Defensive Stock with 8%+ Yield and Strong Upside Potential

We previously made General Mills, Inc. (GIS: $58/share) a Long Idea in December 2019, in large part because of its understated profits. While the stock has underperformed since then, it still earns an Attractive rating and provides strong and safe dividend yield in an increasingly volatile market.

General Mills, while certainly not a flashy high-flying name, operates a stable business that generates billons in free cash flow, which management consistently returns to shareholders through dividends and repurchases. As investors look for safety in an uncertain time, GIS could be the safe haven to ride out the storm.

GIS offers favorable Risk/Reward based on the company's:

- long-term profit growth,
- leading position in steadily growing markets,
- margins near the best in the industry,
- strong cash flow generation,
- high shareholder return, and
- cheap stock valuation.

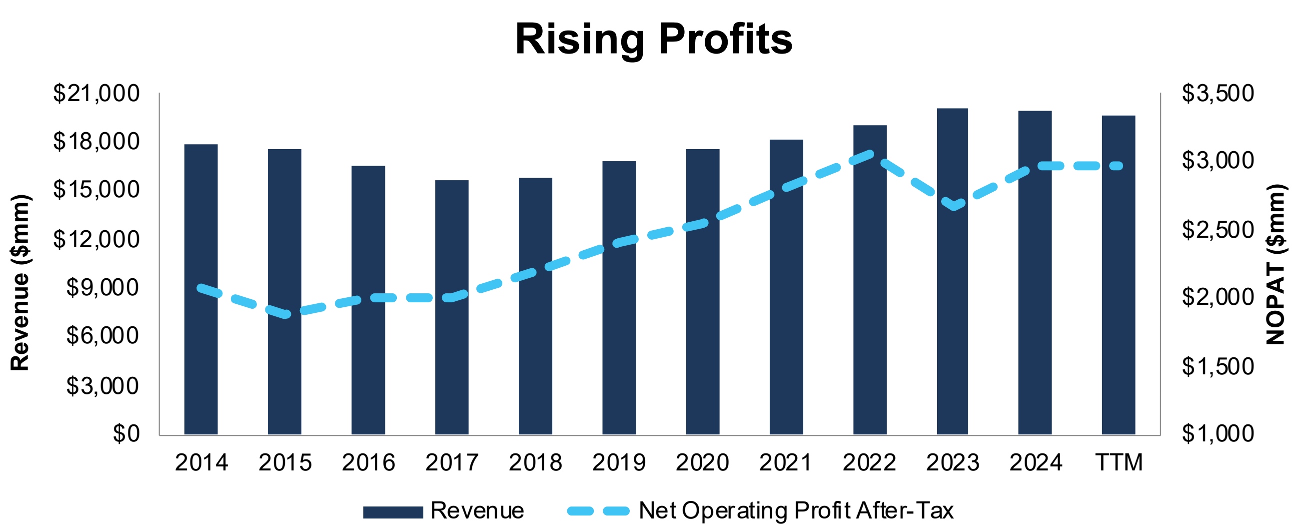
What's Working

Steadily Growing Profits

General Mills leverages its leading market position to consistently grow profits, even if revenue doesn't always follow suit over the long-term. The company has grown revenue by 1% and net operating profit after-tax (NOPAT) by 3% compounded annually since fiscal 2014. See Figure 1.

General Mills improved its NOPAT margin from 12% in fiscal 2014 to 15% in the trailing-twelve-months (TTM) even though invested capital turns fell from 0.8 to 0.6 over the same time. Rising NOPAT margins are enough to offset falling invested capital turns and drive return on invested capital (ROIC) slightly up from 9.3% in fiscal 2014 to 9.5% in the TTM.

