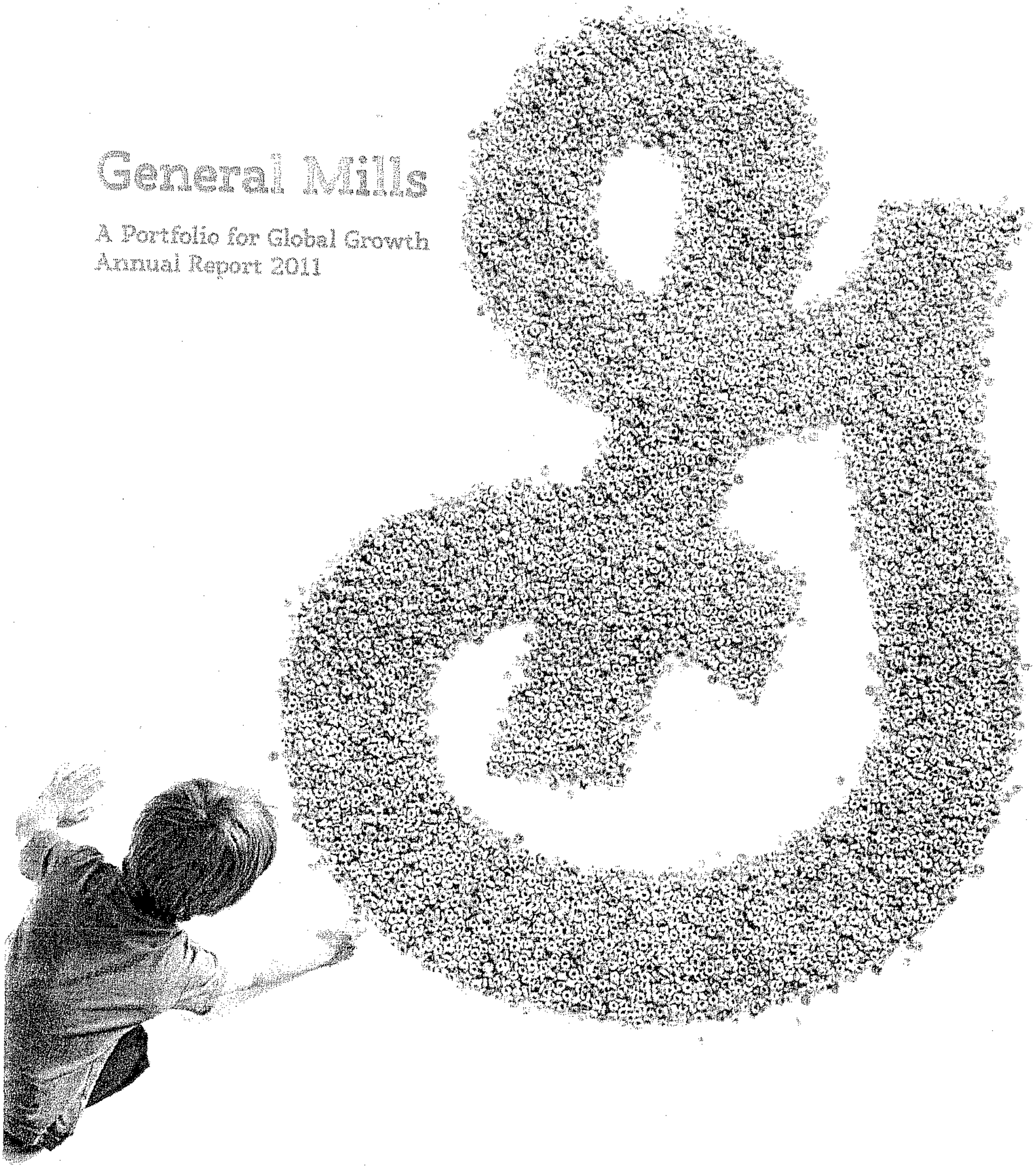
GENERAL MILLS ACQUISITION
OF
PILLSBURY CASE ANALYSIS

Name:____

General Mills

A Portfolio for Global Growth
Annual Report 2011



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Organizational Behavior

CASE STUDY

OUTLINE

Written Format

- Define the issue(s)/problems or opportunities
- Analyze the case data (Data analysis)
- Generating Alternatives Analysis
- Selecting key decision criteria
- Analyzing and evaluating alternatives
- Selecting the preferred alternative
- Developing an action/implementation plan
- Recommendations for the future

General Mills Acquisition of Pillsbury

QUESTIONS

1. What are General Mill's motives for this deal? Please estimate the present value of the expected cost savings.

2. What was the term of the General Mills and Pillsbury deal?

3. Is this deal economically attractive to General Mills' shareholders? Would you recommend that shareholders approve, or reject, this deal?

