

GENERAL MILLS INC
Form 10-Q
September 20, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED August 27, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____
Commission file number: 001-01185

GENERAL MILLS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	41-0274440 (I.R.S. Employer Identification No.)
Number One General Mills Boulevard Minneapolis, Minnesota (Address of principal executive offices)	55426 (Zip Code)
(763) 764-7600	
(Registrant's telephone number, including area code)	

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)
Emerging growth company

Accelerated filer
Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of Common Stock outstanding as of September 13, 2017: 568,338,468 (excluding 186,274,860 shares held in the treasury).

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General Mills, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Earnings

GENERAL MILLS, INC. AND SUBSIDIARIES

(Unaudited) (In Millions, Except per Share Data)

	Quarter Ended	
	Aug. 27, 2017	Aug. 28, 2016
Net sales	\$ 3,769.2	\$ 3,907.9
Cost of sales	2,459.1	2,491.0
Selling, general, and administrative expenses	679.1	712.2
Restructuring, impairment, and other exit costs	5.2	58.9
Operating profit	625.8	645.8
Interest, net	72.4	73.9
Earnings before income taxes and after-tax earnings from joint ventures	553.4	571.9
Income taxes	168.5	176.6
After-tax earnings from joint ventures	23.7	24.2
Net earnings, including earnings attributable to redeemable and noncontrolling interests	408.6	419.5
Net earnings attributable to redeemable and noncontrolling interests	3.9	10.5
Net earnings attributable to General Mills	\$ 404.7	\$ 409.0
Earnings per share - basic	\$ 0.70	\$ 0.68
Earnings per share - diluted	\$ 0.69	\$ 0.67
Dividends per share	\$ 0.49	\$ 0.48

See accompanying notes to consolidated financial statements.

Table of Contents**Consolidated Statements of Comprehensive Income**

GENERAL MILLS, INC. AND SUBSIDIARIES

(Unaudited) (In Millions)

	Quarter Ended	
	Aug. 27, 2017	Aug. 28, 2016
Net earnings, including earnings attributable to redeemable and noncontrolling interests	\$ 408.6	\$ 419.5
Other comprehensive income, net of tax:		
Foreign currency translation	61.5	80.4
Other fair value changes:		
Securities	0.3	0.4
Hedge derivatives	(8.8)	15.2
Reclassification to earnings:		
Hedge derivatives	(0.2)	(2.8)
Amortization of losses and prior service costs	27.8	30.6
Other comprehensive income, net of tax	80.6	123.8
Total comprehensive income	489.2	543.3
Comprehensive income attributable to redeemable and noncontrolling interests	72.0	6.8
Comprehensive income attributable to General Mills	\$ 417.2	\$ 536.5

See accompanying notes to consolidated financial statements.

Table of Contents**Consolidated Balance Sheets**

GENERAL MILLS, INC. AND SUBSIDIARIES

(In Millions, Except Par Value)

	Aug. 27, 2017 (Unaudited)	May 28, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 820.8	\$ 766.1
Receivables	1,546.5	1,430.1
Inventories	1,595.2	1,483.6
Prepaid expenses and other current assets	376.0	381.6
Total current assets	4,338.5	4,061.4
Land, buildings, and equipment	3,648.1	3,687.7
Goodwill	8,832.3	8,747.2
Other intangible assets	4,593.3	4,530.4
Other assets	797.4	785.9
Total assets	\$ 22,209.6	\$ 21,812.6
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 2,172.9	\$ 2,119.8
Current portion of long-term debt	604.7	604.7
Notes payable	1,660.3	1,234.1
Other current liabilities	1,452.0	1,372.2
Total current liabilities	5,889.9	5,330.8
Long-term debt	7,822.7	7,642.9
Deferred income taxes	1,761.0	1,719.4
Other liabilities	1,485.6	1,523.1
Total liabilities	16,959.2	16,216.2
Redeemable interest	967.5	910.9
Stockholders' equity:		
Common stock, 754.6 shares issued, \$0.10 par value	75.5	75.5
Additional paid-in capital	1,070.7	1,120.9
Retained earnings	13,259.3	13,138.9
Common stock in treasury, at cost, shares of 186.4 and 177.7	(8,269.7)	(7,762.9)
Accumulated other comprehensive loss	(2,232.0)	(2,244.5)
Total stockholders' equity	3,903.8	4,327.9

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Noncontrolling interests	379.1	357.6
Total equity	4,282.9	4,685.5
Total liabilities and equity	\$ 22,209.6	\$ 21,812.6

See accompanying notes to consolidated financial statements.