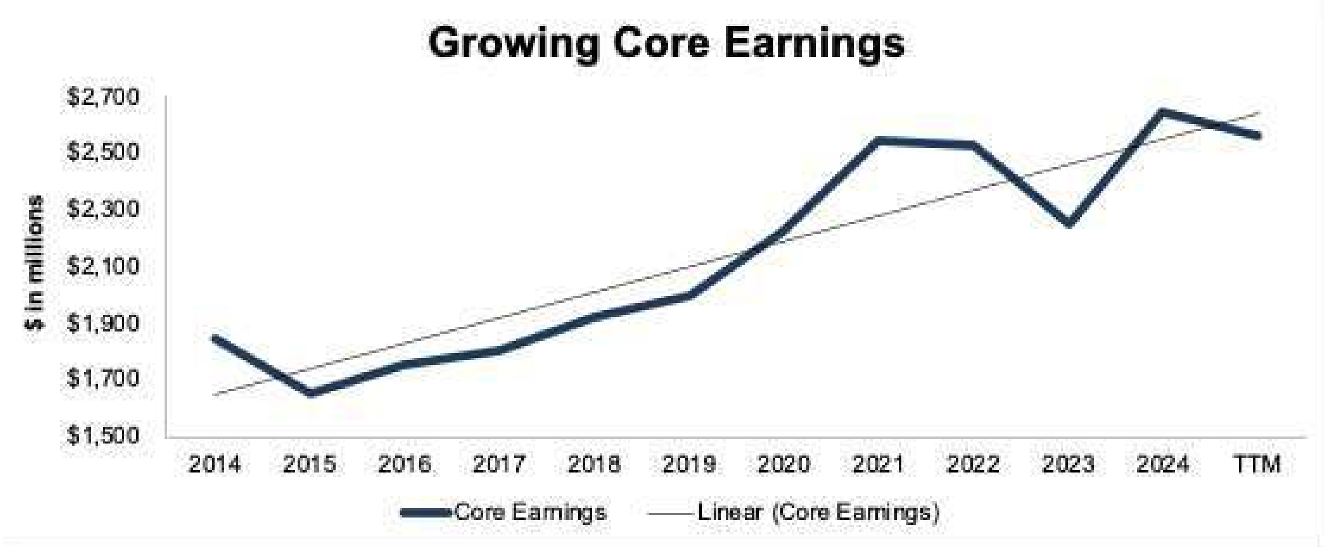
Figure 1: General Mills' Revenue and NOPAT Since Fiscal 2014



Sources: New Constructs, LLC and company filings

Additionally, the company's Core Earnings, a proven superior measure that excludes unusual gains/losses, have grown 3% compounded annually from fiscal 2014 through the TTM.

Figure 2: General Mills' Core Earnings Since Fiscal 2014



Sources: New Constructs, LLC and company filings

Well-Positioned in Growing Markets

General Mills has adjusted its brand portfolio over the years through acquisitions and divestitures. With top brands including Cheerios, Nature Valley, Pillsbury, Totino's, Progresso, and many more, the company is now well-positioned within multiple markets that are expected to experience strong (for consumer foods markets) growth in the coming years.

For instance:

- the global breakfast cereal market is expected to grow 3.5% compounded annually from 2025-2030.
- the U.S. soup market is expected to grow 3.1% compounded annually from 2025-2030.
- the U.S. snack market is expected to grow 3.4% compounded annually from 2025-2030.
- the U.S. pet food market is expected to grow 3.7% compounded annually from 2024-2030.

General Mills should benefit from the growth in these markets, given its leading position in each market. For instance:

- 4 out of the top 8 most popular breakfast cereal brands in the U.S. are General Mills owned, including the top 2 brands (Cinnamon Toast Crunch at #1 and Cheerios at #2).
- General Mills' soup products rank 4th best among soup companies around the world according to a study done by Expert Market Research.
- Totino's frozen pizza brand generated the 4th highest (out of the top 10) dollar sales among frozen pizza brands in the U.S. in the one-year period ending April 2024.
- General Mills' annual pet segment revenue ranks as the 4th highest (out of the top 10) revenue among pet food companies globally.

