

CONSTELLATION BRANDS, INC.

Form 10-Q

January 09, 2019

Table of Contents

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 November 30, 2018

or

☐ 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: 001-08495

CONSTELLATION BRANDS, INC.

(Exact name of registrant as specified in its charter)

Delaware 16-0716709

(State or other jurisdiction of (I.R.S. Employer incorporation or organization) Identification No.)

207 High Point Drive, Building 100, Victor, New York 14564
(Address of principal executive offices) (Zip Code)

(585) 678-7100

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 ☐ Accelerated filer ☐
Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth 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. ☐

Edgar Filing: CONSTELLATION BRANDS, INC. - Form 10-Q

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

The number of shares outstanding with respect to each of the classes of common stock of Constellation Brands, Inc., as of December 31, 2018, is set forth below:

Class	Number of Shares Outstanding
Class A Common Stock, par value \$.01 per share	166,548,089
Class B Common Stock, par value \$.01 per share	23,316,629
Class 1 Common Stock, par value \$.01 per share	11,983

Table of Contents

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	<u>1</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>35</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>54</u>
<u>Item 4. Controls and Procedures</u>	<u>56</u>

PART II – OTHER INFORMATION

<u>Item 4. Mine Safety Disclosures</u>	<u>56</u>
<u>Item 6. Exhibits</u>	<u>56</u>
<u>INDEX TO EXHIBITS</u>	<u>57</u>
<u>SIGNATURES</u>	<u>61</u>

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company’s control, that could cause actual results to differ materially from those set forth in, or implied by, such forward-looking statements. For further information regarding such forward-looking statements, risks and uncertainties, please see “Information Regarding Forward-Looking Statements” under Part I – Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Unless the context otherwise requires, the terms “Company,” “CBI,” “we,” “our,” or “us” refer to Constellation Brands, Inc. and its subsidiaries. Unless otherwise defined herein, refer to the Notes to Consolidated Financial Statements under Item 1 of this Quarterly Report on Form 10-Q for the definition of capitalized terms used herein. All references to “Fiscal 2018” refer to our fiscal year ended February 28, 2018. All references to “Fiscal 2019” refer to our fiscal year ending February 28, 2019. All references to “\$” are to U.S. dollars, all references to “C\$” are to Canadian dollars and all references to “A\$” are to Australian dollars.

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in millions, except share and per share data)

(unaudited)

	November 30, 2018	February 28, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 130.6	\$ 90.3
Accounts receivable	837.2	776.2
Inventories	2,198.0	2,084.0
Prepaid expenses and other	472.7	523.5
Total current assets	3,638.5	3,474.0
Property, plant and equipment	4,986.3	4,789.7
Goodwill	8,061.8	8,083.1
Intangible assets	3,307.8	3,304.8
Equity method investments	3,583.0	121.5
Other assets	4,313.0	765.6
Total assets	\$ 27,890.4	\$ 20,538.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	\$ 731.5	\$ 746.8
Current maturities of long-term debt	1,065.6	22.3
Accounts payable	882.7	592.2
Other accrued expenses and liabilities	683.6	678.3
Total current liabilities	3,363.4	2,039.6
Long-term debt, less current maturities	11,772.5	9,417.6
Other liabilities	1,234.5	1,089.8
Total liabilities	16,370.4	12,547.0
Commitments and contingencies		
CBI stockholders' equity:		
Class A Common Stock, \$.01 par value – Authorized, 322,000,000 shares; Issued, 185,514,404 shares and 258,718,356 shares, respectively	1.9	2.6
Class B Convertible Common Stock, \$.01 par value – Authorized, 30,000,000 shares; Issued, 28,322,429 shares and 28,335,387 shares, respectively	0.3	0.3
Additional paid-in capital	1,368.8	2,825.3
Retained earnings	13,176.8	9,157.2
Accumulated other comprehensive loss	(505.9)	(202.9)
	14,041.9	11,782.5
Less: Treasury stock –		
Class A Common Stock, at cost, 18,970,734 shares and 90,743,239 shares, respectively	(2,783.0)	(3,805.2)
Class B Convertible Common Stock, at cost, 5,005,800 shares	(2.2)	(2.2)
	(2,785.2)	(3,807.4)
Total CBI stockholders' equity	11,256.7	7,975.1
Noncontrolling interests	263.3	16.6
Total stockholders' equity	11,520.0	7,991.7
Total liabilities and stockholders' equity	\$ 27,890.4	\$ 20,538.7

The accompanying notes are an integral part of these statements.

1

Table of Contents

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions, except per share data)

(unaudited)

	For the Nine Months Ended November 30,		For the Three Months Ended November 30,	
	2018	2017	2018	2017
Sales	\$6,916.3	\$6,390.6	\$2,160.6	\$1,981.7
Excise taxes	(597.5)	(572.3)	(188.0)	(179.8)
Net sales	6,318.8	5,818.3	1,972.6	1,801.9
Cost of product sold	(3,132.0)	(2,851.0)	(1,002.6)	(891.6)
Gross profit	3,186.8	2,967.3	970.0	910.3
Selling, general and administrative expenses	(1,239.9)	(1,199.3)	(413.5)	(420.7)
Operating income	1,946.9	1,768.0	556.5	489.6
Income (loss) from unconsolidated investments	918.2	249.7	(134.6)	249.1
Interest expense	(248.6)	(245.1)	(72.8)	(81.4)
Loss on extinguishment of debt	(1.7)	(19.1)	(1.7)	(10.3)
Income before income taxes	2,614.8	1,753.5	347.4	647.0
Provision for income taxes	(405.1)	(352.0)	(35.3)	(150.6)
Net income	2,209.7	1,401.5	312.1	496.4
Net income attributable to noncontrolling interests	(13.3)	(8.6)	(9.0)	(3.6)
Net income attributable to CBI	\$2,196.4	\$1,392.9	\$303.1	\$492.8
Comprehensive income	\$1,891.7	\$1,605.3	\$98.2	\$369.2
Comprehensive (income) loss attributable to noncontrolling interests	1.7	(21.6)	3.6	2.0
Comprehensive income attributable to CBI	\$1,893.4	\$1,583.7	\$101.8	\$371.2
Net income per common share attributable to CBI:				
Basic – Class A Common Stock	\$11.66	\$7.22	\$1.62	\$2.55
Basic – Class B Convertible Common Stock	\$10.59	\$6.55	\$1.47	\$2.32
Diluted – Class A Common Stock	\$11.21	\$6.92	\$1.56	\$2.45
Diluted – Class B Convertible Common Stock	\$10.35	\$6.40	\$1.45	\$2.26
Weighted average common shares outstanding:				
Basic – Class A Common Stock	167.203	171.854	166.364	171.922
Basic – Class B Convertible Common Stock	23.322	23.339	23.318	23.333
Diluted – Class A Common Stock	195.921	201.183	194.820	201.177
Diluted – Class B Convertible Common Stock	23.322	23.339	23.318	23.333
Cash dividends declared per common share:				
Class A Common Stock	\$2.22	\$1.56	\$0.74	\$0.52
Class B Convertible Common Stock	\$2.01	\$1.41	\$0.67	\$0.47

The accompanying notes are an integral part of these statements.

Table of ContentsCONSTELLATION BRANDS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

	For the Nine Months Ended November 30,		
	2018		2017
Cash flows from operating activities:			
Net income	\$ 2,209.7		\$ 1,401.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Unrealized net gain on securities measured at fair value	(786.5)		(216.8)
Net gain on sale of unconsolidated investment	(99.8)		—
Net income tax benefit related to the Tax Cuts and Jobs Act	(37.6)		—
Equity in earnings of equity method investees, net of distributed earnings	(18.4)		(20.5)
Depreciation	250.1		214.4
Deferred tax provision	208.1		91.1
Stock-based compensation	51.1		45.5
Amortization of debt issuance costs and loss on extinguishment of debt	25.8		27.6
Amortization and impairment of intangible assets	4.5		91.2
Loss on contract termination	—		59.0
Change in operating assets and liabilities, net of effects from purchases of businesses:			
Accounts receivable	(56.4)		(38.4)
Inventories	(127.7)		(221.7)
Prepaid expenses and other current assets	(56.6)		(78.3)
Accounts payable	301.3		157.7

Edgar Filing: CONSTELLATION BRANDS, INC. - Form 10-Q

Other accrued expenses and liabilities	33.7		(67.8)	)
Other	72.6		23.9	
Total adjustments	(235.8)	)	66.9	
Net cash provided by operating activities	1,973.9		1,468.4	
Cash flows from investing activities:				
Investments in equity method investees and securities	(4,077.3)	)	(191.3)	)
Purchases of property, plant and equipment	(620.3)	)	(705.6)	)
Purchases of businesses, net of cash acquired	(45.3)	)	(131.9)	)
Proceeds from sale of unconsolidated investment	110.2		—	
Proceeds from sales of assets	46.3		1.2	
Other investing activities	(0.9)	)	(10.7)	)
Net cash used in investing activities	(4,587.3)	)	(1,038.3)	)
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	3,657.6		6,017.9	
Proceeds from shares issued under equity compensation plans	32.6		37.5	
Purchases of treasury stock	(504.3)	)	(239.2)	)
Dividends paid	(417.9)	)	(301.1)	)
Principal payments of long-term debt	(45.3)	)	(6,522.8)	)
Payments of debt issuance costs	(33.3)	)	(32.4)	)
Net proceeds from (repayments of) short-term borrowings	(14.5)	)	604.9	
Payments of minimum tax withholdings on stock-based payment awards	(13.6)	)	(22.9)	)
Net cash provided by (used in) financing activities	2,661.3		(458.1)	)
	(7.6)	)	5.1	

Effect of exchange rate
changes on cash and
cash equivalents

Net increase (decrease) in cash and cash equivalents	40.3	(22.9	)
Cash and cash equivalents, beginning of period	90.3	177.4	
Cash and cash equivalents, end of period	\$ 130.6	\$ 154.5	

Supplemental
disclosures of noncash
investing and financing
activities:

Additions to property, plant and equipment	\$ 130.9	\$ 155.7
Conversion of long-term debt to noncontrolling equity interest	\$ 248.4	\$ —

The accompanying notes are an integral part of these statements.

Table of Contents

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2018
(unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of presentation –

Unless the context otherwise requires, the terms “Company,” “CBI,” “we,” “our,” or “us” refer to Constellation Brands, Inc. and its subsidiaries. We have prepared the consolidated financial statements included herein, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission applicable to quarterly reporting on Form 10-Q and reflect, in our opinion, all adjustments necessary to present fairly our financial information. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements, prepared in accordance with generally accepted accounting principles, have been condensed or omitted as permitted by such rules and regulations. These consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended February 28, 2018 (the “2018 Annual Report”), and include the recently adopted accounting guidance described below and in Note 2 herein. Results of operations for interim periods are not necessarily indicative of annual results.

Summary of significant accounting policies –

Revenue recognition:

Effective March 1, 2018, we adopted the FASB amended guidance regarding the recognition of revenue from contracts with customers using the retrospective application method (see Note 2 for impacts of adoption). Our revenue (referred to in our financial statements as “sales”) consists primarily of the sale of beer, wine and spirits domestically in the U.S. Sales of products are for cash or otherwise agreed-upon credit terms. Our payment terms vary by location and customer, however, the time period between when revenue is recognized and when payment is due is not significant. Our customers consist primarily of wholesale distributors. Our revenue generating activities have a single performance obligation and are recognized at the point in time when control transfers and our obligation has been fulfilled, which is when the related goods are shipped or delivered to the customer, depending upon the method of distribution and shipping terms. Revenue is measured as the amount of consideration we expect to receive in exchange for the sale of our product. Our sales terms do not allow for a right of return except for matters related to any manufacturing defects on our part. Amounts billed to customers for shipping and handling are included in sales.

As noted, the majority of our revenues are generated from the domestic sale of beer, wine and spirits to wholesale distributors in the U.S. Our other revenue generating activities include the export of certain of our products to select international markets, as well as the sale of our products through state alcohol beverage control agencies and on-premise, retail locations in certain markets. We have evaluated these other revenue generating activities under the disaggregation disclosure criteria outlined within the amended guidance and concluded that these other revenue generating activities are immaterial for separate disclosure. See Note 16 for disclosure of net sales by product type.

Sales reflect reductions attributable to consideration given to customers in various customer incentive programs, including pricing discounts on single transactions, volume discounts, promotional and advertising allowances, coupons and rebates. This variable consideration is recorded as a reduction of the transaction price based upon expected amounts at the time revenue for the corresponding product sale is recognized. For example, customer promotional discount programs are entered into with certain distributors for certain periods of time. The amount ultimately reimbursed to distributors is determined based upon agreed-upon promotional discounts which are applied to distributors’ sales to retailers. Other common forms of variable consideration include volume rebates for meeting established sales targets, and coupons and mail-in rebates offered to the end consumer. The determination of the

reduction of the transaction price for variable consideration requires that we make certain estimates and assumptions that affect the timing and amounts of revenue and liabilities recognized. We estimate this variable consideration by taking into account factors such as the nature of the promotional activity, historical information and current trends, availability of actual results, and expectations of customer and consumer behavior.

Table of Contents

Excise taxes remitted to tax authorities are government-imposed excise taxes on our beverage alcohol products. Excise taxes are shown on a separate line item as a reduction of sales. Excise taxes are recognized as a current liability in other accrued expenses and liabilities, with the liability subsequently reduced when the taxes are remitted to the tax authority.

2. ACCOUNTING GUIDANCE:

Recently adopted accounting guidance –

Revenue recognition:

In May 2014, the FASB issued guidance regarding the recognition of revenue from contracts with customers. Under this guidance, an entity will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

We adopted this guidance on March 1, 2018, using the retrospective application method to allow for comparable reporting in all periods throughout the year ending February 28, 2019. Based on our analysis, we concluded that the adoption of the amended guidance did not have a material impact on our net sales recognition. However, the broad definition of variable consideration under this guidance requires us to estimate and recognize certain variable payments resulting from various sales incentives earlier than we have historically recognized them. This change in the timing of when we recognize sales incentive expenses resulted in a shift in net sales recognition primarily between our fiscal quarters. Under the retrospective application method, we recognized the cumulative impact of adopting this guidance in the first quarter of fiscal 2019 with a reduction to our March 1, 2016, opening retained earnings of \$49.0 million, net of income tax effect, with an offsetting increase to current accrued promotion expense and the recognition of a deferred tax asset to align the timing of when we recognize sales incentive expense and when we recognize revenue.