4. Select the preferred alternative analysis of what they should have done or of what they did do... did you agree with their decision

5. What was the key decision criteria.

6. What would you recommend that that General Mills do for the future?

The Company

General Mills markets several well-known brands, including Betty Crocker, Häagen-Dazs, Pillsbury, Green Giant, Old El Paso and Cheerios. Their brand portfolio includes more than 100 leading U.S. brands and numerous category leaders around the world. On average, U.S. shoppers place at least one General Mills product into their shopping cart each time they visit the grocery store. [1]
General Mills markets global brands such as Green Giant vegetables, Old El Paso Mexican food and Häagen-Dazs ice cream. Their U.S. portfolio includes Yoplait yogurt, Cheerios, Wheaties and other Big G cereals.

The company can trace its history to the Minneapolis Milling Company, an organization founded in 1866 by Cadwallader C. Washburn which leased power rights to mills operating along Saint Anthony Falls on the Mississippi River. His brother William D. Washburn also assisted in the company's development. In 1866, the Washburns got into the business themselves, building the Washburn "B" Mill at the falls. At the time, the building was considered to be so large and output so vast that it could not possibly sustain itself. However, the company succeeded and in 1874 he built the even bigger Washburn "A" Mill.

In 1877, the mill entered a partnership with John Crosby to form the Washburn-Crosby Company. A year later, the "A" mill exploded, killing 17 workers and also demolishing several nearby buildings. The mill was rebuilt and continued to operate for almost 90 years.

General Mills' Acquisition of Pillsbury from Diageo Plc

In 1928 James Ford Bell orchestrated a giant merger of the nation's largest regional milling companies; the company came to be known as General Mills and it was the largest flour Milling Company in the world. Throughout the years, General Mills has grown into much more than just a milling company.

In the mid 60's, they closed over half their mills and began marketing to consumers. Over the years they developed or purchased a diverse line of products that included kitchen appliances and cookbooks as well as the typical consumer products that we associate with General Mills today. Few people know, however, that the company that brings us such great cereals, snacks, ice creams, and granola bars was once the largest toy company in the world.

In 1965 General Mills Purchased Rainbow Crafts (the makers of Play-Doh). A few years later they purchased Parker Brothers, then Kennard, and within only a few years they were the largest toy producer in the world.

1. They made games, Frisbees, and Star Wars action figures along with their many other diverse lines of toy products. In addition to toys, General Mills also sought to expand into the restaurant market.

2. They bought Red Lobster and LeAnne Chin's and developed the Olive Garden.

3. They successfully expanded into new markets but must have become too diversified because in the late 1980's they began spinning off companies and began to focus exclusively on consumer oriented food products; in 2001 they made headlines across the world as they merged with Pillsbury and today they are once again among the largest consumer food producers in the world.

In the spring of 1998 General Mills began studying areas where they could add to the company and advanced a strategy of acquisition-driven growth. General Mills has several motives for pursuing a deal to acquire Pillsbury. Pillsbury was identified as an ideal target due to its ability to complement General Mills' other existing businesses and Diageo's readiness to sell. The potential acquisition of Pillsbury would create value for shareholders by "accelerated sales and earnings growth through product innovation, channel expansion, international expansion, and productivity gains." The addition of Pillsbury would lead to a more balanced product portfolio offered by General Mills and its existing businesses, and it the new company would be the fifth largest corporation by measure of global food sales. This diversification and growth allows General Mills to enter new markets and protect itself from losses by stabilizing its markets and adding new customers. The amount of General Mills shelf space will increase in stores, which allows greater flexibility to advertise products and adjust their products to the demands of the consumer.