Taking Share and Increasing Retail Pound Volume

Despite a challenging environment with retailer inventory headwinds and a slowdown in snacking, the company is still taking market share and increasing its retail pound volume (total volume of product sold in pounds) in key markets.

Specifically, General Mills noted in its fiscal 3Q25 earnings release, it:

- increased Soup retail pound volume in fiscal 2025,
- owns 8 of the top 10 new products in the snack bar category in fiscal 2025,
- increased pound share of Blue Buffalo pet food and improved overall market share in its Pet category in fiscal 3Q25,

- improved market share in its North America Foodservice business, with over 70% of the business either growing or holding share in fiscal 3Q25, and
- improved market share in the International business in fiscal 3Q25.

One Of the Highest Margins in the Industry

General Mills has maintained consistently high margins in an increasingly competitive industry. General Mills' average NOPAT margin is 13.8%, 14.9% and 15.1% over the past 10 years, five years, and TTM, respectively.

Per Figure 3, General Mills generates the third highest NOPAT margin amongst its main competitors, which include, The Hershey Company (HSY), The Kraft Heinz Co (KHC), Mondelez International (MDLZ), Nestle (NSRGY), Unilever (UL), Kellanova (K), and Conagra Brands (CAG).

Figure 3: General Mills vs Competitors' NOPAT Margin: TTM

Ticker	Company	NOPAT Margin
HSY	The Hershey Company	24.9%
KHC	The Kraft Heinz Co	17.5%
GIS	**General Mills**	**15.1%**
NSRGY	Nestle	14.7%
MDLZ	Mondelez International	14.6%
UL	Unilever	14.2%
K	Kellanova	11.4%
CAG	Conagra Brands	9.5%

Sources: New Constructs, LLC and company filings

Potential for 8%+ Yield

Since fiscal 2019, General Mills has paid $8.5 billion (27% of market cap) in cumulative dividends and has increased its quarterly dividends from $0.49/share in fiscal 1Q19 to $0.60/share in fiscal 3Q25. The company's current dividend, when annualized, provides a 4.2% yield. The company's consistent dividend also earns it a place in our latest Safest Dividend Yields Model Portfolio.

General Mills has paid dividends every year for the past 126 years, including its predecessor company. We see such stability as a welcome reprieve amongst the volatility in the market today.

General Mills also returns capital to shareholders through share repurchases. From fiscal 2019 through fiscal 3Q25, the company repurchased $5.5 billion (17% of market cap) of shares.

In June 2022, the Board of Directors approved a new authorization to repurchase up to 100 million shares, with no specified expiration date. As of fiscal 3Q25, the company has 42.1 million shares available to repurchase under the existing authorization. Should the company repurchase shares at its TTM (ending fiscal 3Q25) rate, it would repurchase $1.3 billion of shares over the next twelve months, which equals 4.1% of the current market cap.

When combined, the dividend and share repurchase yield could reach 8.3%.

Strong Cash Flow Generation Supports Capital Return

We take comfort in knowing General Mills will be able to afford to pay its dividends and repurchases based on its large free cash flow (FCF) generation. From fiscal 2019 through the TTM, General Mills generated $18.3 billion in FCF, which equals 38% of the company's enterprise value.