The effects of the retrospective application method on our consolidated financial statements for the periods presented in this report were as follows:

	As Previously Reported	Revenue Recognition Adjustments	As Adjusted
(in millions, except per share data)			
Consolidated Balance Sheet at February 28, 2018			
Other accrued expenses and liabilities	\$583.4	\$ 94.9	\$678.3
Total current liabilities	\$1,944.7	\$ 94.9	\$2,039.6
Other liabilities (including deferred income taxes – as previously reported, \$718.3 million; as adjusted, \$694.4 million)	\$1,113.7	\$ (23.9)	\$1,089.8
Total liabilities	\$12,476.0	\$ 71.0	\$12,547.0
Retained earnings	\$9,228.2	\$ (71.0)	\$9,157.2
Total stockholders' equity	\$8,062.7	\$ (71.0)	\$7,991.7

Table of Contents

	As Previously Reported	Revenue Recognition Adjustments	As Adjusted
(in millions, except per share data)			
Consolidated Statement of Comprehensive Income for the Nine Months Ended November 30, 2017			
Sales	\$6,391.4	\$ (0.8)	\$6,390.6
Net sales	\$5,819.1	\$ (0.8)	\$5,818.3
Gross profit	\$2,968.1	\$ (0.8)	\$2,967.3
Operating income	\$1,768.8	\$ (0.8)	\$1,768.0
Income before income taxes	\$1,754.3	\$ (0.8)	\$1,753.5
Provision for income taxes	\$(352.3)	\$ 0.3	\$(352.0)
Net income	\$1,402.0	\$ (0.5)	\$1,401.5
Net income attributable to CBI	\$1,393.4	\$ (0.5)	\$1,392.9
Comprehensive income attributable to CBI	\$1,584.2	\$ (0.5)	\$1,583.7

Net income per common share attributable to CBI:

Basic – Class A Common Stock	\$7.22	\$ —	\$7.22
Basic – Class B Convertible Common Stock	\$6.55	\$ —	\$6.55
Diluted – Class A Common Stock	\$6.93	\$ (0.01)	\$6.92
Diluted – Class B Convertible Common Stock	\$6.40	\$ —	\$6.40

Consolidated Statement of Comprehensive Income for the Three Months Ended

November 30, 2017

Sales	\$1,978.9	\$ 2.8	\$1,981.7
Net sales	\$1,799.1	\$ 2.8	\$1,801.9
Gross profit	\$907.5	\$ 2.8	\$910.3
Operating income	\$486.8	\$ 2.8	\$489.6
Income before income taxes	\$644.2	\$ 2.8	\$647.0
Provision for income taxes	\$(149.5)	\$ (1.1)	\$(150.6)
Net income	\$494.7	\$ 1.7	\$496.4
Net income attributable to CBI	\$491.1	\$ 1.7	\$492.8
Comprehensive income attributable to CBI	\$369.5	\$ 1.7	\$371.2

Net income per common share attributable to CBI:

Basic – Class A Common Stock	\$2.54	\$ 0.01	\$2.55
Basic – Class B Convertible Common Stock	\$2.31	\$ 0.01	\$2.32
Diluted – Class A Common Stock	\$2.44	\$ 0.01	\$2.45
Diluted – Class B Convertible Common Stock	\$2.26	\$ —	\$2.26

The adoption of the revenue recognition guidance had no impact to cash flows from operating, financing or investing activities in our consolidated statement of cash flows for the nine months ended November 30, 2017.

Income taxes:

In October 2016, the FASB issued guidance that simplifies the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Under this guidance, an entity is required to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Prior guidance

prohibited the recognition in earnings of current and deferred income taxes for an intra-entity asset transfer until the asset had been sold to an outside party or recovered through use.

We adopted this guidance on March 1, 2018, using the modified retrospective basis, which requires a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Based on

6

Table of Contents

our assessment of intra-entity asset transfers that are in scope and the related deferred income taxes, in the first quarter of fiscal 2019, we recognized a net increase in our March 1, 2018, opening retained earnings and deferred tax assets of \$2.2 billion, primarily in connection with the intra-entity transfer of certain intellectual property related to our imported beer business for the year ended February 28, 2018.

Accounting guidance not yet adopted –

Leases:

In February 2016, the FASB issued guidance for the accounting for leases. Under this guidance, a lessee will recognize assets and liabilities on its balance sheet for most leases, but will recognize expense similar to current lease accounting guidance. Additionally, this guidance requires enhanced disclosures regarding the amount, timing and uncertainty of cash flows arising from leasing arrangements. We are required to adopt this guidance for our annual and interim periods beginning March 1, 2019. We intend to implement this guidance under the modified retrospective approach and apply the transition method which does not require adjustments to comparative periods or require modified disclosures for those comparative periods.

The guidance provides a number of optional practical expedients in transition. We expect to elect all of the available transition practical expedients, other than the use-of-hindsight. We are currently preparing to implement changes to our accounting policies, systems and controls, including the implementation of new leasing software capable of producing the required data for accounting and disclosure purposes. Based on analysis to date, we do not expect the adoption of this guidance to have a material impact on our results of operations or liquidity. We are in the process of quantifying the impact on our financial condition from applying this guidance, including the recognition of new right-of-use assets and lease liabilities associated with our operating leases. Among other items, we are finalizing (i) the development and application of the rates at which future lease payments will be discounted and (ii) the review of our existing contracts for embedded lease arrangements. Our assessment will be completed during the fourth quarter of fiscal 2019.

The guidance also provides practical expedients for an entity's ongoing accounting. We expect to elect the short-term lease recognition exemption which will allow us to not recognize right-of-use assets and lease liabilities for all leases with an initial term of 12 months or less. We also expect to elect the practical expedient to not separate lease and non-lease components for all of our leases.

3. INVENTORIES:

Inventories are stated at the lower of cost (primarily computed in accordance with the first-in, first-out method) or net realizable value. Elements of cost include materials, labor and overhead and consist of the following:

	November 30, 2018	February 28, 2018
(in millions)		
Raw materials and supplies	\$ 142.3	\$ 160.8
In-process inventories	1,532.5	1,382.8
Finished case goods	523.2	540.4
	\$ 2,198.0	\$ 2,084.0

Related party transactions and arrangements –

We have an equally-owned glass production plant joint venture with Owens-Illinois. We have entered into various contractual arrangements with affiliates of Owens-Illinois primarily for the purchase of glass bottles used largely in our imported and craft beer portfolios. Amounts purchased under these arrangements were \$172.4 million and \$282.5 million for the nine months ended November 30, 2018, and November 30, 2017, respectively, and \$48.7 million and \$83.4 million for the three months ended November 30, 2018, and November 30, 2017, respectively.

Table of Contents

4. DERIVATIVE INSTRUMENTS:

Overview –

Our risk management and derivative accounting policies are presented in Notes 1 and 6 of our consolidated financial statements included in our 2018 Annual Report and have not changed significantly for the nine months and three months ended November 30, 2018. In addition, we have investments in certain equity securities which provide us with the option to purchase an additional ownership interest in the equity securities of that issuer (see Note 8). These investments are included in other assets and are accounted for at fair value, with the net gain (loss) from the changes in fair value of these investments recognized in income (loss) from unconsolidated investments (see Note 5).

The aggregate notional value of outstanding derivative instruments is as follows:

	November 30, 2018	February 28, 2018
(in millions)		
Derivative instruments designated as hedging instruments		
Foreign currency contracts	\$ 1,598.7	\$ 1,465.4
Derivative instruments not designated as hedging instruments		
Foreign currency contracts	\$ 356.8	\$ 440.6
Commodity derivative contracts	\$ 260.2	\$ 177.5

Credit risk –

We are exposed to credit-related losses if the counterparties to our derivative contracts default. This credit risk is limited to the fair value of the derivative contracts. To manage this risk, we contract only with major financial institutions that have earned investment-grade credit ratings and with whom we have standard International Swaps and Derivatives Association agreements which allow for net settlement of the derivative contracts. We have also established counterparty credit guidelines that are regularly monitored. Because of these safeguards, we believe the risk of loss from counterparty default to be immaterial.

In addition, our derivative instruments are not subject to credit rating contingencies or collateral requirements. As of November 30, 2018, the estimated fair value of derivative instruments in a net liability position due to counterparties was \$65.8 million. If we were required to settle the net liability position under these derivative instruments on November 30, 2018, we would have had sufficient available liquidity on hand to satisfy this obligation.

Table of Contents

Results of period derivative activity –

The estimated fair value and location of our derivative instruments on our balance sheets are as follows (see Note 5):

Assets	November 30, February 28,		Liabilities	November 30, February 28,	
	2018	2018		2018	2018
(in millions)					
Derivative instruments designated as hedging instruments					
Foreign currency contracts:					
Prepaid expenses and other	\$ 4.8	\$ 21.2	Other accrued expenses and liabilities	\$ 34.9	\$ 7.8
Other assets	\$ 4.9	\$ 17.0	Other liabilities	\$ 30.6	\$ 9.9
Derivative instruments not designated as hedging instruments					
Foreign currency contracts:					
Prepaid expenses and other	\$ 1.6	\$ 2.1	Other accrued expenses and liabilities	\$ 2.0	\$ 2.2
Commodity derivative contracts:					
Prepaid expenses and other	\$ 6.6	\$ 6.3	Other accrued expenses and liabilities	\$ 8.7	\$ 3.0
Other assets	\$ 1.7	\$ 2.8	Other liabilities	\$ 8.5	\$ 2.6

The principal effect of our derivative instruments designated in cash flow hedging relationships on our results of operations, as well as Other Comprehensive Income (“OCI”), net of income tax effect, is as follows:

Derivative Instruments in Designated Cash Flow Hedging Relationships	Net Gain (Loss) Recognized in OCI	Location of Net Gain (Loss) Reclassified from AOCI to Income	Net Gain (Loss) Reclassified from AOCI to Income
(in millions)			
For the Nine Months Ended November 30, 2018			
Foreign currency contracts	\$ (55.6)	Sales	\$ 0.1
		Cost of product sold	5.2
	\$ (55.6)		\$ 5.3
For the Nine Months Ended November 30, 2017			
Foreign currency contracts	\$ 44.5	Sales	\$ (0.3)
		Cost of product sold	0.3
Interest rate swap contracts	(1.5)	Interest expense	1.3
	\$ 43.0		\$ 1.3
For the Three Months Ended November 30, 2018			
Foreign currency contracts	\$ (48.6)	Sales	\$ —
		Cost of product sold	0.5
	\$ (48.6)		\$ 0.5
For the Three Months Ended November 30, 2017			
Foreign currency contracts	\$ (22.1)	Sales	\$ (0.4)
		Cost of product sold	2.3
Interest rate swap contracts	0.9	Interest expense	1.4

\$ (21.2)

\$ 3.3

Table of Contents

We expect \$15.5 million of net losses, net of income tax effect, to be reclassified from accumulated other comprehensive income (loss) ("AOCI") to our results of operations within the next 12 months.

The effect of our undesignated derivative instruments on our results of operations is as follows:

Derivative Instruments Not Designated as Hedging Instruments	Location of Net Gain (Loss) Recognized in Income	Net Gain (Loss) Recognized in Income
(in millions)		
For the Nine Months Ended November 30, 2018		
Commodity derivative contracts	Cost of product sold	\$ (5.1)
Foreign currency contracts	Selling, general and administrative expenses	(58.5)
Interest rate swap contracts	Interest expense	35.0
		\$ (28.6)
For the Nine Months Ended November 30, 2017		
Commodity derivative contracts	Cost of product sold	\$ 4.3
Foreign currency contracts	Selling, general and administrative expenses	4.4
		\$ 8.7
For the Three Months Ended November 30, 2018		
Commodity derivative contracts	Cost of product sold	\$ (14.7)
Foreign currency contracts	Selling, general and administrative expenses	(30.4)
Interest rate swap contracts	Interest expense	32.3
		\$ (12.8)
For the Three Months Ended November 30, 2017		
Commodity derivative contracts	Cost of product sold	\$ 3.5
Foreign currency contracts	Selling, general and administrative expenses	(2.0)
		\$ 1.5

5. FAIR VALUE OF FINANCIAL INSTRUMENTS:

Authoritative guidance establishes a framework for measuring fair value, including a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy includes three levels:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities;

Level 2 inputs include data points that are observable such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) such as interest rates and yield curves that are observable for the asset and liability, either directly or indirectly; and

Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

Fair value methodology and assumptions –

The following methods and assumptions are used to estimate the fair value for each class of our financial instruments:

Foreign currency and commodity derivative contracts: The fair value is estimated using market-based inputs, obtained from independent pricing services, entered into valuation models. These valuation models require various inputs, including contractual terms, market foreign exchange prices, market commodity prices, interest-rate yield curves and currency volatilities, as applicable (Level 2 fair value measurement).

10

Table of Contents

Canopy investments:

Equity securities, Common stock – The fair value of the November 2017 Canopy Investment (as defined in Note 8) is calculated through the date of the November 2018 Canopy Transaction (as defined in Note 8) by using the closing market price of the underlying equity security (Level 1 fair value measurement). As of the date of the November 2018 Canopy Transaction, the November 2017 Canopy Investment, collectively with the November 2018 Canopy Investment (as defined in Note 8), is accounted for under the equity method (see Note 8).

Equity securities, Warrants – The fair value of the November 2017 Canopy Warrants and the November 2018 Canopy Warrants (both as defined in Note 8) is estimated using the Black-Scholes option-pricing model (Level 2 fair value measurement). The assumptions used to estimate the fair value of the warrants are as follows:

	November 30, 2018		February 28, 2018	
	November 2018	November 2017	November 2017	November 2017
	Canopy Warrants	Canopy Warrants	Canopy Warrants	Canopy Warrants
Expected life ⁽¹⁾	2.9 years	1.4 years	2.2 years	
Expected volatility ⁽²⁾	75.2 %	83.2 %	70.9 %	
Risk-free interest rate ⁽³⁾	2.2 %	2.1 %	1.8 %	
Expected dividend yield ⁽⁴⁾	0.0 %	0.0 %	0.0 %	

⁽¹⁾ Based on the expiration date of the warrants.