The company will have access to new markets both geographically and in new fast-growing areas of food sales. Supply chain improvements in sales, merchandising, marketing, and administration through the consolidation of Pillsbury and General Mills would create pre-tax savings that are estimated at $645 million through 2003. The acquisition would provide an array of new products that would allow General Mills to reach better economies of scope, which would create greater efficiencies in its COGS and SG&A. In terms of growth, the acquisition of Pillsbury would almost double the size of the company in terms of revenue. In relation with the terms set in the transaction, General Mills didn't like to issue one third of its shares to Diageo that is actually equal to 33%, which is what Diageo wanted.

General Mills' Acquisition of Pillsbury from Diageo PLC General Mills is a major manufacturer and marketer of consumer foods in US. On December 8, 2000 the management of General Mill purposed to acquire Pillsbury from Diageo in order to create more value from earning growth. This deal required General Mills to issue new common share to exchange for Pillsbury. If the deal was executed, Diageo would become the largest shareholder for General Mills with 33% share holding. This acquisition would lead Diageo to obtain 141 million shares of the General Mills' common stock and $5.142 billion debt from Pillsbury. However, as General Mills would like to submit the proposed deal of $10.00 billion but Diageo required the price of $10.50 billion. General Mills is a major manufacturer and marketer of consumer foods in partnership with Pepsi Co. and Nestle. General Mills' revenue is about 7.5 dollars with a market capitalization numbering to about 11 billion dollars. Its products are cereals, snacks, yogurt and many more and with this, they have to decide about an acquisition of another business which complements their products for them to be able to create more shares of stocks for the personal growth of the company. .In 2000, General Mills annual revenue was $7.5 billion and their market capitalization was about $11 billion.

Therefore, in order to connect the difference in this position, both companies came up with the agreement upon the contingent payment which the transaction relied on General Mills' stock price.

What are General Mills' motives for this deal?
The reasons and benefits of General Mills from acquisition of Pillsbury are as follows: Since the business of GM was in the mature period with slow growth, GM must diversify its offerings and enlarge its product portfolio to reach new customers and tap into new thriving food market. The acquisition would allow GM to break into new and fast-growing food categories that complement its existing product portfolio. The growth of rivals also motivated GM to increase its expansion efforts in order to remain as a market leader and survive against intense competition within the market. They could also improve their supply-chain and distribution power through the big retailer and supermarket such as Wal-Mart and K-Mart, resulting in synergy effect from the acquisition. GM and Pillsbury could develop and grow faster together from the sharing and exchange of learning, technology and resources to increase the productivity and their market growth.

Management's Discussion and Analysis of Financial Conditions and Results of Operations

EXECUTIVE OVERVIEW

We are a global consumer foods company. We develop distinctive value-added food products and market them under unique brand names. We work continuously to improve our established products and to create new products that meet consumers' evolving needs and preferences. In addition, we build the equity of our brands over time with strong consumer-directed marketing and innovative merchandising. We believe our brand-building strategy is the key to winning and sustaining leading share positions in markets around the globe.

Our fundamental business goal is to generate superior returns for our stockholders over the long term. We believe that increases in net sales, segment operating profit, earnings per share (EPS), and return on average total capital are the key measures of financial performance for our businesses. See the "Non-GAAP Measures" section on page 85 for a description of our discussion of total segment operating profit, diluted EPS excluding certain items affecting comparability and return on average total capital, which are not defined by generally accepted accounting principles (GAAP).

Our objectives are to consistently deliver:

- low single-digit annual growth in net sales;
- mid single-digit annual growth in total segment operating profit;
- high single-digit annual growth in EPS; and
- improvements in return on average total capital.

We believe that this financial performance, coupled with an attractive dividend yield, should result in long-term value creation for stockholders. We also return a substantial amount of cash to stockholders through share repurchases and dividends.

For the fiscal year ended May 29, 2011, our net sales grew 2 percent, total segment operating profit grew 4 percent and diluted EPS grew 20 percent, however our return on average total capital declined by 10 basis points despite these positive earnings metrics. Diluted EPS excluding certain items affecting comparability increased 8 percent from fiscal 2010 (see the "Non-GAAP Measures" section on page 85 for our use of this measure and our discussion of the items affecting comparability). Net cash provided by operations totaled $1.5 billion in fiscal 2011, enabling us to increase our annual dividend payments per share by 17 percent from fiscal 2010 and continue returning cash to stockholders through share repurchases, which totaled $1.2 billion in fiscal 2011. We also made significant capital investments totaling $649 million in fiscal 2011.