Table of Contents**Consolidated Statements of Total Equity and Redeemable Interest**

GENERAL MILLS, INC. AND SUBSIDIARIES

(Unaudited) (In Millions, Except per Share Data)

	\$.10 Par Value Common Stock (One Billion Shares Authorized)			Treasury		Accumulated			Total Equity	Redeemable Interest
	Issued	Par	Additional Paid-In Capital	Shares	Amount	Retained Earnings	Other Comprehensive Loss	Non- controlling Interests		
	Shares	Amount	Capital	Shares	Amount	Earnings	Loss	Interests	Equity	Interest
Balance as of May 29, 2016	754.6	\$ 75.5	\$ 1,177.0	(157.8)	\$ (6,326.6)	\$ 12,616.5	\$ (2,612.2)	\$ 376.9	\$ 5,307.1	\$ 845.6
Total comprehensive income						1,657.5	367.7	13.8	2,039.0	17.2
Cash dividends declared (\$1.92 per share)						(1,135.1)			(1,135.1)	
Shares purchased				(25.4)	(1,651.5)				(1,651.5)	
Stock compensation plans (includes income tax benefits of \$64.1)			3.6	5.5	215.2				218.8	
Unearned compensation related to restricted stock unit awards			(78.5)						(78.5)	
Earned compensation			94.9						94.9	
Increase in redemption value of redeemable interest			(75.9)						(75.9)	75.9
Acquisition of interest in subsidiary			(0.2)					0.1	(0.1)	
Distributions to noncontrolling and redeemable interest holders								(33.2)	(33.2)	(27.8)
Balance as of May 28, 2017	754.6	75.5	1,120.9	(177.7)	(7,762.9)	13,138.9	(2,244.5)	357.6	4,685.5	910.9
Total comprehensive income						404.7	12.5	23.0	440.2	49.0
Cash dividends declared (\$0.49 per share)						(284.3)			(284.3)	
Shares purchased				(10.9)	(600.3)				(600.3)	
Stock compensation plans (includes income tax benefits of \$17.7)			(13.5)	2.2	93.5				80.0	
Unearned compensation related to restricted stock unit awards			(58.7)						(58.7)	
Earned compensation			29.6						29.6	
Increase in redemption value of redeemable interest			(7.6)						(7.6)	7.6
Distributions to noncontrolling and redeemable interest holders								(1.5)	(1.5)	
Balance as of Aug. 27, 2017	754.6	\$ 75.5	\$ 1,070.7	(186.4)	\$ (8,269.7)	\$ 13,259.3	\$ (2,232.0)	\$ 379.1	\$ 4,282.9	\$ 967.5

See accompanying notes to consolidated financial statements.

Table of Contents**Consolidated Statements of Cash Flows**

GENERAL MILLS, INC. AND SUBSIDIARIES

(Unaudited) (In Millions)

	Quarter Ended	
	Aug. 27, 2017	Aug. 28, 2016
Cash Flows - Operating Activities		
Net earnings, including earnings attributable to redeemable and noncontrolling interests	\$ 408.6	\$ 419.5
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	145.1	152.5
After-tax earnings from joint ventures	(23.7)	(24.2)
Distributions of earnings from joint ventures	29.0	26.4
Stock-based compensation	29.6	38.8
Deferred income taxes	38.2	36.0
Pension and other postretirement benefit plan contributions	(5.9)	(11.3)
Pension and other postretirement benefit plan costs	1.1	8.9
Restructuring, impairment, and other exit costs	(9.2)	56.6
Changes in current assets and liabilities	(17.8)	(327.6)
Other, net	(4.5)	(4.8)
 Net cash provided by operating activities	 590.5	 370.8
 Cash Flows - Investing Activities		
Purchases of land, buildings, and equipment	(116.3)	(153.5)
Investments in affiliates, net	(6.6)	8.1
Proceeds from disposal of land, buildings, and equipment	0.4	0.4
Exchangeable note		13.0
Other, net	(0.3)	4.7
 Net cash used by investing activities	 (122.8)	 (127.3)
 Cash Flows - Financing Activities		
Change in notes payable	413.8	419.6
Proceeds from common stock issued on exercised options	41.0	63.6
Purchases of common stock for treasury	(600.3)	(399.7)
Dividends paid	(284.3)	(290.9)
Distributions to noncontrolling and redeemable interest holders	(1.5)	(1.2)
Other, net	(20.0)	(29.6)
 Net cash used by financing activities	 (451.3)	 (238.2)
 Effect of exchange rate changes on cash and cash equivalents	 38.3	 (3.3)
 Increase in cash and cash equivalents	 54.7	 2.0
Cash and cash equivalents - beginning of year	766.1	763.7

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Cash and cash equivalents - end of period	\$ 820.8	\$ 765.7
Cash Flow from changes in current assets and liabilities:		
Receivables	\$ (88.1)	\$ (81.7)
Inventories	(89.9)	(122.2)
Prepaid expenses and other current assets	12.1	(34.2)
Accounts payable	78.6	(49.7)
Other current liabilities	69.5	(39.8)
Changes in current assets and liabilities	\$ (17.8)	\$ (327.6)

See accompanying notes to consolidated financial statements.

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GENERAL MILLS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Background

The accompanying Consolidated Financial Statements of General Mills, Inc. (we, us, our, General Mills, or the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the rules and regulations for reporting on Form 10-Q. Accordingly, they do not include certain information and disclosures required for comprehensive financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature, including the elimination of all intercompany transactions and any noncontrolling and redeemable interests share of those transactions. Operating results for the quarter ended August 27, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending May 27, 2018.