⁽²⁾ Based on historical volatility levels of the underlying equity security.

⁽³⁾ Based on the implied yield currently available on Canadian Treasury zero coupon issues with a remaining term equal to the expected life.

⁽⁴⁾ Based on historical dividend levels.

Debt securities, Convertible – In June 2018, we acquired convertible debt securities issued by Canopy for C\$200.0 million, or \$150.5 million (the “Canopy Debt Securities”). We have elected the fair value option to account for the Canopy Debt Securities. This provides the greatest level of consistency with the accounting treatment for the November 2017 Canopy Warrants. Interest income on the Canopy Debt Securities is calculated using the effective interest method and is recognized separately from the changes in fair value in interest expense. The Canopy Debt Securities have a contractual maturity of five years from the date of issuance, but may be converted prior to maturity by either party upon the occurrence of certain events. At settlement, the Canopy Debt Securities can be settled at the option of the issuer, in cash, equity shares of the issuer, or a combination thereof. The fair value is estimated using a binomial lattice option-pricing model (Level 2 fair value measurement). As of November 30, 2018, the assumptions used to estimate the fair value of the Canopy Debt Securities are as follows:

Remaining term ⁽¹⁾	4.6 years
Expected volatility ⁽²⁾	44.2 %
Risk-free interest rate ⁽³⁾	2.2 %
Expected dividend yield ⁽⁴⁾	0.0 %

⁽¹⁾ Based on the contractual maturity date of the notes.

⁽²⁾ Based on historical volatility levels of the underlying equity security reduced to account for certain risks not incorporated into the option-pricing model.

⁽³⁾ Based on the implied yield currently available on Canadian Treasury zero coupon issues with a term equal to the remaining contractual term of the debt securities.

⁽⁴⁾ Based on historical dividend levels.

Debt securities, Available-for-sale (“AFS”): The fair value is estimated by discounting cash flows using market-based inputs (Level 3 fair value measurement) (see Note 9).

Short-term borrowings: The revolving credit facility under our senior credit facility is a variable interest rate bearing note which includes a fixed margin which is adjustable based upon our debt rating (as defined in our senior credit facility). Its fair value is estimated by discounting cash flows using LIBOR plus a margin reflecting

Table of Contents

current market conditions obtained from participating member financial institutions (Level 2 fair value measurement). The remaining instruments, including our commercial paper, are variable interest rate bearing notes for which the carrying value approximates the fair value.

Long-term debt: The term loans under our 2018 Credit Agreement and our Term Credit Agreement (both as defined in Note 10) are variable interest rate bearing notes which include a fixed margin which is adjustable based upon our debt rating. The Senior Floating Rate Notes (as defined in Note 10) are variable interest rate bearing notes which include a fixed margin. The fair value of the term loans and the Senior Floating Rate Notes are estimated by discounting cash flows using LIBOR plus a margin reflecting current market conditions obtained from participating member financial institutions (Level 2 fair value measurement). The fair value of the remaining long-term debt, which is primarily fixed interest rate, is estimated by discounting cash flows using interest rates currently available for debt with similar terms and maturities (Level 2 fair value measurement).

The carrying amounts of certain of our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings, approximate fair value as of November 30, 2018, and February 28, 2018, due to the relatively short maturity of these instruments. As of November 30, 2018, the carrying amount of long-term debt, including the current portion, was \$12,838.1 million, compared with an estimated fair value of \$12,460.7 million. As of February 28, 2018, the carrying amount of long-term debt, including the current portion, was \$9,439.9 million, compared with an estimated fair value of \$9,398.4 million.

Recurring basis measurements –

The following table presents our financial assets and liabilities measured at estimated fair value on a recurring basis:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(in millions)				
November 30, 2018				
Assets:				
Foreign currency contracts	\$—	\$ 11.3	\$ —	\$11.3
Commodity derivative contracts	\$—	\$ 8.3	\$ —	\$8.3
Equity securities ^{(1) (2)}	\$—	\$ 1,881.2	\$ —	\$1,881.2
Canopy Debt Securities ⁽²⁾	\$—	\$ 166.9	\$ —	\$166.9
Liabilities:				
Foreign currency contracts	\$—	\$ 67.5	\$ —	\$67.5
Commodity derivative contracts	\$—	\$ 17.2	\$ —	\$17.2
February 28, 2018				
Assets:				
Foreign currency contracts	\$—	\$ 40.3	\$ —	\$40.3
Commodity derivative contracts	\$—	\$ 9.1	\$ —	\$9.1
Equity securities ⁽¹⁾	\$402.4	\$ 253.2	\$ —	\$655.6
Debt securities, AFS	\$—	\$ —	\$ 16.6	\$16.6
Liabilities:				
Foreign currency contracts	\$—	\$ 19.9	\$ —	\$19.9
Commodity derivative contracts	\$—	\$ 5.6	\$ —	\$5.6

Table of Contents

(1) Equity securities consist of: November 30, February 28,
2018 2018

(in millions)

November 2017 Canopy Investment	\$ —	\$ 402.4
November 2017 Canopy Warrants	476.8	253.2
November 2018 Canopy Warrants	1,404.4	—
	\$ 1,881.2	\$ 655.6

(2) Unrealized net gain (loss) from the changes in fair value of our securities measured at fair value recognized in income (loss) from unconsolidated investments, are as follows:

For the Nine Months Ended	For the Three Months Ended
November 30, 2018	November 30, 2017

(in

millions)

November

2017

Canopy Investment

(i)

November

2017

223.5 77.1 (212.4) 77.1

Canopy

Warrants

November

2018

257.6 — 257.6 —

Canopy

Warrants

Canopy

Deb 2.9 — (40.6) —

Securities

\$786.5 \$ 216.8 \$(163.9) \$ 216.8

Accounted for at fair value from the date of

(i) investment in November 2017 through

October 31, 2018. Accounted for under the

equity method from November 1, 2018.

Nonrecurring basis measurements –

The following table presents our assets and liabilities measured at estimated fair value on a nonrecurring basis for which an impairment assessment was performed for the period presented:

Fair Value Measurements

Using

Quoted Significant

Prices Other

in Observable

Inputs

Significant

Unobservable

Inputs

(Level 3)

Total

Losses

Marketsel 2)
(Level
1)

(in millions)

For the Nine Months Ended November 30, 2017

Trademarks	\$ —	\$ 136.0	\$ 86.8
------------	------	----------	---------

For the first quarter of fiscal 2018, we identified certain negative trends within our Beer segment's Ballast Point craft beer portfolio which, when combined with the then-recent negative craft beer industry trends, indicated that it was more likely than not that the fair value of our indefinite lived intangible asset associated with the craft beer trademarks might be below its carrying value. Accordingly, we performed a quantitative assessment for impairment of the craft beer trademark asset. As a result of this assessment, the craft beer trademark asset with a carrying value of \$222.8 million was written down to its estimated fair value of \$136.0 million, resulting in an impairment of \$86.8 million. This impairment is included in selling, general and administrative expenses.

Table of Contents

6. GOODWILL:

The changes in the carrying amount of goodwill are as follows:

	Beer	Wine and Spirits	Consolidated
(in millions)			
Balance, February 28, 2017	\$5,053.0	\$2,867.5	\$ 7,920.5
Purchase accounting allocations ⁽¹⁾	63.9	56.2	120.1
Foreign currency translation adjustments	40.7	1.8	42.5
Balance, February 28, 2018	5,157.6	2,925.5	8,083.1
Purchase accounting allocations ⁽²⁾	22.3	11.8	34.1
Foreign currency translation adjustments	(48.7)	(6.7)	(55.4)
Balance, November 30, 2018	\$5,131.2	\$2,930.6	\$ 8,061.8

Purchase accounting allocations associated primarily with the acquisitions of a brewery operation business in

⁽¹⁾ Obregon, Sonora, Mexico (the “Obregon Brewery”) (\$13.8 million) and Funky Buddha Brewery LLC (Beer), and Schrader Cellars, LLC (Wine and Spirits).

⁽²⁾ Preliminary purchase accounting allocations associated primarily with the acquisitions of Four Corners Brewing Company LLC (Beer) and a production facility in Italy (Wine and Spirits).

Acquisitions –

Four Corners:

In July 2018, we acquired the Four Corners Brewing Company LLC business, a portfolio of high-performing, dynamic and bicultural, Texas-based craft beers (“Four Corners”). This transaction primarily included the acquisition of operations, goodwill, property, plant and equipment, and trademarks, plus an earn-out over five years based on the performance of the brands. The results of operations of Four Corners are reported in the Beer segment and have been included in our consolidated results of operations from the date of acquisition.

Other:

In October 2018, we acquired a business in Italy, consisting primarily of a production facility, vineyards and inventory, to provide for additional processing and sourcing capabilities for our Italian wine portfolio.

During the year ended February 28, 2018, we completed the acquisitions of other businesses, including the Funky Buddha Brewery LLC business, which included a portfolio of high-quality, Florida-based craft beers (“Funky Buddha”), and the Schrader Cellars, LLC business, which included a collection of highly-rated, limited-production fine wines (“Schrader Cellars”). The total combined purchase price for these acquisitions was \$149.8 million. The purchase price for each acquisition was primarily allocated to goodwill and trademarks. In addition, the purchase price for Funky Buddha includes an earn-out over five years based on the performance of the brands. The results of operations of these acquired brands are reported in the respective segment and have been included in our consolidated results of operations from their respective date of acquisition.

Table of Contents

7. INTANGIBLE ASSETS:

The major components of intangible assets are as follows:

	November 30, 2018		February 28, 2018	
	Gross Carrying Amount	Net Carrying Amount	Gross Carrying Amount	Net Carrying Amount
(in millions)				
Amortizable intangible assets				
Customer relationships	\$89.9	\$40.4	\$89.8	\$44.2
Other	20.4	1.0	20.3	1.4
Total	\$110.3	41.4	\$110.1	45.6
Nonamortizable intangible assets				
Trademarks		3,266.4		3,259.2
Total intangible assets		\$3,307.8		\$3,304.8

We did not incur costs to renew or extend the term of acquired intangible assets for the nine months and three months ended November 30, 2018, and November 30, 2017. Net carrying amount represents the gross carrying value net of accumulated amortization.

8. EQUITY METHOD INVESTMENTS:

Our equity method investments are as follows:

	November 30, 2018		February 28, 2018	
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
(in millions)				
Canopy Equity Method Investment	\$3,435.2	36.0 %	\$—	— %
Other equity method investments	147.8	20%-50%	121.5	20%-50%
	\$3,583.0		\$121.5	

In November 2017, we acquired 18.9 million common shares, which represented a 9.9% ownership interest in Ontario, Canada-based Canopy Growth Corporation (the “November 2017 Canopy Investment”), a public company and leading provider of medicinal and recreational cannabis products (“Canopy”), plus warrants which give us the option to purchase an additional 18.9 million common shares of Canopy (the “November 2017 Canopy Warrants”) for C\$245.0 million, or \$191.3 million. The November 2017 Canopy Warrants were issued with an exercise price of C\$12.98 with 50% currently vested and the remaining 50% to vest on February 1, 2019. These warrants expire in May 2020. These investments have been accounted for at fair value from the date of investment through October 31, 2018 (see “Canopy Equity Method Investment” below).

On November 1, 2018, we increased our ownership interest in Canopy by acquiring an additional 104.5 million common shares (the “November 2018 Canopy Investment”) (see Canopy Equity Method Investment below), plus warrants which give us the option to purchase an additional 139.7 million common shares (the “November 2018 Canopy Warrants”, and together with the “November 2018 Canopy Investment”, the “November 2018 Canopy Transaction”) for C\$5,078.7 million, or \$3,869.9 million. The allocation of the consideration paid as of the date of closing was determined using a relative fair value approach based upon a market value of C\$5,060.9 million for the acquired common shares and a fair value of C\$2,131.3 million for the acquired warrants using a Black-Scholes

option-pricing model with similar assumptions as disclosed in Note 5. Accordingly, C\$3,573.7 million, or \$2,723.1 million, was allocated to the November 2018 Canopy Investment, and C\$1,505.0 million, or \$1,146.8 million, was allocated to the November 2018 Canopy Warrants. In addition, we incurred \$24.5 million of direct acquisition costs which were allocated to the acquired securities utilizing this relative fair value approach.

Table of Contents

This resulted in \$17.2 million of direct acquisition costs being allocated to the November 2018 Canopy Investment and included in the value of the Canopy Equity Method Investment under the cost-accumulation model, and \$7.3 million being allocated to the November 2018 Canopy Warrants and expensed to selling, general and administrative expenses.

The November 2018 Canopy Warrants consist of 88.5 million warrants (the “Tranche A Warrants”) and 51.2 million warrants (the “Tranche B Warrants”). The Tranche A Warrants are immediately exercisable at an exercise price of C\$50.40. The Tranche B Warrants are exercisable upon the exercise, in full, of the Tranche A Warrants and at an exercise price equal to the volume-weighted average of the closing market price of Canopy’s common shares on the Toronto Stock Exchange for the five trading days immediately preceding the exercise date. The November 2018 Canopy Warrants expire in November 2021 and are accounted for at fair value from the date of investment. For the nine months and three months ended November 30, 2018, we recognized an unrealized net gain of \$257.6 million resulting from the mark to fair value of the November 2018 Canopy Warrants.

On November 1, 2018, our ownership interest in Canopy increased to 36.6% and, as we can now exercise significant influence over Canopy, we account for the November 2017 Canopy Investment and the November 2018 Canopy Investment, each of which represents an investment in common shares of Canopy, collectively, under the equity method (the “Canopy Equity Method Investment”). As of November 1, 2018, the Canopy Equity Method Investment balance consists of the amount allocated to the November 2018 Canopy Investment of \$2,740.3 million, plus the fair value of the November 2017 Canopy Investment at the date of closing of \$694.9 million. We will recognize equity in earnings for this investment on a two-month lag. Accordingly, we will recognize equity in earnings from Canopy’s results for the period November 1, 2018, through December 31, 2018, in our consolidated financial statements for the fourth quarter of fiscal 2019. As of November 30, 2018, the carrying amount of the Canopy Equity Method Investment is greater than our equity in the underlying assets of Canopy by approximately \$2.5 billion due primarily to the estimated fair value of identifiable intangible assets and goodwill. Beginning with the fourth quarter of fiscal 2019, our equity in earnings from the Canopy Equity Method Investment will be adjusted to reflect, among other items, the amortization of the fair value adjustments associated with the definite-lived intangible assets over their estimated useful lives.