We achieved the following related to our six key operating objectives for fiscal 2011:

- Net sales growth of 2 percent was primarily driven by volume gains in our International segment and net price realization and mix.
- We achieved a 4 percent increase in total segment operating profit despite renewed input cost inflation.
- Our gross margin as a percent of net sales was comparable to fiscal 2010. We took pricing actions on most of our product lines in fiscal 2011 to partially offset the increases in input costs. In addition, we continued to focus on the other elements of our holistic margin management (HMM) program, which include cost-savings initiatives, marketing spending efficiencies, and profitable sales mix strategies.
- We continued to invest in media and other brand-building marketing programs. However, our total media and advertising spending decreased from fiscal 2010 levels, which increased 24 percent versus fiscal 2009.
- We grew our Bakeries and Foodservice segment operating profit, including a focus on higher-margin, branded product lines within our most attractive foodservice customer channels.
- We continued to grow our business in international markets. We focused on our core platforms of ready-to-eat cereal, super-premium ice cream, convenient meal solutions, and healthy snacking by introducing new products and investing to drive sales growth.

Details of our financial results are provided in the "Fiscal 2011 Consolidated Results of Operations" section below.

We expect slow improvement in the operating environment for food companies around the globe. Although we believe the environment will remain challenging in fiscal 2012, we expect to deliver another year of quality growth. Excluding the effects of our acquisition of interests in Yoplait S.A.S. and Yoplait Marques S.A.S., we expect to achieve these results:

- We are targeting mid single-digit growth in net sales primarily driven by net price realization, as our plans assume a modest decline in pound volume.
- We have a strong lineup of consumer marketing, merchandising, and innovation planned to support our leading brands. We will continue to build our global platforms in markets around the world, accelerating our efforts in rapidly growing emerging markets.
- We are targeting low single-digit growth in total segment operating profit in fiscal 2012, as we expect our HMM discipline of cost savings, mix management and pricerealization.

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businesses throughout the 1960s and 1970s. Pillsbury acquired Burger King in 1967. A few years later, General Mills picked up a fledgling chain of seafood restaurants – Red Lobster – and later developed The Olive Garden Italian restaurant concept.

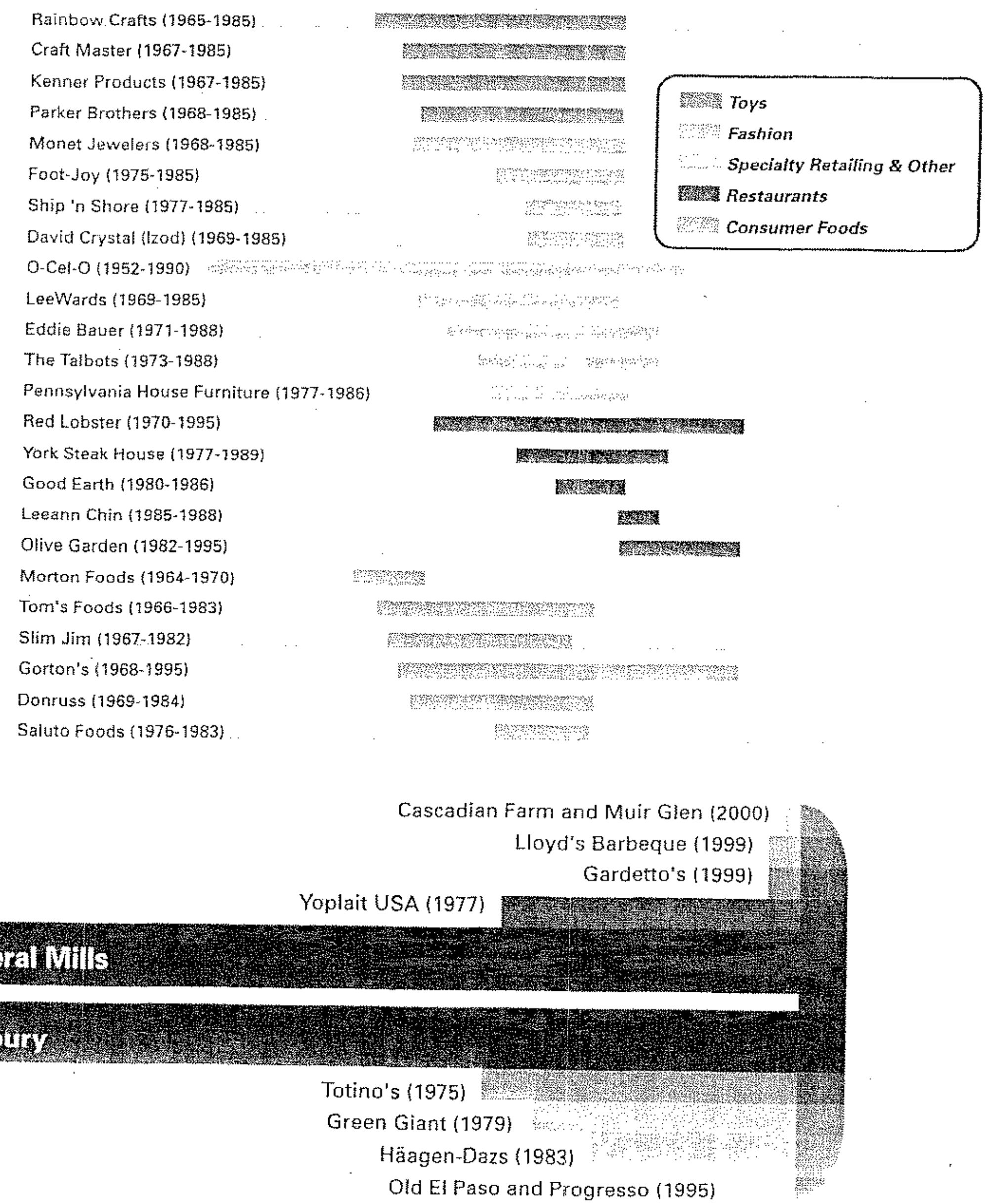
Growth through acquisition was important to both companies' consumer foods businesses as well. General Mills bought snack company Tom's Foods in 1966 and seafood producer Gorton Corporation in 1968. Pillsbury entered the pizza business with its 1975 purchase of Totino's Finer Foods. Green Giant was a big acquisition in 1979, and Häagen-Dazs was scooped up a few years later.

