pacific: growth of *Häagen-Dazs* and *Wanchai Ferry* brands in China, and *atta flour* in India.  
 Latin America: unfavorable foreign exchange primarily related to the 2010 devaluation of the Venezuelan currency, partially offset by *Diablitos* growth in Venezuela and *La Salteña* growth in Argentina.

# General Mills, Inc. (GIS) Memo

(Page of Exhibit/s)



Exhibit 4: Two-Year Stock Performance (from Yahoo!)



Exhibit 5: Stock Performance Comparison of GIS and its major Competitors KFT and K (Source: Google Finance)

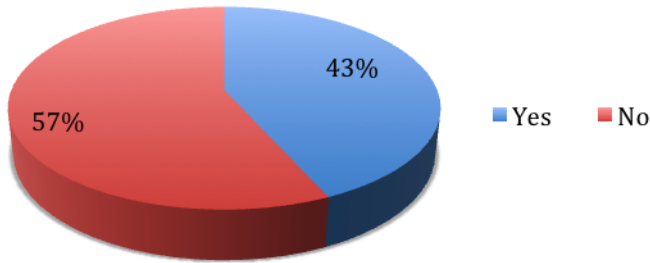
## General Mills annual dividends (fiscal year)



Exhibit 6: (Source: GIS website; data adjusted for stock split)

VAR: Survey of Häagen-Dazs in Chinese Market

### Percentage of customers who purchased special product of Haagen Dazs



According to the Survey, 83.3% of the respondents have purchased Häagen-Dazs products. And among them 43% have ever purchased special products of Haagen Dazs such as the ice cream mooncakes, which is relatively expensive and thus have a high margin.

When respondents are asked, “how do you think of Haagen Dazs”, their responds are...

...A luxurious ice cream brand.

Not that tasty, but stay inside the shop and eat is good

...they definitely earn a lot from this little ice cream

it is expensive and fashion, young people likes it.

Good place to hang out with friends