In connection with the November 2018 Canopy Transaction, we entered into foreign currency option contracts in August 2018 to fix the U.S. dollar cost of the transaction. For the nine months and three months ended November 30, 2018, we recognized net losses of \$30.2 million and \$25.5 million, respectively, in selling, general and administrative expenses with the payment at maturity of the derivative instruments reported as cash flows from investing activities in investments in equity method investees and securities.

Canopy has various convertible equity securities outstanding, including equity awards granted to its employees and options and warrants issued to various third parties, including our November 2017 Canopy Warrants and November 2018 Canopy Warrants. As of November 30, 2018, the conversion of Canopy equity securities held by its employees and/or held by other third parties would not have a significant effect on our share of Canopy’s reported earnings or losses. Additionally, under an amended and restated investor rights agreement, we have the option to purchase additional common shares of Canopy at the then-current price of the underlying equity security to allow us to maintain our relative ownership interest. The exercise of our November 2017 Canopy Warrants as of November 30, 2018, also would not have a significant effect on our share of Canopy’s reported earnings or losses. However, as of November 30, 2018, the exercise of all of the November 2017 Canopy Warrants and the November 2018 Canopy Warrants held by us would result in an increase in our ownership interest in Canopy to greater than 50% and the consolidation of Canopy’s results of operations in our consolidated results of operations with the recognition of an associated noncontrolling ownership interest, as appropriate. This may have a significant effect on our share of Canopy’s reported earnings or losses. As of November 30, 2018, the exercise of all Canopy warrants held by us would require a cash outflow of approximately \$5.3 billion based on the terms of the November 2017 Canopy Warrants and the November

2018 Canopy Warrants. Additionally, as of November 30, 2018, the fair value of our equity method investment in Canopy was \$4,190.8 million based on the closing price of the underlying equity security as of that date.

Table of Contents

9. OTHER ASSETS:

The major components of other assets are as follows:

	November 30, 2018	February 28, 2018
(in millions)		
Deferred income taxes (see Note 2)	\$ 2,177.7	\$ —
Investments in securities measured at fair value	2,048.1	672.2
Other	87.2	93.4
	\$ 4,313.0	\$ 765.6

Sale of Accolade Wine Investment –

In May 2018, we completed the sale of our remaining interest in our previously-owned Australian and European business (the “Accolade Wine Investment”) for A\$149.1 million, or \$113.6 million, subject to closing adjustments. We received cash proceeds, net of direct costs to sell, of \$110.2 million and a note receivable of \$3.4 million. This interest consisted of an investment accounted for under the cost method and AFS debt securities. For the nine months ended November 30, 2018, we recognized a net gain of \$99.8 million in connection with this transaction. This net gain is included in income (loss) from unconsolidated investments.

10. BORROWINGS:

Borrowings consist of the following:

	November 30, 2018			February 28, 2018
	Current	Long-term	Total	Total
(in millions)				
Short-term borrowings				
Senior credit facility, Revolving credit loans	\$ 105.0			\$ 79.0
Commercial paper	626.5			266.9
Other	—			400.9
	\$ 731.5			\$ 746.8
Long-term debt				
Senior credit facility, Term loan	\$ 5.0	\$ 489.0	\$ 494.0	\$ 497.7
Term loan credit facility	50.0	1,448.9	1,498.9	—
Senior notes	997.0	9,816.1	10,813.1	8,674.2
Other	13.6	18.5	32.1	268.0
	\$ 1,065.6	\$ 11,772.5	\$ 12,838.1	\$ 9,439.9

Senior credit facility –

The Company, CIH International S.à r.l., a wholly-owned subsidiary of ours (“CIH”), CB International Finance S.à r.l., a wholly-owned subsidiary of ours (“CB International”) (together with CIH, the “European Borrowers”), Bank of America, N.A., as administrative agent (the “Administrative Agent”), and certain other lenders were parties to a credit agreement, as amended and restated (the “2017 Credit Agreement”).

Table of Contents

In August 2018, the Company, CIH, CB International, certain of the Company's subsidiaries as guarantors, the Administrative Agent, and certain other lenders entered into a Restatement Agreement (the "August 2018 Restatement Agreement") that amended and restated the 2017 Credit Agreement (as amended and restated by the August 2018 Restatement Agreement, the "August 2018 Credit Agreement"). The principal changes effected by the August 2018 Restatement Agreement were:

- The removal of CIH as a borrower under the August 2018 Credit Agreement;
- The termination of a cross-guarantee agreement by the European Borrowers; and
- The addition of a mechanism to provide for the replacement of LIBOR with an alternative benchmark rate in certain circumstances where LIBOR cannot be adequately ascertained or available.

In September 2018, the Company, CB International, certain of the Company's subsidiaries as guarantors, the Administrative Agent, and certain other lenders entered into a Restatement Agreement (the "2018 Restatement Agreement") that amended and restated the August 2018 Credit Agreement (as amended and restated by the 2018 Restatement Agreement, the "2018 Credit Agreement"). The primary change effected by the 2018 Restatement Agreement was the increase of the revolving credit facility from \$1.5 billion to \$2.0 billion and extension of its maturity to September 14, 2023. The 2018 Restatement Agreement also modified certain financial covenants in connection with the November 2018 Canopy Transaction and added various representations and warranties, covenants and an event of default related to the November 2018 Canopy Transaction.

Term Credit Agreement –

In September 2018, the Company, the Administrative Agent, and certain other lenders entered into a term loan credit agreement (the "Term Credit Agreement"). The Term Credit Agreement provides for aggregate credit facilities of \$1.5 billion, consisting of a \$500.0 million three-year term loan facility (the "Three-Year Term Facility") and a \$1.0 billion five-year term loan facility (the "Five-Year Term Facility").

The Three-Year Term Facility is not subject to amortization payments, with the balance due and payable at maturity. The Five-Year Term Facility will be repaid in quarterly payments of principal equal to 1.25% of the original aggregate principal amount of the Five-Year Term Facility, with the balance due and payable at maturity.

The obligations under the Term Credit Agreement are guaranteed by certain of our U.S. subsidiaries. We and our subsidiaries are subject to covenants that are contained in the Term Credit Agreement, including those restricting the incurrence of additional indebtedness (including guarantees of indebtedness) by subsidiaries that are not guarantors, additional liens, mergers and consolidations, transactions with affiliates, and sale and leaseback transactions, in each case subject to numerous conditions, exceptions and thresholds. The financial covenants are limited to a minimum interest coverage ratio and a maximum net leverage ratio. The representations, warranties, covenants and events of default set forth in the Term Credit Agreement are substantially similar to those set forth in the 2018 Credit Agreement.

Table of Contents

As of November 30, 2018, aggregate credit facilities under the 2018 Credit Agreement and the Term Credit Agreement consist of the following:

	Amount	Maturity
(in millions)		
2018 Credit Agreement		
Revolving Credit Facility ^{(1) (2)}	\$ 2,000.0	Sept 14, 2023
U.S. Term A-1 Facility ^{(1) (3)}	500.0	July 14, 2024
	\$ 2,500.0	
Term Credit Agreement		
Three-Year Term Facility ^{(1) (3)}	\$ 500.0	Nov 1, 2021
Five-Year Term Facility ^{(1) (3)}	1,000.0	Nov 1, 2023
	\$ 1,500.0	

Contractual interest rate varies based on our debt rating (as defined in the respective agreement) and is a function of LIBOR plus a margin, or the base rate plus a margin, or, in certain circumstances where LIBOR cannot be adequately ascertained or available, an alternative benchmark rate plus a margin.

- (1) We and/or CB International are the borrower under the \$2,000.0 million Revolving Credit Facility. Includes a sub-facility for letters of credit of up to \$200.0 million.
- (2) We are the borrower under the U.S. Term A-1 loan facility, the Three-Year Term Facility and the Five-Year Term Facility.

As of November 30, 2018, information with respect to borrowings under the 2018 Credit Agreement and the Term Credit Agreement is as follows:

	2018 Credit Agreement		Term Credit Agreement	
	Revolving Credit Facility	U.S. Term A-1 Facility ⁽¹⁾	Three-Year Term Facility ⁽¹⁾	Five-Year Term Facility ⁽¹⁾
(in millions)				
Outstanding borrowings	\$105.0	\$494.0	\$499.5	\$999.4
Interest rate	3.4	% 3.8	% 3.4	% 3.5
LIBOR margin	1.13	% 1.50	% 1.13	% 1.25
Outstanding letters of credit	\$10.7			
Remaining borrowing capacity ⁽²⁾	\$1,257.2			

(1) Outstanding term loan facility borrowings are net of unamortized debt issuance costs.

Net of outstanding revolving credit facility borrowings and outstanding letters of credit under the 2018 Credit

(2) Agreement and outstanding borrowings under our commercial paper program of \$627.1 million (excluding unamortized discount) (see "Commercial paper program").

Commercial paper program –

In October 2018, our Board of Directors authorized a \$1.0 billion increase to our commercial paper program, thereby providing for the issuance of up to an aggregate principal amount of \$2.0 billion of commercial paper. Our commercial paper program is backed by unused commitments under our revolving credit facility under our 2018 Credit Agreement. Accordingly, outstanding borrowings under our commercial paper program reduce the amount

available under our revolving credit facility under our 2018 Credit Agreement. As of November 30, 2018, we had \$626.5 million of outstanding borrowings, net of unamortized discount, under our commercial paper program with a weighted average annual interest rate of 2.7% and a weighted average remaining term of 14 days.

Table of Contents

Senior notes –

In October 2018, we issued \$2,150.0 million aggregate principal amount of Senior Notes (the “October 2018 Senior Notes”). Proceeds from this offering, net of discount and debt issuance costs, were \$2,129.0 million. The October 2018 Senior Notes consist of:

		Date of		Redemption	
	Principal	Maturity	Interest Payments	Stated Redemption Date	Stated Basis Points
(in millions, except basis points)					
Senior Floating Rate Notes ^{(1) (2)}	\$ 650.0	Nov 2021	Quarterly		
4.40% Senior Notes ^{(1) (3)}	\$ 500.0	Nov 2025	May/Nov	Sept 2025	20
4.65% Senior Notes ^{(1) (3)}	\$ 500.0	Nov 2028	May/Nov	Aug 2028	25
5.25% Senior Notes ^{(1) (3)}	\$ 500.0	Nov 2048	May/Nov	May 2048	30
(1) Senior unsecured obligations which rank equally in right of payment to all of our existing and future senior unsecured indebtedness. Guaranteed by certain of our U.S. subsidiaries on a senior unsecured basis.					
Interest will accrue for each quarterly interest period at a rate equal to three-month LIBOR plus 0.70% per year as determined on the applicable interest determination date as defined in the indenture. Interest is payable quarterly in					
(2) February, May, August and November. The notes are not redeemable prior to October 30, 2019. On or after this date, the notes are redeemable, in whole or in part, at our option at any time prior to maturity, at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest.					
Redeemable, in whole or in part, at our option at any time prior to the stated redemption date as defined in the indenture, at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid					
(3) interest and a make-whole payment based on the present value of the future payments at the adjusted Treasury Rate plus the stated basis points as defined in the indenture. On or after the stated redemption date, redeemable, in whole or in part, at our option at any time at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest.					

Interest rate swap contracts –

In August 2018, we entered into forward-starting interest rate swap contracts with an aggregate notional value of \$1,250.0 million to economically hedge our exposure to interest rate volatility associated with the debt financing for the November 2018 Canopy Transaction. The effective date and mandatory termination date of the interest rate swap contracts were the same. The interest rate swap contracts were not designated as a hedge for accounting purposes. For the nine months and three months ended November 30, 2018, we recognized a gain of \$35.0 million and \$32.4 million, respectively, in connection with the settlement of the interest rate swap contracts in October 2018. This amount was recognized in interest expense.

Other long-term debt –

In August 2018, we recorded a conversion of \$248.4 million from long-term debt to noncontrolling equity interests associated with the noncash settlement of a prior contractual agreement with our glass production plant joint venture partner, Owens-Illinois.

Table of Contents

Debt payments –

As of November 30, 2018, the required principal repayments under long-term debt obligations (excluding unamortized debt issuance costs and unamortized discounts of \$72.9 million and \$16.1 million, respectively) for the remaining three months of fiscal 2019 and for each of the five succeeding fiscal years and thereafter are as follows: (in millions)

2019	\$ 16.6
2020	1,068.5
2021	764.1
2022	1,710.1
2023	1,856.6
2024	1,842.5
Thereafter	5,668.7
	\$ 12,927.1

11. INCOME TAXES:

Our effective tax rate for the nine months ended November 30, 2018, and November 30, 2017, was 15.5% and 20.1%, respectively. Our effective tax rate for the three months ended November 30, 2018, and November 30, 2017, was 10.2% and 23.3%, respectively.

For the nine months and three months ended November 30, 2018, our effective tax rate was lower than the federal statutory rate of 21% primarily due to:

- Lower effective tax rates applicable to our foreign businesses;

- The recognition of an income tax benefit for the three months ended November 30, 2018, associated with an adjustment to provisional amounts recognized for the year ended February 28, 2018, in connection with the Tax Cuts and Jobs Act (the “TCJ Act”) (see additional discussion below); and

- The recognition of a net income tax benefit from stock-based compensation award activity.

For the three months ended November 30, 2018, our effective tax rate was also unfavorably impacted by the lower effective tax rate on the benefit of the net unrealized losses from the changes in fair value of the November 2017 Canopy investments.

For the nine months and three months ended November 30, 2017, our effective tax rate was lower than the federal statutory rate of 35% primarily due to:

- Lower effective tax rates applicable to our foreign businesses, including our assertion regarding indefinitely reinvesting earnings of certain foreign subsidiaries, which was initially asserted in the third quarter of fiscal 2017; and
- The recognition of a net income tax benefit from stock-based compensation award activity.