General Mills began the 1980s with a diverse portfolio of consumer-focused businesses. The company consisted of five divisions: Consumer Foods, Fashion, Toys, Restaurants and Specialty Retailing. As the 1980s progressed, the company divested most of these businesses, and by 1990, General Mills had narrowed its focus to two businesses: Consumer Foods and Restaurants.

In 1989, Pillsbury underwent a major change, being purchased by Britain's Grand Metropolitan plc. Under GrandMet, Pillsbury bought Pet, Inc. in the mid 1990s, acquiring important new brands, including Old El Paso and Progresso. When GrandMet merged with British-based Guinness in 1997, Pillsbury became part of the newly formed Diageo plc.

With the spinoff of its restaurant businesses into Darden, Inc., in 1995, General Mills began a new round of acquisitions. The Chex and Chex Mix franchise was purchased from Ralcorp in 1997. Other acquisitions soon followed, including Gardetto's snacks; organic food brands Cascadian Farm and Muir Glen; and Lloyd's Barbeque Company. By the end of the decade, General Mills was positioned to make the largest acquisition in its history – the purchase of Pillsbury.

Major Acquisitions & Divestitures



General Mills, Inc.

Type

Public (NYSE: GIS)

Founded 1866

Headquarters HQ in Golden Valley, Minnesota; manufacturing facilities around the world

Key people Steve Sanger, Chairman and CEO

Ken Powell, Vice Chairman

Industry

Food processing

Products

Baking mixes, Breakfast cereals, yogurt, refrigerated dough, soup, pizza, snack foods, ice cream, soy products, vegetables, flour, and more...

Revenue

$12.442 billion USD (2007)

Slogan

The Company of Champions

Website

www.generalmills.com

APPENDIX A

Original Press Release

General Mills has made it official, it is acquiring hometown rival Pillsbury from British food company Diageo for $10.5 billion. It's not the first time British and American interests have swapped Twin Cities food companies.

A HUNDRED AND THIRTY some years ago, Charles A. Pillsbury's flour mills first harnessed the churning falls at St. Anthony on the Upper Mississippi to thresh wheat into flour. A nearby General Mills precursor, the Washburn-Crosby mill also did the same.

In 1889 a British company bought Pillsbury's five riverside mills and tried to snap up Washburn Crosby as well. Old rivalries between the two companies however, prevented such a merger. The British eventually sold the mills back to the Pillsbury's in 1923. In 1989 and yet another British company called Grand Metropolitan acquired Pillsbury.