Figure 4: General Mills' FCF: Fiscal 2019 – TTM

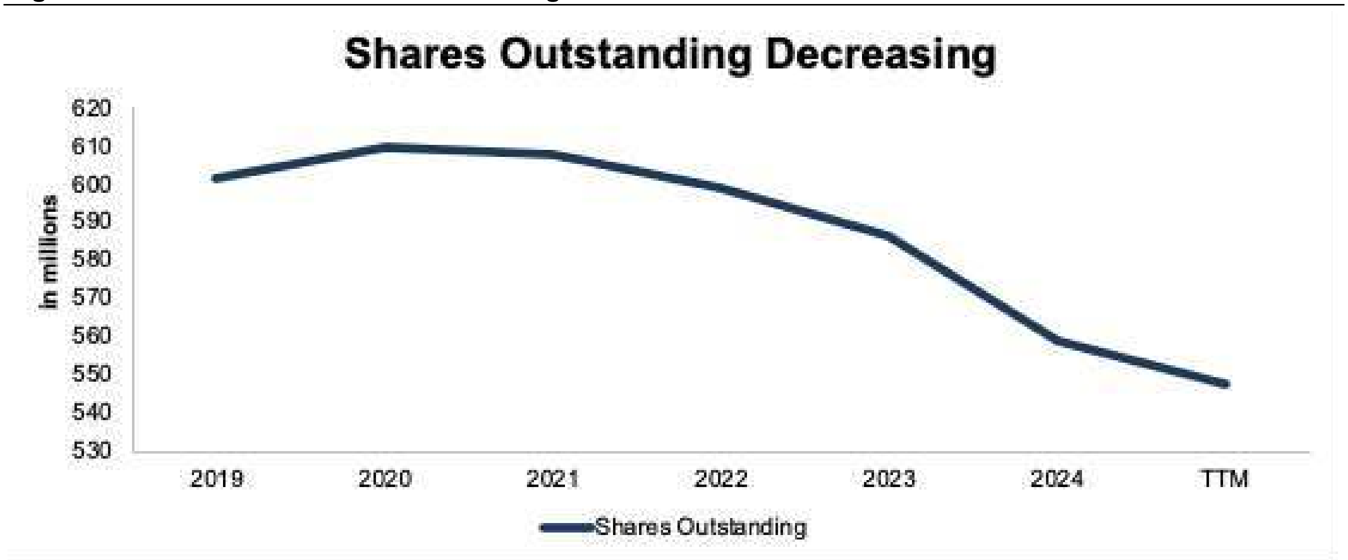
Sources: New Constructs, LLC and company filings

General Mills' $18.3 billion FCF since fiscal 2019 is more than enough to cover its $14.0 in dividend payments ($8.5 billion) and share repurchases ($5.5 billion).

Unlike many other riskier stocks, General Mills' repurchases have meaningfully reduced its shares outstanding from 602 million in fiscal 2019 to 548 million in the TTM. See Figure 5.

We like companies that choose to return capital to shareholders instead of misallocating it to ill-advised acquisitions or large executive bonuses.

Figure 5: General Mills' Shares Outstanding: Fiscal 2019 – TTM



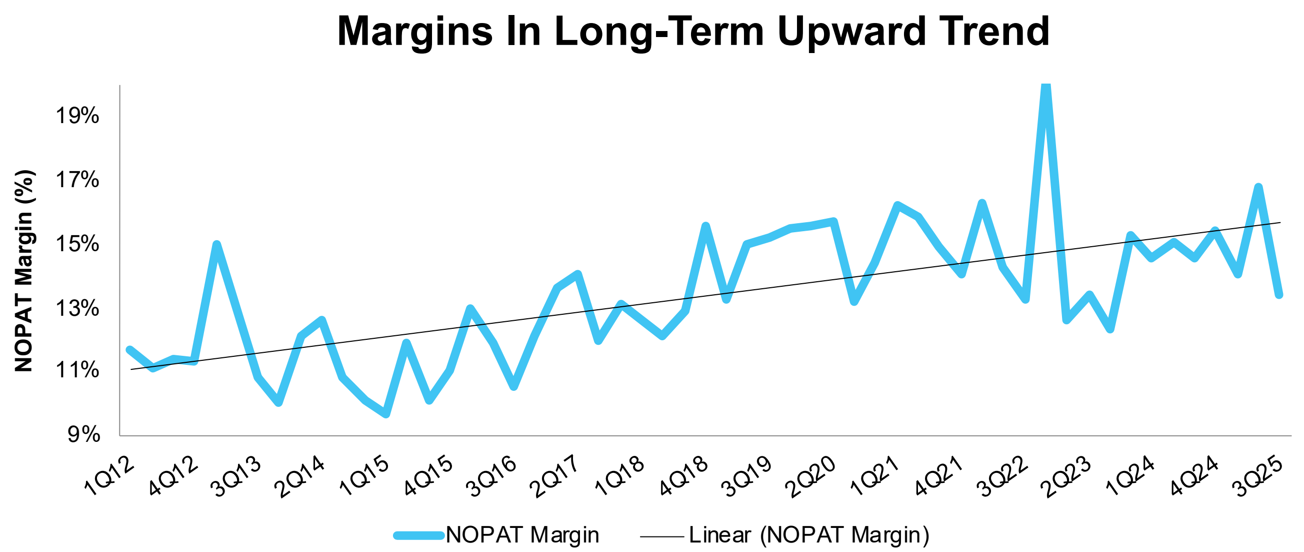
Sources: New Constructs, LLC and company filings