On December 22, 2017, the TCJ Act was signed into law. The TCJ Act significantly changes U.S. corporate income taxes. Additionally, in December 2017, the SEC issued guidance related to the income tax accounting implications of the TCJ Act. This guidance provides a measurement period, which extends no longer than one year from the enactment date of the TCJ Act, during which a company may complete its accounting for the income tax implications of the TCJ Act. In accordance with this guidance, we recognized a provisional net income tax benefit for the year ended February 28, 2018. Refer to Note 13 of our consolidated financial statements included in our 2018 Annual Report for further information.

For the three months ended November 30, 2018, we completed our analysis of the income tax implications of the TCJ Act. We recognized an additional income tax benefit of \$37.6 million resulting from a decrease in the mandatory one-time transition tax on unremitted earnings of our foreign businesses.

Table of Contents

The TCJ Act also creates a new requirement that certain income earned by foreign subsidiaries (“GILTI”) be included in U.S. gross income. The FASB allows an accounting policy election of either recognizing deferred taxes for temporary differences expected to reverse as GILTI in future years or recognizing such taxes as a current period expense when incurred. We have elected to treat the tax effect of GILTI as a current-period expense when incurred.

12. STOCKHOLDERS’ EQUITY:

In January 2018, our Board of Directors authorized the repurchase of up to \$3.0 billion of our Class A Common Stock and Class B Convertible Common Stock (the “2018 Authorization”). The Board of Directors did not specify a date upon which this authorization would expire. Shares repurchased under the 2018 Authorization have become treasury shares.

For the nine months ended November 30, 2018, we repurchased 2,352,145 shares of Class A Common Stock pursuant to the 2018 Authorization at an aggregate cost of \$504.3 million through open market transactions.

As of November 30, 2018, total shares repurchased under the 2018 Authorizations are as follows:

	Repurchase Authorization	Class A Common Shares Dollar Value of Shares Repurchased	Number of Shares Repurchased
(in millions, except share data)			
2018 Authorization	\$ 3,000.0	\$995.9	4,632,012

In October 2018, our Board of Directors retired 74,000,000 shares of our Class A treasury stock. The retired shares are now authorized and unissued shares of our Class A Common Stock.

13. NET INCOME PER COMMON SHARE ATTRIBUTABLE TO CBI:

For the nine months and three months ended November 30, 2018, and November 30, 2017, net income per common share – diluted for Class A Common Stock has been computed using the if-converted method and assumes the exercise of stock options using the treasury stock method and the conversion of Class B Convertible Common Stock as this method is more dilutive than the two-class method. For the nine months and three months ended November 30, 2018, and November 30, 2017, net income per common share – diluted for Class B Convertible Common Stock has been computed using the two-class method and does not assume conversion of Class B Convertible Common Stock into shares of Class A Common Stock.

Table of Contents

The computation of basic and diluted net income per common share is as follows:

	For the Nine Months Ended			
	November 30, 2018		November 30, 2017	
	Common Stock Class A	Class B	Common Stock Class A	Class B
(in millions, except per share data)				
Net income attributable to CBI allocated – basic	\$1,949.3	\$247.1	\$1,240.0	\$152.9
Conversion of Class B common shares into Class A common shares	247.1	—	152.9	—
Effect of stock-based awards on allocated net income	—	(5.6)	—	(3.6)
Net income attributable to CBI allocated – diluted	\$2,196.4	\$241.5	\$1,392.9	\$149.3
Weighted average common shares outstanding – basic	167.203	23.322	171.854	23.339
Conversion of Class B common shares into Class A common shares	23.322	—	23.339	—
Stock-based awards, primarily stock options	5.396	—	5.990	—
Weighted average common shares outstanding – diluted	195.921	23.322	201.183	23.339
Net income per common share attributable to CBI – basic	\$11.66	\$10.59	\$7.22	\$6.55
Net income per common share attributable to CBI – diluted	\$11.21	\$10.35	\$6.92	\$6.40

	For the Three Months Ended			
	November 30, 2018		November 30, 2017	
	Common Stock Class A	Class B	Common Stock Class A	Class B
Net income attributable to CBI allocated – basic	\$268.9	\$34.2	\$438.7	\$54.1
Conversion of Class B common shares into Class A common shares	34.2	—	54.1	—
Effect of stock-based awards on allocated net income	—	(0.5)	—	(1.3)
Net income attributable to CBI allocated – diluted	\$303.1	\$33.7	\$492.8	\$52.8
Weighted average common shares outstanding – basic	166.364	23.318	171.922	23.333
Conversion of Class B common shares into Class A common shares	23.318	—	23.333	—
Stock-based awards, primarily stock options	5.138	—	5.922	—
Weighted average common shares outstanding – diluted	194.820	23.318	201.177	23.333
Net income per common share attributable to CBI – basic	\$1.62	\$1.47	\$2.55	\$2.32
Net income per common share attributable to CBI – diluted	\$1.56	\$1.45	\$2.45	\$2.26

Table of Contents

14. COMPREHENSIVE INCOME ATTRIBUTABLE TO CBI:

Comprehensive income consists of net income, foreign currency translation adjustments, net unrealized gains (losses) on derivative instruments, net unrealized gains (losses) on AFS debt securities and pension/postretirement adjustments. The reconciliation of net income attributable to CBI to comprehensive income attributable to CBI is as follows:

	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
(in millions)			
For the Nine Months Ended November 30, 2018			
Net income attributable to CBI			\$2,196.4
Other comprehensive income (loss) attributable to CBI:			
Foreign currency translation adjustments:			
Net losses	\$ (248.4)	\$ —	(248.4)
Reclassification adjustments	—	—	—
Net loss recognized in other comprehensive loss	(248.4)	—	(248.4)
Unrealized loss on cash flow hedges:			
Net derivative losses	(61.7)	8.1	(53.6)
Reclassification adjustments	(5.0)	1.2	(3.8)
Net loss recognized in other comprehensive loss	(66.7)	9.3	(57.4)
Unrealized loss on AFS debt securities:			
Net AFS debt securities losses	(0.4)	0.1	(0.3)
Reclassification adjustments	1.9	0.9	2.8
Net gain recognized in other comprehensive loss	1.5	1.0	2.5
Pension/postretirement adjustments:			
Net actuarial gains	0.2	(0.1)	0.1
Reclassification adjustments	0.3	(0.1)	0.2
Net gain recognized in other comprehensive loss	0.5	(0.2)	0.3
Other comprehensive loss attributable to CBI	\$ (313.1)	\$ 10.1	(303.0)
Comprehensive income attributable to CBI			\$1,893.4
For the Nine Months Ended November 30, 2017			
Net income attributable to CBI			\$1,392.9
Other comprehensive income (loss) attributable to CBI:			
Foreign currency translation adjustments:			
Net gains	\$ 154.4	\$ (0.1)	154.3
Reclassification adjustments	—	—	—
Net gain recognized in other comprehensive income	154.4	(0.1)	154.3
Unrealized gain on cash flow hedges:			
Net derivative gains	55.6	(16.7)	38.9
Reclassification adjustments	(2.4)	0.4	(2.0)
Net gain recognized in other comprehensive income	53.2	(16.3)	36.9
Unrealized loss on AFS debt securities:			
Net AFS debt securities losses	(0.4)	—	(0.4)
Reclassification adjustments	—	—	—
Net loss recognized in other comprehensive income	(0.4)	—	(0.4)
Pension/postretirement adjustments:			
Net actuarial losses	(0.1)	—	(0.1)
Reclassification adjustments	0.1	—	0.1

Edgar Filing: CONSTELLATION BRANDS, INC. - Form 10-Q

Net loss recognized in other comprehensive income	—	—	—
Other comprehensive income attributable to CBI	\$ 207.2	\$ (16.4)	190.8
Comprehensive income attributable to CBI			\$ 1,583.7

24

Table of Contents

	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
(in millions)			
For the Three Months Ended November 30, 2018			
Net income attributable to CBI			\$ 303.1
Other comprehensive income (loss) attributable to CBI:			
Foreign currency translation adjustments:			
Net losses	\$ (155.9)	\$ —	(155.9)
Reclassification adjustments	—	—	—
Net loss recognized in other comprehensive loss	(155.9)	—	(155.9)
Unrealized loss on cash flow hedges:			
Net derivative losses	(52.5)	7.1	(45.4)
Reclassification adjustments	(0.3)	0.2	(0.1)
Net loss recognized in other comprehensive loss	(52.8)	7.3	(45.5)
Pension/postretirement adjustments:			
Net actuarial gains	0.2	(0.1)	0.1
Reclassification adjustments	—	—	—
Net gain recognized in other comprehensive loss	0.2	(0.1)	0.1
Other comprehensive loss attributable to CBI	\$ (208.5)	\$ 7.2	(201.3)
Comprehensive income attributable to CBI			\$ 101.8
For the Three Months Ended November 30, 2017			
Net income attributable to CBI			\$ 492.8
Other comprehensive loss attributable to CBI:			
Foreign currency translation adjustments:			
Net losses	\$ (99.1)	\$ 0.9	(98.2)
Reclassification adjustments	—	—	—
Net loss recognized in other comprehensive loss	(99.1)	0.9	(98.2)
Unrealized loss on cash flow hedges:			
Net derivative losses	(27.4)	7.0	(20.4)
Reclassification adjustments	(3.1)	0.7	(2.4)
Net loss recognized in other comprehensive loss	(30.5)	7.7	(22.8)
Unrealized loss on AFS debt securities:			
Net AFS debt securities losses	(0.8)	0.2	(0.6)
Reclassification adjustments	—	—	—
Net loss recognized in other comprehensive loss	(0.8)	0.2	(0.6)
Pension/postretirement adjustments:			
Net actuarial losses	—	(0.1)	(0.1)
Reclassification adjustments	0.1	—	0.1
Net loss recognized in other comprehensive loss	0.1	(0.1)	—
Other comprehensive loss attributable to CBI	\$ (130.3)	\$ 8.7	(121.6)
Comprehensive income attributable to CBI			\$ 371.2

Table of Contents

Accumulated other comprehensive loss, net of income tax effect, includes the following components:

	Foreign Currency Translation Adjustments	Net Unrealized Gains (Losses) on Derivative Instruments	Net Unrealized Losses on AFS Debt Securities	Pension/ Postretirement Adjustments	Accumulated Other Comprehensive Loss
(in millions)					
Balance, February 28, 2018	\$ (212.3)	\$ 14.5	\$ (2.5)	\$ (2.6)	\$ (202.9)
Other comprehensive income (loss):					
Other comprehensive income (loss) before reclassification adjustments	(248.4)	(53.6)	(0.3)	0.1	(302.2)
Amounts reclassified from accumulated other comprehensive loss	—	(3.8)	2.8	0.2	(0.8)
Other comprehensive income (loss)	(248.4)	(57.4)	2.5	0.3	(303.0)
Balance, November 30, 2018	\$ (460.7)	\$ (42.9)	\$ —	\$ (2.3)	\$ (505.9)

15. CONDENSED CONSOLIDATING FINANCIAL INFORMATION:

The following information sets forth the condensed consolidating balance sheets as of November 30, 2018, and February 28, 2018, the condensed consolidating statements of comprehensive income for the nine months and three months ended November 30, 2018, and November 30, 2017, and the condensed consolidating statements of cash flows for the nine months ended November 30, 2018, and November 30, 2017, for the parent company, our combined subsidiaries which guarantee our senior notes (“Subsidiary Guarantors”), our combined subsidiaries which are not Subsidiary Guarantors (primarily foreign subsidiaries) (“Subsidiary Nonguarantors”) and the Company. The Subsidiary Guarantors are 100% owned, directly or indirectly, by the parent company and the guarantees are joint and several obligations of each of the Subsidiary Guarantors. The guarantees are full and unconditional, as those terms are used in Rule 3-10 of Regulation S-X, except that a Subsidiary Guarantor can be automatically released and relieved of its obligations under certain customary circumstances contained in the indentures governing our senior notes. These customary circumstances include, so long as other applicable provisions of the indentures are adhered to, the termination or release of a Subsidiary Guarantor’s guarantee of other indebtedness or upon the legal defeasance or covenant defeasance or satisfaction and discharge of our senior notes. Separate financial information for our Subsidiary Guarantors is not presented because we have determined that such financial information would not be material to investors. The accounting policies of the parent company, the Subsidiary Guarantors and the Subsidiary Nonguarantors are the same as those described for the Company in Note 1 of our consolidated financial statements included in our 2018 Annual Report, and include the accounting policies and the recently adopted accounting guidance described in Note 1 and Note 2 herein. There are no restrictions on the ability of the Subsidiary Guarantors to transfer funds to us in the form of cash dividends, loans or advances.