Jump ahead to the present, and Pillsbury is again casting off a British parent, but this time it's joining forces with General Mills to solve a modern dilemma.

Namely, how do you make more money when consumers are consuming as much as they can and the competition is holding down the prices of your products?

The answer seems to be twofold; Get bigger, and innovate. General Mills CEO, Steve Sanger, spoke at a press conference in New York where he said size is merely a means to an end.

"I am not a believer in size for the sake of size," he said. "We felt confident that we could reach our growth targets on our own. So the only reason to do a deal like this is to deliver greater value to our shareholders by delivering faster growth."

Sanger says the merger will enable the company to save about $400 million by simplifying the business and cutting staff across the company, removing what corporations like to call, redundancies.

Prudential Securities analyst John McMillin says the prospects for some Pillsbury employees in Minneapolis aren't very bright.

"They're talking about $400 million in cost saves. That's a lot and I think a lot of it will come out of that Pillsbury tower."

General Mills will divest its North American *Green Giant* canned vegetables business and its North American *Betty Crocker* dessert mix business. Sanger says that the company is cutting canned vegetables because it wouldn't fit the goals of the new business and cake mixes because the new company would've owned more than half the nation's cake mix market. Creating a situation that anti-trust regulators would have treated with rigorous scrutiny.

McMillin thinks all these cuts will make the company leaner, and more competitive in the long run.

"I do think you'll have a better company that will grow faster and add more jobs [in the] longer term."

Another reason for this merger; A bigger General Mills will wield more power in the supermarket aisles. A point made especially significant as Target, Wal-Mart and K-Mart aggressively add supermarkets to their stores making that added power even more precious.

Jean Kinsey, Director of the Retail Food Industry Center at the University of Minnesota, says a combined General Mills will own more shelf space. That, she says provides a stage for new products.

"If those variations belong, let's say to General Mills and GM has an agreement with Wal Mart or Target or whoever to supply them with the cereals or the products on the shelves, they then have the ability to control the amount of space they want to devote to new products as opposed to old products," she explained.

General Mills will be able to apply its product development savvy to Pillsbury's products. Most notably its refrigerated dough products. With luck, they will repeat their recent success with *go-gurt*, a yogurt for people on the go, as well as other products.

For now the deal is receiving the stamp of approval from the Pillsbury family. George Pillsbury, who is now retired, was one of the last of Pillsburys to work in the family business.

"It's great to have them find a partner that will keep the brand management and marketing management here in Minnesota."

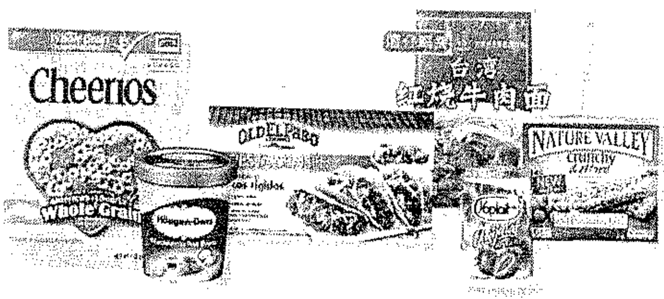
He says the Pillsbury crew always considered General Mills, and its predecessor Washburn Crosby Mills, a tough competitor. He believes however, that the rivalry ended when the working day did.

"They've always been well managed," Pillsbury said. "And, today they have very capable management, but they always have been extremely well managed. They were extremely good competitors."

Now they'll have to be just as able collaborators.

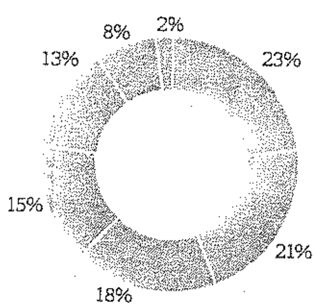
WE HAVE A PORTFOLIO BUILT FOR GLOBAL GROWTH.

From ready-to-eat cereal to convenient meals to wholesome snacks, we compete in growing food categories that are on-trend with consumer tastes around the world. Our brands hold leading market positions in more than 100 markets worldwide, with great opportunities for expansion.