These statements should be read in conjunction with the Consolidated Financial Statements and footnotes included in our Annual Report on Form 10-K for the fiscal year ended May 28, 2017. The accounting policies used in preparing these Consolidated Financial Statements are the same as those described in Note 2 to the Consolidated Financial Statements in that Form 10-K with the exception of the new accounting requirements adopted in the first quarter of fiscal 2018 for stock-based payments and goodwill impairment testing. See Note 16 to the Consolidated Financial Statements in Part I, Item 1 of this report for additional information. Certain terms used throughout this report are defined in the Glossary section below.

(2) Divestiture

During the second quarter of fiscal 2017, we sold our Martel, Ohio manufacturing facility in our Convenience Stores & Foodservice segment and simultaneously entered into a co-packing arrangement with the purchaser. We received \$17.5 million in cash, and recorded a pre-tax loss of \$13.5 million.

(3) Restructuring Initiatives

We are currently pursuing several multi-year restructuring initiatives designed to increase our efficiency and focus our business behind our key growth strategies. Charges related to these activities were as follows:

In Millions	Quarter Ended Aug. 27, 2017					Quarter Ended Aug. 28, 2016				
	Severance	Asset Write- offs	Accelerated Depreciation	Other	Total	Severance	Asset Write- offs	Accelerated Depreciation	Other	Total
Global reorganization	\$ 0.4	\$ 0.1	\$	\$ 0.3	\$ 0.8	\$	\$	\$	\$	\$
Closure of Melbourne, Australia plant	0.6		1.5		2.1					
Restructuring of certain international product lines						2.3	33.6		0.5	36.4
Closure of Vineland, New Jersey plant	0.2	0.1	10.6	2.5	13.4	12.4		7.0	1.5	20.9
Project Compass	(0.2)				(0.2)			0.2	0.8	1.0
Project Century	0.1	0.9		0.4	1.4	0.3	3.1	9.2	1.6	14.2
Total	\$ 1.1	\$ 1.1	\$ 12.1	\$ 3.2	\$ 17.5	\$ 15.0	\$ 36.7	\$ 16.4	\$ 4.4	\$ 72.5

In the third quarter of fiscal 2017, we approved restructuring actions designed to better align our organizational structure with our strategic initiatives. This action will affect approximately 600 positions and we expect to incur approximately \$75 million of net expenses relating to these actions, all of which will be cash. We recorded \$0.8 million of restructuring charges in the first quarter of fiscal 2018 relating to these actions. We expect these actions to be completed by the end of fiscal 2018.

In the second quarter of fiscal 2017, we notified the employees and their representatives of our decision to close our pasta manufacturing facility in Melbourne, Australia in our Europe & Australia segment to improve our margin structure. This action will affect approximately 350 positions,

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and we expect to incur approximately \$34 million of net expenses relating to this action, of which approximately \$3 million will be cash. We recorded \$2.1 million of restructuring charges in the first quarter of fiscal 2018 relating to this action. We expect this action to be completed by the end of fiscal 2019.

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In the first quarter of fiscal 2017, we announced a plan to restructure certain product lines in our Asia & Latin America segment. To eliminate excess capacity, we closed our snacks manufacturing facility in Marília, Brazil and ceased production operations for meals and snacks at our facility in São Bernardo do Campo, Brazil. We also ceased production of certain underperforming snack products at our facility in Nanjing, China. These and other actions will affect approximately 420 positions in our Brazilian operations and approximately 440 positions in our Greater China operations. We expect to incur approximately \$42 million of net expenses related to these actions, most of which will be non-cash. We recorded \$36.4 million of restructuring charges in the first quarter of fiscal 2017 relating to these actions. We expect these actions to be completed by the end of fiscal 2019.

In the first quarter of fiscal 2017, we approved a plan to close our Vineland, New Jersey facility to eliminate excess soup capacity in our North America Retail segment. This action affected 380 positions, and we expect to incur approximately \$55 million of net expenses, of which approximately \$12 million will be cash. We recorded \$13.4 million of restructuring charges in the first quarter of fiscal 2018 and \$20.9 million in the first quarter of 2017 relating to this action. We expect this action to be completed by the end of fiscal 2019.

We paid \$26.7 million in cash relating to restructuring initiatives in the first quarter of fiscal 2018 and \$15.9 million in first quarter of fiscal 2017.

In addition to restructuring charges, we recorded \$1.2 million of project-related costs in cost of sales in the first quarter of fiscal 2018 and \$13.8 million in the first quarter of fiscal 2017. We paid \$2.7 million in cash in the first quarter of fiscal 2018 and \$16.7 million in the same period of fiscal 2017 for project-related costs. We expect to incur approximately \$12 million of project-related costs in future periods related to our restructuring initiatives.

Restructuring charges and project-related costs are recorded in our Consolidated Statements of Earnings as follows:

In Millions	Quarter Ended	
	Aug. 27, 2017	Aug. 28, 2016
Cost of sales	\$ 12.3	\$ 13.6