Table of Contents

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
(in millions)					
Condensed Consolidating Balance Sheet at November 30, 2018					
Current assets:					
Cash and cash equivalents	\$5.4	\$2.4	\$ 122.8	\$—	\$ 130.6
Accounts receivable	436.5	341.3	59.4	—	837.2
Inventories	198.1	1,590.6	577.9	(168.6	) 2,198.0
Intercompany receivable	29,127.3	40,158.9	19,860.0	(89,146.2	) —
Prepaid expenses and other	180.1	55.7	355.1	(118.2	) 472.7
Total current assets	29,947.4	42,148.9	20,975.2	(89,433.0	) 3,638.5
Property, plant and equipment	80.7	778.8	4,126.8	—	4,986.3
Investments in subsidiaries	29,562.7	514.5	6,337.2	(36,414.4	) —
Goodwill	—	6,185.5	1,876.3	—	8,061.8
Intangible assets	—	714.3	2,593.5	—	3,307.8
Intercompany notes receivable	5,590.5	2,318.8	—	(7,909.3	) —
Equity method investments	17.2	1.8	3,564.0	—	3,583.0
Other assets	39.1	1.9	4,294.7	(22.7	) 4,313.0
Total assets	\$65,237.6	\$52,664.5	\$ 43,767.7	\$(133,779.4)	\$ 27,890.4
Current liabilities:					
Short-term borrowings	\$626.5	\$—	\$ 105.0	\$—	\$ 731.5
Current maturities of long-term debt	1,052.0	13.4	0.2	—	1,065.6
Accounts payable	60.6	402.3	419.8	—	882.7
Intercompany payable	40,102.2	31,342.1	17,701.9	(89,146.2	) —
Other accrued expenses and liabilities	352.5	313.2	159.5	(141.6	) 683.6
Total current liabilities	42,193.8	32,071.0	18,386.4	(89,287.8	) 3,363.4
Long-term debt, less current maturities	11,754.0	18.0	0.5	—	11,772.5
Intercompany notes payable	—	4,987.0	2,922.3	(7,909.3	) —
Other liabilities	33.1	543.0	681.1	(22.7	) 1,234.5
Total liabilities	53,980.9	37,619.0	21,990.3	(97,219.8	) 16,370.4
CBI stockholders' equity	11,256.7	15,045.5	21,514.1	(36,559.6	) 11,256.7
Noncontrolling interests	—	—	263.3	—	263.3
Total stockholders' equity	11,256.7	15,045.5	21,777.4	(36,559.6	) 11,520.0
Total liabilities and stockholders' equity	\$65,237.6	\$52,664.5	\$ 43,767.7	\$(133,779.4)	\$ 27,890.4

Table of Contents

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
(in millions)					
Condensed Consolidating Balance Sheet at February 28, 2018					
Current assets:					
Cash and cash equivalents	\$4.6	\$4.4	\$ 81.3	\$—	\$ 90.3
Accounts receivable	2.0	12.6	761.6	—	776.2
Inventories	184.3	1,537.5	546.6	(184.4	) 2,084.0
Intercompany receivable	27,680.0	37,937.5	18,940.8	(84,558.3	) —
Prepaid expenses and other	138.4	77.7	311.0	(3.6	) 523.5
Total current assets	28,009.3	39,569.7	20,641.3	(84,746.3	) 3,474.0
Property, plant and equipment	76.2	775.7	3,937.8	—	4,789.7
Investments in subsidiaries	20,948.7	442.0	5,876.9	(27,267.6	) —
Goodwill	—	6,185.5	1,897.6	—	8,083.1
Intangible assets	—	718.2	2,586.6	—	3,304.8
Intercompany notes receivable	6,236.4	2,435.4	—	(8,671.8	) —
Equity method investments	—	1.9	119.6	—	121.5
Other assets	33.1	2.8	747.1	(17.4	) 765.6
Total assets	\$55,303.7	\$50,131.2	\$ 35,806.9	\$(120,703.1)	\$ 20,538.7
Current liabilities:					
Short-term borrowings	\$266.9	\$—	\$ 479.9	\$—	\$ 746.8
Current maturities of long-term debt	7.1	15.0	0.2	—	22.3
Accounts payable	63.4	128.3	400.5	—	592.2
Intercompany payable	37,408.2	30,029.7	17,120.4	(84,558.3	) —
Other accrued expenses and liabilities	356.2	199.3	150.5	(27.7	) 678.3
Total current liabilities	38,101.8	30,372.3	18,151.5	(84,586.0	) 2,039.6
Long-term debt, less current maturities	9,166.9	9.1	241.6	—	9,417.6
Intercompany notes payable	—	5,029.2	3,642.6	(8,671.8	) —
Other liabilities	59.9	493.5	553.8	(17.4	) 1,089.8
Total liabilities	47,328.6	35,904.1	22,589.5	(93,275.2	) 12,547.0
CBI stockholders' equity	7,975.1	14,227.1	13,200.8	(27,427.9	) 7,975.1
Noncontrolling interests	—	—	16.6	—	16.6
Total stockholders' equity	7,975.1	14,227.1	13,217.4	(27,427.9	) 7,991.7
Total liabilities and stockholders' equity	\$55,303.7	\$50,131.2	\$ 35,806.9	\$(120,703.1)	\$ 20,538.7

Table of Contents

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
(in millions)					
Condensed Consolidating Statement of Comprehensive Income for the Nine Months Ended November 30, 2018					
Sales	\$2,263.2	\$5,757.6	\$ 2,891.6	\$(3,996.1)	\$ 6,916.3
Excise taxes	(269.5)	(318.5)	(9.5)	—	(597.5)
Net sales	1,993.7	5,439.1	2,882.1	(3,996.1)	6,318.8
Cost of product sold	(1,565.2)	(4,062.8)	(1,505.6)	4,001.6	(3,132.0)
Gross profit	428.5	1,376.3	1,376.5	5.5	3,186.8
Selling, general and administrative expenses	(425.5)	(651.5)	(180.0)	17.1	(1,239.9)
Operating income	3.0	724.8	1,196.5	22.6	1,946.9
Equity in earnings (losses) of equity method investees and subsidiaries	2,519.4	(25.3)	494.4	(2,956.6)	31.9
Unrealized net gain on securities measured at fair value	—	—	786.5	—	786.5
Net gain on sale of unconsolidated investment	—	—	99.8	—	99.8
Interest income	0.6	—	7.3	—	7.9
Intercompany interest income	198.4	487.2	3.7	(689.3)	—
Interest expense	(240.2)	(0.9)	(15.4)	—	(256.5)
Intercompany interest expense	(411.5)	(148.2)	(129.6)	689.3	—
Loss on extinguishment of debt	(1.7)	—	—	—	(1.7)
Income before income taxes	2,068.0	1,037.6	2,443.2	(2,934.0)	2,614.8
(Provision for) benefit from income taxes	128.4	(248.4)	(284.0)	(1.1)	(405.1)
Net income	2,196.4	789.2	2,159.2	(2,935.1)	2,209.7
Net income attributable to noncontrolling interests	—	—	(13.3)	—	(13.3)
Net income attributable to CBI	\$2,196.4	\$789.2	\$ 2,145.9	\$(2,935.1)	\$ 2,196.4
Comprehensive income attributable to CBI	\$1,893.4	\$788.6	\$ 1,843.1	\$(2,631.7)	\$ 1,893.4
Condensed Consolidating Statement of Comprehensive Income for the Nine Months Ended November 30, 2017					
Sales	\$2,171.4	\$5,279.6	\$ 2,638.1	\$(3,698.5)	\$ 6,390.6
Excise taxes	(263.2)	(299.7)	(9.4)	—	(572.3)
Net sales	1,908.2	4,979.9	2,628.7	(3,698.5)	5,818.3
Cost of product sold	(1,524.4)	(3,686.0)	(1,350.6)	3,710.0	(2,851.0)
Gross profit	383.8	1,293.9	1,278.1	11.5	2,967.3
Selling, general and administrative expenses	(347.1)	(661.0)	(202.1)	10.9	(1,199.3)
Operating income	36.7	632.9	1,076.0	22.4	1,768.0
Equity in earnings (losses) of equity method investees and subsidiaries	1,524.8	(14.6)	366.6	(1,844.0)	32.8
Unrealized net gain on securities measured at fair value and related activities	—	—	216.9	—	216.9
Interest income	0.1	—	0.3	—	0.4
Intercompany interest income	177.1	365.2	3.3	(545.6)	—
Interest expense	(198.6)	(0.9)	(46.0)	—	(245.5)
Intercompany interest expense	(293.1)	(147.2)	(105.3)	545.6	—
Loss on extinguishment of debt	(7.0)	—	(12.1)	—	(19.1)
Income before income taxes	1,240.0	835.4	1,499.7	(1,821.6)	1,753.5
(Provision for) benefit from income taxes	152.9	(292.0)	(188.1)	(24.8)	(352.0)

Edgar Filing: CONSTELLATION BRANDS, INC. - Form 10-Q

Net income	1,392.9	543.4	1,311.6	(1,846.4)	1,401.5
Net income attributable to noncontrolling interests	—	—	(8.6	) —	(8.6)
Net income attributable to CBI	\$1,392.9	\$543.4	\$ 1,303.0	\$(1,846.4)	\$ 1,392.9
Comprehensive income attributable to CBI	\$1,583.7	\$543.2	\$ 1,498.0	\$(2,041.2)	\$ 1,583.7

29

Table of Contents

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
(in millions)					
Condensed Consolidating Statement of Comprehensive Income for the Three Months Ended November 30, 2018					
Sales	\$ 772.0	\$ 1,763.7	\$ 886.9	\$ (1,262.0)	\$ 2,160.6
Excise taxes	(89.8)	(94.9)	(3.3)	—	(188.0)
Net sales	682.2	1,668.8	883.6	(1,262.0)	1,972.6
Cost of product sold	(530.4)	(1,242.6)	(490.5)	1,260.9	(1,002.6)
Gross profit	151.8	426.2	393.1	(1.1)	970.0
Selling, general and administrative expenses	(153.9)	(199.4)	(65.8)	5.6	(413.5)
Operating income (loss)	(2.1)	226.8	327.3	4.5	556.5
Equity in earnings of equity method investees and subsidiaries	373.5	0.7	167.7	(512.6)	29.3
Unrealized net loss on securities measured at fair value	—	—	(163.9)	—	(163.9)
Interest income	0.5	—	3.9	—	4.4
Intercompany interest income	63.1	165.7	1.3	(230.1)	—
Interest expense	(75.6)	(0.4)	(1.2)	—	(77.2)
Intercompany interest expense	(140.5)	(49.2)	(40.4)	230.1	—
Loss on extinguishment of debt	(1.7)	—	—	—	(1.7)
Income before income taxes	217.2	343.6	294.7	(508.1)	347.4
(Provision for) benefit from income taxes	85.9	(80.5)	(37.6)	(3.1)	(35.3)
Net income	303.1	263.1	257.1	(511.2)	312.1
Net income attributable to noncontrolling interests	—	—	(9.0)	—	(9.0)
Net income attributable to CBI	\$ 303.1	\$ 263.1	\$ 248.1	\$ (511.2)	\$ 303.1
Comprehensive income attributable to CBI	\$ 101.8	\$ 263.1	\$ 46.8	\$ (309.9)	\$ 101.8
Condensed Consolidating Statement of Comprehensive Income for the Three Months Ended November 30, 2017					
Sales	\$ 756.3	\$ 1,585.8	\$ 795.6	\$ (1,156.0)	\$ 1,981.7
Excise taxes	(89.2)	(87.1)	(3.5)	—	(179.8)
Net sales	667.1	1,498.7	792.1	(1,156.0)	1,801.9
Cost of product sold	(537.9)	(1,111.3)	(397.4)	1,155.0	(891.6)
Gross profit	129.2	387.4	394.7	(1.0)	910.3
Selling, general and administrative expenses	(130.8)	(186.9)	(108.1)	5.1	(420.7)
Operating income (loss)	(1.6)	200.5	286.6	4.1	489.6
Equity in earnings of equity method investees and subsidiaries	551.7	8.8	122.1	(650.4)	32.2
Unrealized net gain on securities measured at fair value and related activities	—	—	216.9	—	216.9
Interest income	0.1	—	0.1	—	0.2
Intercompany interest income	60.3	125.2	0.9	(186.4)	—
Interest expense	(69.5)	(0.4)	(11.7)	—	(81.6)
Intercompany interest expense	(101.4)	(48.7)	(36.3)	186.4	—
Loss on extinguishment of debt	—	—	(10.3)	—	(10.3)
Income before income taxes	439.6	285.4	568.3	(646.3)	647.0
(Provision for) benefit from income taxes	53.2	(99.0)	(102.8)	(2.0)	(150.6)
Net income	492.8	186.4	465.5	(648.3)	496.4
Net income attributable to noncontrolling interests	—	—	(3.6)	—	(3.6)
Net income attributable to CBI	\$ 492.8	\$ 186.4	\$ 461.9	\$ (648.3)	\$ 492.8

Comprehensive income attributable to CBI	\$ 371.2	\$ 188.2	\$ 338.6	\$ (526.8	) \$ 371.2
--	----------	----------	----------	-----------	------------

30

Table of Contents

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Elimination	Consolidated
(in millions)					
Condensed Consolidating Statement of Cash Flows for the Nine Months Ended November 30, 2018					
Net cash provided by (used in) operating activities	\$ (18.5)	\$ 628.5	\$ 1,363.9	\$ —	\$ 1,973.9
Cash flows from investing activities:					
Investments in equity method investees and securities	—	(0.1)	(4,077.2)	—	(4,077.3)
Purchases of property, plant and equipment	(23.4)	(79.4)	(517.5)	—	(620.3)
Purchases of businesses, net of cash acquired	—	(19.5)	(25.8)	—	(45.3)
Proceeds from sale of unconsolidated investment	—	—	110.2	—	110.2
Proceeds from sales of assets	0.5	39.4	6.4	—	46.3
Net proceeds from intercompany notes	694.0	—	—	(694.0)	—
Net investment in equity affiliates	(3,934.9)	(11.1)	—	3,946.0	—
Other investing activities	—	—	(0.9)	—	(0.9)
Net cash used in investing activities	(3,263.8)	(70.7)	(4,504.8)	3,252.0	(4,587.3)
Cash flows from financing activities:					
Dividends paid to parent company	—	—	(36.5)	36.5	—
Net contributions from equity affiliates	—	28.8	3,953.7	(3,982)5	—
Net proceeds from (repayments of) intercompany notes	206.9	(562.6)	(338.3)	694.0	—
Proceeds from issuance of long-term debt	3,645.6	—	12.0	—	3,657.6
Proceeds from shares issued under equity compensation plans	32.6	—	—	—	32.6
Purchases of treasury stock	(504.3)	—	—	—	(504.3)
Dividends paid	(417.9)	—	—	—	(417.9)
Principal payments of long-term debt	(6.2)	(13.2)	(25.9)	—	(45.3)
Payments of debt issuance costs	(33.3)	—	—	—	(33.3)
Net proceeds from (repayments of) short-term borrowings	359.7	—	(374.2)	—	(14.5)
Payments of minimum tax withholdings on stock-based payment awards	—	(12.8)	(0.8)	—	(13.6)
Net cash provided by (used in) financing activities	3,283.1	(559.8)	3,190.0	(3,252)0	2,661.3
Effect of exchange rate changes on cash and cash equivalents	—	—	(7.6)	—	(7.6)
Net increase (decrease) in cash and cash equivalents	0.8	(2.0)	41.5	—	40.3
Cash and cash equivalents, beginning of period	4.6	4.4	81.3	—	90.3
Cash and cash equivalents, end of period	\$ 5.4	\$ 2.4	\$ 122.8	\$ —	\$ 130.6