General Mills at a Glance

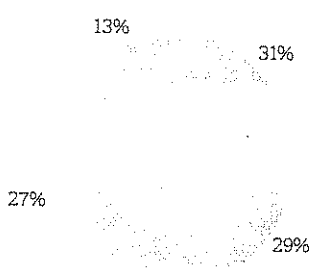
U.S. Retail
Net sales by division



$10.2 Billion

23% Big G Cereals
21% Meals
18% Pillsbury USA
15% Yoplait
13% Snacks
8% Baking Products
2% Small Planet Foods/Other

International
Net sales by region



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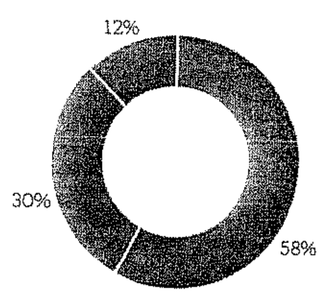
31% Europe
29% Asia/Pacific
27% Canada
13% Latin America

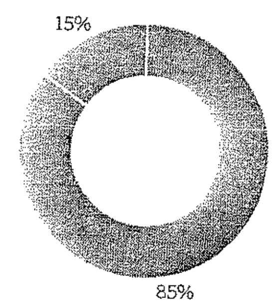
Bakeries and Foodservice
Net sales by customer type



$1.8 Billion

58% Bakeries & National Restaurant Accounts
30% Foodservice Distributors
12% Convenience Stores

Joint Ventures
Net sales by joint venture (not consolidated, proportionate share)

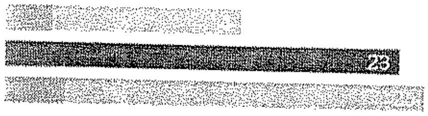


$1.2 Billion

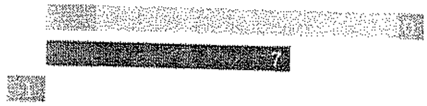
85% Cereal Partners Worldwide (CPW)
15% Häagen-Dazs Japan

Total Returns to Shareholders
Percent growth, stock price change plus reinvested dividends

Fiscal 2011

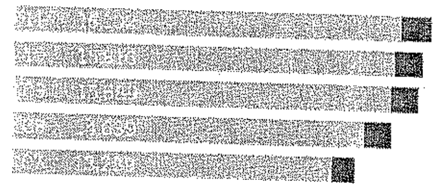


May 2007–May 2011
Compound annual growth



GIS
S&P Packaged Foods Index
S&P 500 Index

Worldwide Net Sales*
Dollars in millions



Consolidated Net Sales
Our Share of Ongoing Joint Venture Net Sales

*See page 85 of our 2011 Annual Report for discussion of non-GAAP measures.

Net Sales Performance

Operating Division/Segment	2011 Net Sales % Change
Small Planet Foods	+13
International Segment*	+ 7
Bakeries and Foodservice Segment	+ 6
Snacks	+ 5
Yoplait	+ 1
Meals	- 1
Big G Cereals	- 2
Pillsbury USA	- 2
Baking Products	- 4

*Does not include the impact of foreign currency translation. See page 86 of our 2011 Annual Report for a reconciliation to reported results.

In total, General Mills results in fiscal 2011 represented continuing growth on top of strong performance in recent years. Since 2007, General Mills net sales have grown at a 5 percent compound rate. Our segment operating profit has grown even faster, compounding at 7 percent per year. And our adjusted diluted EPS (this measure excludes certain items affecting comparability of results) has increased at a 12 percent compound rate.

Our good financial performance was reflected in price appreciation for General Mills stock in fiscal 2011. In addition, dividends per share grew 17 percent last year. In total, stock price appreciation plus dividends generated a 14 percent return to our shareholders for the year. This lagged the very strong returns posted by our peer group and the broader market in 2011. However, our 14 percent return followed a 43 percent return to GIS shareholders in the previous year.

As shown in the chart above, over the past four fiscal years General Mills has delivered a double-digit compound annual return to shareholders—superior performance in a volatile and challenging period for the equity market overall.

As we enter our next phase of growth, we are targeting continued good sales and earnings performance in the years ahead. It seems clear that food manufacturers will have to contend with higher—and more volatile—input costs. In our case, total supply chain cost inflation was 4 percent in 2011, and we've estimated 10 to 11 percent inflation in our plans for 2012. There are multiple factors contributing to this inflationary pressure, but the fundamental driver is growth of emerging markets and their increased demand for food ingredients and energy.