What's Not Working

Threat of Private Labels is Ongoing but Manageable

Often one of the biggest threats to any consumer brand is the entrance of private labels that aim to take share with a cheaper alternative. This competition threatens margins across brand name products, as the brand owners must spend more heavily on marketing and promotion and/or lower prices to remain competitive with the private label brands. However, despite this ongoing threat, General Mills has proven that it has built sustainable brands that consumers gravitate towards. Apart from gaining market share, as noted earlier, General Mills has also consistently maintained and increased its high margin over the years. See Figure 6.

Figure 6: General Mills' NOPAT Margin: Fiscal 1Q12 – Fiscal 3Q25



Sources: New Constructs, LLC and company filings

Walmart Is a Big Concentration of Sales

In fiscal 2024, Walmart and its affiliates accounted for 22% of the company's consolidated net sales, which means nearly a quarter of the company's total sales are dependent on a good relationship with Walmart. While there are no indications of any issues, such concentration remains a risk should the relationship between Walmart and General Mills deteriorate in any way.

Cheap Valuation

Current Price Implies Permanent 10% Profit Decline

At its current price of $58/share, GIS has a price-to-economic book value (PEBV) ratio of 0.9, which means the market expects the company's profits to permanently fall 10% from current levels. For context, General Mills has grown NOPAT by 3% compounded annually over the last 10 years and 4% compounded annually over the last 20 years.

Below, we use our reverse discounted cash flow (DCF) model to analyze expectations for different stock price scenarios for GIS.

In the first scenario, we quantify the expectations baked into the current price. If we assume:

- NOPAT margin immediately falls to 13% (below five-year average and TTM NOPAT margin of 15%) through fiscal 2034, and
- revenue grows 1% a year through fiscal 2034 (equal to compounded annual growth in the last ten years) then

the stock is worth $58/share today – nearly equal to the current stock price. In this scenario, General Mills' NOPAT falls 1% compounded annually from fiscal 2025 – 2034, which is well below historical growth rates. Contact us for the math behind this reverse DCF scenario.

Shares Could Go 21%+ Higher at Consensus Growth Rates

If we instead assume:

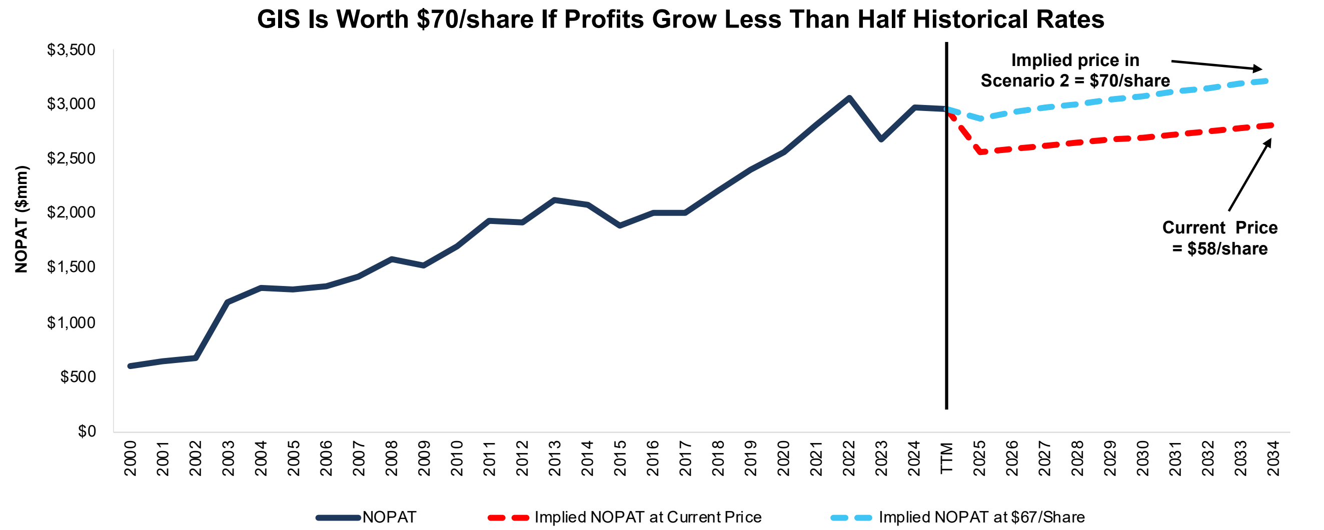
- NOPAT margin immediately falls to 14.5% (still below five-year average and TTM NOPAT margin of 15%) through fiscal 2034,

- revenue grows at consensus rates in fiscal 2025 (-0.5%), fiscal 2026 (2.3%), and fiscal 2027 (1.2%), and
- revenue grows at fiscal 2027 consensus rate (1.2%) each year thereafter through fiscal 2034, then

the stock is worth $70/share today – a 21% upside to the current price. In this scenario, General Mills' NOPAT would grow just 1% compounded annually from fiscal 2025 to fiscal 2034. Contact us for the math behind this reverse DCF scenario.

Should the company's NOPAT grow more in line with historical levels, the stock has even more upside. Furthermore, we think companies with long track records of profit growth deserve premium stock valuations, especially in a market filled with so many underperforming companies.

Figure 7: General Mills' Historical and Implied NOPAT: DCF Valuation Scenarios



Sources: New Constructs, LLC and company filings

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Disclosure: David Trainer, Kyle Guske II, and Hakan Salt receive no compensation to write about any specific stock, sector, style, or theme.

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It's Official: We Deliver the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

In The Journal of Financial Economics, a top peer-reviewed journal, Core Earnings: New Data & Evidence proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior fundamental data, earnings models, and research. More details.

Key quotes from the paper:

- "[New Constructs'] *Total Adjustments* differs significantly from the items identified and excluded from Compustat's adjusted earnings measures. For example… 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global's (SPGI) Adjustments* individually." – pp. 14, 1st para.
- "A final source of differences [between New Constructs' and S&P Global's data] is due to data collection oversights…we identified cases where Compustat did not collect information relating to firms' income that is useful in assessing core earnings." – pp. 16, 2nd para.

Superior Models

Ernst & Young features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg's in Getting ROIC Right. See the Appendix for direct comparison details.

Key quotes from the paper:

- "…an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC." – pp. 8, 5th para.
- "The majority of the difference…comes from New Constructs' machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies." – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts' stock ratings outperform those from human analysts as shown in this paper from Harvard Business School. Bloomberg features the paper here.

Key quotes from the paper:

- "the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant." – pp. 6, 3rd para.
- "Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts." – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are here.

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