Table of Contents

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Elimination	Consolidated
(in millions)					
Condensed Consolidating Statement of Cash Flows for the Nine Months Ended November 30, 2017					
Net cash provided by (used in) operating activities	\$ (315.2)	\$ 1,060.7	\$ 722.9	\$ —	\$ 1,468.4
Cash flows from investing activities:					
Investment in securities	—	—	(191.3)	—	(191.3)
Purchases of property, plant and equipment	(15.4)	(83.9)	(606.3)	—	(705.6)
Purchases of businesses, net of cash acquired	—	(70.9)	(61.0)	—	(131.9)
Proceeds from sales of assets	—	—	1.2	—	1.2
Net proceeds from intercompany notes	134.5	—	2.8	(137.3)	—
Net investments in equity affiliates	(1,350.6)	—	—	1,350.6	—
Other investing activities	(6.2)	—	(4.5)	—	(10.7)
Net cash used in investing activities	(1,237.7)	(154.8)	(859.1)	1,213.3	(1,038.3)
Cash flows from financing activities:					
Dividends paid to parent company	—	—	(33.0)	33.0	—
Net contributions from (returns of capital to) equity affiliates	—	(0.2)	1,383.8	(1,383)6	—
Net proceeds from (repayments of) intercompany notes	(11.6)	(871.9)	746.2	137.3	—
Proceeds from issuance of long-term debt	3,990.4	—	2,027.5	—	6,017.9
Proceeds from shares issued under equity compensation plans	37.5	—	—	—	37.5
Purchases of treasury stock	(239.2)	—	—	—	(239.2)
Dividends paid	(301.1)	—	—	—	(301.1)
Principal payments of long-term debt	(2,116.6)	(14.5)	(4,391.7)	—	(6,522.8)
Payments of debt issuance costs	(28.9)	—	(3.5)	—	(32.4)
Net proceeds from short-term borrowings	238.6	—	366.3	—	604.9
Payments of minimum tax withholdings on stock-based payment awards	—	(21.9)	(1.0)	—	(22.9)
Net cash provided by (used in) financing activities	1,569.1	(908.5)	94.6	(1,213)3	(458.1)
Effect of exchange rate changes on cash and cash equivalents					
	—	—	5.1	—	5.1
Net increase (decrease) in cash and cash equivalents	16.2	(2.6)	(36.5)	—	(22.9)
Cash and cash equivalents, beginning of period	9.6	5.3	162.5	—	177.4
Cash and cash equivalents, end of period	\$ 25.8	\$ 2.7	\$ 126.0	\$ —	\$ 154.5

16. BUSINESS SEGMENT INFORMATION:

Our internal management financial reporting consists of two business divisions: (i) Beer and (ii) Wine and Spirits, and we report our operating results in three segments: (i) Beer, (ii) Wine and Spirits, and (iii) Corporate Operations and Other. In the Beer segment, our portfolio consists of high-end imported and craft beer brands. We have an exclusive perpetual brand license to import, market and sell in the U.S. our Mexican beer portfolio. In the Wine and Spirits segment, we sell a large number of wine brands across all categories – table wine, sparkling wine and dessert wine – and across all price points – popular, premium and luxury categories, primarily within the \$5 to \$25 price range at U.S. retail – complemented by certain premium spirits brands. Amounts included in the

Table of Contents

Corporate Operations and Other segment consist of costs of executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal, public relations and information technology. The amounts included in the Corporate Operations and Other segment are general costs that are applicable to the consolidated group and are therefore not allocated to the other reportable segments. All costs reported within the Corporate Operations and Other segment are not included in our chief operating decision maker's evaluation of the operating income performance of the other reportable segments. The business segments reflect how our operations are managed, how resources are allocated, how operating performance is evaluated by senior management and the structure of our internal financial reporting.

In addition, management excludes items that affect comparability ("Comparable Adjustments") from its evaluation of the results of each operating segment as these Comparable Adjustments are not reflective of core operations of the segments. Segment operating performance and segment management compensation are evaluated based upon core segment operating income (loss). As such, the performance measures for incentive compensation purposes for segment management do not include the impact of these Comparable Adjustments.

We evaluate segment operating performance based on operating income (loss) of the respective business units. Comparable Adjustments that impacted comparability in our segment operating income (loss) for each period are as follows:

	For the Nine Months Ended November 30, 2018		For the Three Months Ended November 30, 2017	
(in millions)				
Cost of product sold				
Settlements of undesignated commodity derivative contracts	\$(7.3)	\$4.6	\$(2.2)	\$(0.1)
Accelerated depreciation	(6.5)	—	(1.5)	—
Net gain (loss) on undesignated commodity derivative contracts	(5.1)	4.3	(14.7)	3.5
Flow through of inventory step-up	(3.6)	(17.0)	(2.2)	(7.2)
Loss on inventory write-down	(2.8)	—	(1.3)	—
Total cost of product sold	(25.3)	(8.1)	(21.9)	(3.8)
Selling, general and administrative expenses				
Net loss on foreign currency derivative contracts associated with acquisition of investment	(32.6)	—	(25.5)	—
Deferred compensation	(16.3)	—	—	—
Restructuring and other strategic business development costs	(10.9)	(7.5)	(2.3)	(4.1)
Transaction, integration and other acquisition-related costs	(9.1)	(6.8)	(8.1)	(4.5)
Impairment of intangible assets	—	(86.8)	—	—
Loss on contract termination ⁽¹⁾	—	(59.0)	—	(59.0)
Costs associated with the sale of the Canadian wine business and related activities	—	(3.2)	—	—
Other gains ⁽²⁾	10.9	11.5	2.4	8.1
Total selling, general and administrative expenses	(58.0)	(151.8)	(33.5)	(59.5)
Comparable Adjustments, Operating loss	\$(83.3)	\$(159.9)	\$(55.4)	\$(63.3)

⁽¹⁾ Represents a loss incurred in connection with the early termination of a beer glass supply contract with Owens-Illinois.

Includes a gain of \$8.5 million for the nine months ended November 30, 2018, in connection with the sale of certain non-core assets and a gain of \$8.1 million for the nine months and three months ended November 30, 2017, in connection with the reduction in estimated fair value of a contingent liability associated with a prior period acquisition.

Table of Contents

The accounting policies of the segments are the same as those described for the Company in Note 1 of our consolidated financial statements included in our 2018 Annual Report, and include the accounting policies and the recently adopted accounting guidance described in Note 1 and Note 2 herein. Segment information is as follows:

	For the Nine Months Ended November 30,		For the Three Months Ended November 30,	
	2018	2017	2018	2017
(in millions)				
Beer				
Net sales	\$4,112.0	\$3,663.4	\$1,209.8	\$1,042.5
Segment operating income	\$1,601.5	\$1,461.3	\$450.9	\$394.8
Long-lived tangible assets	\$3,810.1	\$3,410.7	\$3,810.1	\$3,410.7
Total assets	\$14,654.6	\$12,025.3	\$14,654.6	\$12,025.3
Capital expenditures	\$507.3	\$593.7	\$211.0	\$160.6
Depreciation and amortization	\$152.0	\$121.6	\$51.5	\$41.7
Wine and Spirits				
Net sales:				
Wine	\$1,933.1	\$1,882.7	\$670.3	\$666.6
Spirits	273.7	272.2	92.5	92.8
Net sales	\$2,206.8	\$2,154.9	\$762.8	\$759.4
Segment operating income	\$575.2	\$586.8	\$206.0	\$199.4
Income from unconsolidated investments	\$32.2	\$32.3	\$28.4	\$32.1
Long-lived tangible assets	\$1,093.5	\$1,024.7	\$1,093.5	\$1,024.7
Equity method investments	\$97.8	\$97.3	\$97.8	\$97.3
Total assets	\$7,366.0	\$7,268.7	\$7,366.0	\$7,268.7
Capital expenditures	\$91.1	\$98.2	\$32.3	\$35.2
Depreciation and amortization	\$73.4	\$69.9	\$24.2	\$24.1
Corporate Operations and Other				
Segment operating loss	\$(146.5)	\$(120.2)	\$(45.0)	\$(41.3)
Income (loss) from unconsolidated investments	\$(0.3)	\$0.5	\$0.9	\$0.1
Long-lived tangible assets	\$82.7	\$115.6	\$82.7	\$115.6
Equity method investments	\$3,485.2	\$21.6	\$3,485.2	\$21.6
Total assets	\$5,869.8	\$813.1	\$5,869.8	\$813.1
Capital expenditures	\$21.9	\$13.7	\$6.4	\$4.7
Depreciation and amortization	\$22.7	\$27.3	\$5.6	\$9.2
Comparable Adjustments				
Operating loss	\$(83.3)	\$(159.9)	\$(55.4)	\$(63.3)
Income (loss) from unconsolidated investments	\$886.3	\$216.9	\$(163.9)	\$216.9
Depreciation and amortization	\$6.5	\$—	\$1.5	\$—
Consolidated				
Net sales	\$6,318.8	\$5,818.3	\$1,972.6	\$1,801.9
Operating income	\$1,946.9	\$1,768.0	\$556.5	\$489.6
Income (loss) from unconsolidated investments ⁽¹⁾	\$918.2	\$249.7	\$(134.6)	\$249.1
Long-lived tangible assets	\$4,986.3	\$4,551.0	\$4,986.3	\$4,551.0
Equity method investments	\$3,583.0	\$118.9	\$3,583.0	\$118.9
Total assets	\$27,890.4	\$20,107.1	\$27,890.4	\$20,107.1

Edgar Filing: CONSTELLATION BRANDS, INC. - Form 10-Q

Capital expenditures	\$620.3	\$705.6	\$249.7	\$200.5
Depreciation and amortization	\$254.6	\$218.8	\$82.8	\$75.0

34

Table of Contents

(1) Income (loss) from unconsolidated investments consists of:

	For the Nine Months Ended November 30, 2018		For the Three Months Ended November 30, 2018	
	2017		2017	
(in millions)				
Unrealized net gain (loss) on securities measured at fair value and related activities	\$786.5	\$ 216.8	\$(163.9)	\$ 216.8
Net gain on sale of unconsolidated investment	99.8	—	—	—
Equity in earnings from equity method investees	31.9	32.8	29.3	32.2
Net gain on foreign currency derivative contracts associated with November 2017 Canopy securities measured at fair value	—	0.1	—	0.1
	\$918.2	\$ 249.7	\$(134.6)	\$ 249.1

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Introduction

This MD&A provides additional information on our businesses, current developments, financial condition, cash flows and results of operations. It should be read in conjunction with our consolidated financial statements and notes thereto included herein (the "Financial Statements") and with our consolidated financial statements and notes included in our 2018 Annual Report. This MD&A is organized as follows:

- **Overview.** This section provides a general description of our business, which we believe is important in understanding the results of our operations, financial condition and potential future trends.

Strategy. This section provides a description of our strategy, including a discussion of investments and acquisitions.

Results of operations. This section provides an analysis of our results of operations presented on a business segment basis for the three months ended November 30, 2018 ("Third Quarter 2019"), and November 30, 2017 ("Third Quarter 2018"), and the nine months ended November 30, 2018 ("Nine Months 2019"), and November 30, 2017 ("Nine Months 2018"). In addition, a brief description of transactions and other items that affect the comparability of the results is provided.

Financial liquidity and capital resources. This section provides an analysis of our cash flows and a discussion of the amount of financial capacity available to fund our ongoing operations and future commitments, as well as a discussion of other financing arrangements.

Overview

We are an international beverage alcohol company with a broad portfolio of consumer-preferred high-end imported and craft beer brands, and premium wine and spirits brands. We are the third-largest producer and marketer of beer for the U.S. market and the world's leading premium wine company. We are the largest multi-category supplier (beer, wine and spirits) of beverage alcohol in the U.S., and a leading supplier of wine from New Zealand and Italy to North America.

Our internal management financial reporting consists of two business divisions: (i) Beer and (ii) Wine and Spirits, and we report our operating results in three segments: (i) Beer, (ii) Wine and Spirits, and (iii) Corporate Operations and Other. In the Beer segment, our portfolio consists of high-end imported and craft beer brands. We have an exclusive perpetual brand license to import, market and sell in the U.S. our Mexican beer portfolio. In the Wine and Spirits segment, we sell a large number of wine brands across all categories – table wine, sparkling wine and dessert wine – and across all price points – popular, premium and luxury categories, primarily within the

Table of Contents

\$5 to \$25 price range at U.S. retail – complemented by certain premium spirits brands. Amounts included in the Corporate Operations and Other segment consist of costs of executive management, corporate development, corporate finance, human resources, internal audit, investor relations, legal, public relations and information technology. The amounts included in the Corporate Operations and Other segment are general costs that are applicable to the consolidated group and are therefore not allocated to the other reportable segments. All costs reported within the Corporate Operations and Other segment are not included in our chief operating decision maker's evaluation of the operating income performance of the other reportable segments. The business segments reflect how our operations are managed, how resources are allocated, how operating performance is evaluated by senior management and the structure of our internal financial reporting.

Strategy

Our overall strategy is to drive industry-leading growth and shareholder value by building premium brands that people love. We position our portfolio to benefit from industry premiumization trends, which we believe will continue to result in faster growth rates in the high-end of the beer, wine and spirits categories. We focus on developing our expertise in consumer insights and category management as well as our strong distributor network, which provides an effective route-to-market. Additionally, we leverage our scale across the total beverage alcohol market and our level of diversification hedges our portfolio risk. In addition to growing our existing business, we focus on targeted acquisitions of businesses that are premium, growing, high-margin, consumer-led, have a low integration risk and/or fill a gap in our portfolio. We also strive to identify, meet and stay ahead of evolving consumer trends and market dynamics (see “Investments – Canopy Growth Corporation”).

We strive to strengthen our portfolio of premium beer, wine and spirits brands and differentiate ourselves through:

- leveraging our leading position in total beverage alcohol and our scale with wholesalers and retailers to expand distribution of our product portfolio and to provide for cross promotional opportunities;
- strengthening relationships with wholesalers and retailers by providing consumer and beverage alcohol insights;
- investing in brand building activities;
- positioning ourselves for success with consumer-led innovation capabilities that identify, meet and stay ahead of evolving consumer trends and market dynamics;
- realizing operating efficiencies through expanding and enhancing production capabilities and maximizing asset utilization; and
- developing employees to enhance performance in the marketplace.