We adopted a new business model several years ago to help us manage higher inflation. This model begins with Holistic Margin Management (HMM), our discipline of using productivity, mix and price realization to offset inflation and protect our gross margin. A strong gross margin gives us the ability to fund continued high levels of investment in product improvements, new product development, sales capabilities and consumer marketing. These activities fuel net sales growth and ultimately, growth in earnings. We believe this HMM-driven business model has worked very well in recent years. As you can see in the charts on page 5, it enabled us to protect and expand gross margin over a five-year period when our input cost inflation averaged between 4 and 5 percent. We expect HMM to help us achieve continuing high-quality sales and earnings growth as we go forward.

GENERAL MILLS

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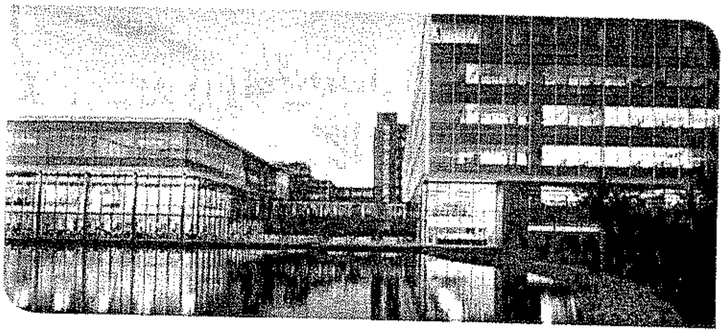
Company

- Businesses
- Countries
- History
- Innovation
- Leadership
- Mission
- Publications
- Values
- Our websites
- Employees and retirees



Leadership

Kendall J. Powell*
Chairman of the Board, Chief Executive Officer

Mark W. Addicks
Senior Vice President; Chief Marketing Officer

Y. Marc Belton*
Executive Vice President, Global Strategy, Growth and Marketing Innovation

Kofi Bruce
Vice President, Treasurer

Gary Chu
Senior Vice President; President, Greater China

Juliana L. Chugg
Senior Vice President; President, Meals

John Church*
Executive Vice President, Supply Chain

David Clark
Vice President; President, Häagen-Dazs International

Michael L. Davis*
Executive Vice President, Global Human Resources

David E. Dudick Sr.
Senior Vice President; President, Convenience Stores & Foodservice

Peter C. Erickson*
Executive Vice President, Innovation, Technology and Quality

Olivier Faujour
Vice President; President, Yoplait International

Ian R. Friendly *
Executive Vice President; Chief Operating Officer, U.S. Retail

Jeffrey L. Harmening
Senior Vice President; Chief Executive Officer, Cereal Partners Worldwide

David P. Homer
Senior Vice President; President, General Mills Canada

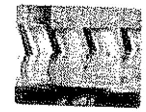
Christina Law
Vice President; President, Asia, Middle East and Africa region

Luis Gabriel Merizalde
Senior Vice President; President, Europe, Australia and New Zealand

Michele S. Meyer
Vice President; President, Small Planet Foods

Donal L. Mulligan*
Executive Vice President; Chief Financial

Board of directors
For General Mills »



Overview
General Mills at a glance (pdf) »

Prestige
An honor for Green Giant in France »

115 years
The dividend keeps rising (blog) »

GIS LISTED NYSE

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Officer

James H. Murphy

Senior Vice President, President Big G Cereals

Kimberly A. Nelson*

Senior Vice President, External Relations; President, General Mills Foundation

Jonathon J. Nudi

Vice President; President, Snacks

Rebecca L. O'Grady

Vice President; President, Yoplait USA

Shawn P. O'Grady*

Senior Vice President; President, Sales and Channel Development

Christopher D. O'Leary*

Executive Vice President; Chief Operating Officer, International

Roderick A. Palmore*

Executive Vice President; General Counsel; Chief Compliance and Risk Management Officer, and Secretary

Ann W.H. Simonds

Senior Vice President; President, Baking Products

Christi L. Strauss

Senior Vice President

Anton Vincent

Vice President; President, Frozen Foods

Sean N. Walker

Senior Vice President; President, Latin America

Kristen S. Wenker

Senior Vice President, Investor Relations

Keith A. Woodward

Senior Vice President, Financial Operations

Jerry Young

Vice President, Controller

* member of senior leadership team

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