Our business strategy for the Beer segment focuses on leading the high-end segment of the U.S. beer market and includes continued focus on growing our beer portfolio in the U.S. through expanding distribution for key brands, as well as new product development and innovation within the existing portfolio of brands, and continued expansion, construction and optimization activities for our Mexico beer operations. Additionally, in an effort to capitalize on one of the growth segments within the U.S. beer market, we established the high-end craft and specialty beer platform in order to fully leverage our craft beer expertise with that of the capabilities and infrastructure of our broader Beer segment.

In connection with our business strategy for the Beer segment, we have almost tripled the production capacity of our brewery located in Nava, Coahuila, Mexico since its June 2013 acquisition. In addition, construction of a new, state-of-the-art brewery in Mexicali, Baja California, Mexico is progressing and we are continuing to invest to expand the Obregon Brewery, which was acquired in December 2016. Expansion, construction and optimization efforts continue under our previously-announced Mexico beer expansion projects to align with our anticipated future growth expectations.

Table of Contents

Our business strategy for the Wine and Spirits segment is to build an industry-leading portfolio of premium wine and spirits brands. We are investing to meet the evolving needs of consumers and building brands through consumer insights, sensory expertise, innovation and refreshing existing brands as we continue to focus on the premiumization of our branded wine and spirits portfolio. We dedicate a large share of our sales and marketing resources to some of our well-known wine and spirits brands sold in the U.S., which comprise our U.S. Focus Brands (“Focus Brands”), as they represent a majority of our U.S. wine and spirits revenue and profitability, and generally have strong positions in their respective price categories. These brands and/or portfolios of brands include: 7 Moons, Black Box, Casa Noble, Clos du Bois, Franciscan, High West, Kim Crawford, Mark West, Meiomi, Mount Veeder, Nobile, Ravage, Robert Mondavi, Ruffino, Schrader, Simi, SVEDKA Vodka, The Dreaming Tree and the Charles Smith and Prisoner portfolios of brands. We focus our innovation and investment dollars on those brands within our portfolio which position us to benefit from industry premiumization trends. We continue to refine our options to optimize the value of our wine and spirits portfolio and, as noted, drive increased focus on the high-end priority brands to accelerate growth and improve overall operating margins. In markets where it is feasible, we entered into contractual arrangements to consolidate our U.S. distribution network in order to obtain dedicated distributor selling resources which focus on our U.S. wine and spirits portfolio to drive organic growth. This consolidated U.S. distribution network currently represents about 70% of our branded wine and spirits volume in the U.S. Throughout the terms of these contracts, we generally expect shipments on an annual basis to these distributors to essentially equal the distributors’ shipments to retailers.

Marketing, sales and distribution of our products are managed on a geographic basis in order to fully leverage leading market positions. In addition, market dynamics and consumer trends vary across each of our markets. Within our primary market in the U.S., we offer a range of beverage alcohol products across the imported beer, craft beer, branded wine and spirits categories, with generally separate distribution networks utilized for (i) our beer portfolio and (ii) our wine and spirits portfolio. The environment for our products is competitive in each of our markets.

We remain committed to our long-term financial model of growing sales, expanding margins and increasing cash flow in order to achieve earnings per share growth, maintain our targeted leverage ratio and pay quarterly cash dividends.

Investments – Canopy Growth Corporation

Our investments in Canopy, and the method of accounting for these investments, consist of the following:

Date of Investment (in millions)	Investment Acquired	Purchase Price	Method of Accounting
Nov 2017	Common shares	\$ 130.1	Fair value / equity method ⁽¹⁾
Nov 2017	Warrants	61.2	Fair value
		\$ 191.3	
June 2018	Convertible debt securities	\$ 150.5	Fair value
Nov 2018	Common shares	\$2,740.3	Equity method
Nov 2018	Warrants	1,146.8	Fair value
		\$3,887.1 ⁽²⁾	

Table of Contents

We recognized an unrealized net gain (loss) from the changes in fair value of these investments accounted for at fair value in income (loss) from unconsolidated investments, as follows:

Date of Investment	Investment	Third Quarter 2019	Third Quarter 2018	Nine Months 2019	Nine Months 2018
(in millions)					
Nov 2017	Common shares ⁽¹⁾	\$(168.5)	\$ 139.7	\$ 292.5	\$ 139.7
Nov 2017	Warrants	(212.4)	77.1	223.5	77.1
June 2018	Convertible debt securities	(40.6)	—	12.9	—
Nov 2018	Warrants	257.6	—	257.6	—
		\$(163.9)	\$ 216.8	\$ 786.5	\$ 216.8

- (1) Accounted for at fair value from the date of investment in November 2017 through October 31, 2018. Accounted for under the equity method from November 1, 2018 (refer to Note 8 of the Financial Statements). Includes \$17.2 million of direct acquisition costs capitalized under the equity method cost accumulation model.
- (2) Excludes \$7.3 million of direct acquisition costs associated with the investment in warrants which are expensed as incurred in selling, general and administrative expenses. See “Financial Liquidity and Capital Resources – General” for a discussion of financing for this transaction.

We expect the fair value of the Canopy investments accounted for at fair value to be volatile in future periods. Additionally, we will recognize equity in earnings for our Canopy Equity Method Investment on a two-month lag. As a result, we will recognize equity in earnings from Canopy’s results of operations from our date of acquisition, November 1, 2018, through December 31, 2018, in our consolidated financial statements for the fourth quarter of fiscal 2019.

As of November 30, 2018, the conversion of Canopy equity securities held by its employees and/or held by other third parties would not have a significant effect on our share of Canopy’s reported earnings or losses. Additionally, under an amended and restated investor rights agreement, we have the option to purchase additional common shares of Canopy at the then-current price of the underlying equity security to allow us to maintain our relative ownership interest.

These investments are consistent with our long-term strategy to identify, meet and stay ahead of evolving consumer trends and market dynamics, and they represent a significant expansion of our strategic relationship to position Canopy as the global leader in cannabis production, branding, intellectual property and retailing.

For additional information on these and other investments, refer to Notes 5, 8 and 9 of the Financial Statements.

Acquisitions

Beer Segment

Four Corners Acquisition

In July 2018, we acquired Four Corners, which primarily included the acquisition of operations, goodwill, property, plant and equipment, and trademarks. This acquisition included a portfolio of high-performing, dynamic and bicultural, Texas-based craft beers to further strengthen our position in the high-end segment of the U.S. beer market. The results of operations of Four Corners are reported in the Beer segment and have been included in our consolidated results of operations from the date of acquisition.

Table of Contents

Funky Buddha Acquisition

In August 2017, we acquired Funky Buddha, which primarily included the acquisition of operations, goodwill and trademarks. This acquisition included a portfolio of high-quality, Florida-based craft beers to further strengthen our position in the high-end segment of the U.S. beer market. The results of operations of Funky Buddha are reported in the Beer segment and have been included in our consolidated results of operations from the date of acquisition.

Wine and Spirits Segment

Schrader Cellars Acquisition

In June 2017, we acquired Schrader Cellars, which primarily included the acquisition of goodwill, inventories, trademarks and certain grape supply contracts. This acquisition included a collection of highly-rated, limited-production fine wines which aligned with our portfolio premiumization strategy and strengthened our position in the fine wine category. The results of operations of Schrader Cellars are reported in the Wine and Spirits segment and have been included in our consolidated results of operations from the date of acquisition.

For additional information on these and other acquisitions, refer to Note 6 of the Financial Statements.

Results of Operations

Financial Highlights

For Third Quarter 2019 and Third Quarter 2018:

Our results of operations benefited primarily from continued improvements in the Beer segment, partially offset by an unrealized net loss from the changes in fair value of our investments in Canopy.

Net sales increased 9% primarily due to an increase in Beer net sales driven predominantly by volume growth within our Mexican beer portfolio.

Operating income increased 14% largely due to the Beer net sales volume growth and a favorable impact from pricing within our Mexican beer portfolio, combined with lower selling, general and administrative expenses within Wine and Spirits.

Net income attributable to CBI and diluted net income per common share attributable to CBI decreased primarily due to an unrealized net loss from the changes in fair value of our investments in Canopy for Third Quarter 2019 as compared with an unrealized net gain for Third Quarter 2018.

For Nine Months 2019 and Nine Months 2018:

Our results of operations benefited primarily from continued improvements within the Beer segment, an unrealized net gain from the changes in fair value of our investments in Canopy and a net gain on the sale of the Accolade Wine Investment.

Net sales increased 9% primarily due to an increase in Beer net sales driven predominantly by volume growth and a favorable impact from pricing within our Mexican beer portfolio.

Operating income increased 10% largely due to the net sales volume growth and favorable impact from pricing within our Mexican beer portfolio, and the overlap of an impairment of intangible assets for the

Table of Contents

first quarter of fiscal 2018. Operating income growth was tempered by planned increases in marketing spend and higher cost of product sold across both the Beer and Wine and Spirits segments.

Net income attributable to CBI and diluted net income per common share attributable to CBI increased significantly primarily due to the factors discussed above.

Comparable Adjustments

Management excludes items that affect comparability from its evaluation of the results of each operating segment as these Comparable Adjustments are not reflective of core operations of the segments. Segment operating performance and segment management compensation are evaluated based on core segment operating income (loss). As such, the performance measures for incentive compensation purposes for segment management do not include the impact of these Comparable Adjustments.

As more fully described herein and in the related Notes to the Financial Statements, the Comparable Adjustments that impacted comparability in our segment results for each period are as follows:

	Third Quarter 2019	Third Quarter 2018	Nine Months 2019	Nine Months 2018
(in millions)				
Cost of product sold				
Net gain (loss) on undesignated commodity derivative contracts	\$(14.7)	\$3.5	\$(5.1)	\$4.3
Settlements of undesignated commodity derivative contracts	(2.2)	(0.1)	(7.3)	4.6
Flow through of inventory step-up	(2.2)	(7.2)	(3.6)	(17.0)
Accelerated depreciation	(1.5)	—	(6.5)	—
Loss on inventory write-down	(1.3)	—	(2.8)	—
Total cost of product sold	(21.9)	(3.8)	(25.3)	(8.1)
Selling, general and administrative expenses				
Net loss on foreign currency derivative contracts associated with acquisition of investment	(25.5)	—	(32.6)	—
Transaction, integration and other acquisition-related costs	(8.1)	(4.5)	(9.1)	(6.8)
Restructuring and other strategic business development costs	(2.3)	(4.1)	(10.9)	(7.5)
Deferred compensation	—	—	(16.3)	—
Impairment of intangible assets	—	—	—	(86.8)
Loss on contract termination	—	(59.0)	—	(59.0)
Costs associated with the sale of the Canadian wine business and related activities	—	—	—	(3.2)
Other gains	2.4	8.1	10.9	11.5
Total selling, general and administrative expenses	(33.5)	(59.5)	(58.0)	(151.8)
Comparable Adjustments, Operating loss	\$(55.4)	\$(63.3)	\$(83.3)	\$(159.9)
Income (loss) from unconsolidated investments	\$ (163.9)	\$216.9	\$886.3	\$216.9

Table of Contents

Cost of Product Sold

Undesignated Commodity Derivative Contracts

Net gain (loss) on undesignated commodity derivative contracts represents a net gain (loss) from the changes in fair value of undesignated commodity derivative contracts. The net gain (loss) is reported outside of segment operating results until such time that the underlying exposure is recognized in the segment operating results. At settlement, the net gain (loss) from the changes in fair value of the undesignated commodity derivative contracts is reported in the appropriate operating segment, allowing the results of our operating segments to reflect the economic effects of the commodity derivative contracts without the resulting unrealized mark to fair value volatility.

Selling, General and Administrative Expenses

Net Loss on Foreign Currency Derivative Contracts Associated with Acquisition of Investment

We recognized a net loss in connection with the settlement of foreign currency option contracts entered into to fix the U.S. dollar cost of the November 2018 Canopy Transaction.

Transaction, Integration and Other Acquisition-Related Costs

We recorded transaction, integration and other acquisition-related costs in connection with our acquisitions and investments.

Restructuring and Other Strategic Business Development Costs

We recorded costs primarily in connection with the development of a program specifically intended to identify opportunities for further streamlining of processes and improving capabilities, linking strategy with execution, prioritizing resources and enabling an integrated digital platform.

Deferred Compensation

We recorded an adjustment related to prior periods to correct for previously unrecognized deferred compensation costs associated with certain employment agreements.

Impairment of Intangible Assets

We recorded trademark impairment losses related to our Beer segment's craft beer trademark asset. For additional information, refer to Note 5 of the Financial Statements included herein.

Loss on Contract Termination

We recorded a loss in connection with the early termination of a beer glass supply contract with Owens-Illinois, a related-party entity with which we have an equally-owned joint venture which owns and operates a glass production plant located adjacent to our Nava Brewery.

Other Gains

We recorded gains primarily in connection with the sale of certain non-core assets (Nine Months 2019) and in connection with the reduction in estimated fair value of a contingent liability associated with a prior period acquisition

(Third Quarter 2018, Nine Months 2018).

41

Table of Contents

Income (Loss) From Unconsolidated Investments

We recognized an unrealized net gain (loss) from the changes in fair value of our securities measured at fair value, and a net gain in connection with the sale of our Accolade Wine Investment (Nine Months 2019). For additional information, refer to Notes 5, 8 and 9 of the Financial Statements included herein.

Third Quarter 2019 Compared to Third Quarter 2018

Net Sales

	Third Quarter 2019	Third Quarter 2018	Dollar Change	Percent Change
(in millions)				
Beer	\$1,209.8	\$1,042.5	\$167.3	16 %
Wine and Spirits:				
Wine	670.3	666.6	3.7	1 %
Spirits	92.5	92.8	(0.3)	— %
Total Wine and Spirits	762.8	759.4	3.4	— %
Consolidated net sales	\$1,972.6	\$1,801.9	\$170.7	9 %

Beer Segment	Third Quarter 2019	Third Quarter 2018	Dollar Change	Percent Change
(in millions, branded product, 24-pack, 12-ounce case equivalents)				
Net sales	\$1,209.8	\$1,042.5	\$167.3	16 %

Shipment volume	68.0	59.6		14.1 %
-----------------	------	------	--	--------

Depletion volume ⁽¹⁾				7.8 %
---------------------------------	--	--	--	-------

⁽¹⁾ Depletions represent distributor shipments of our respective branded products to retail customers, based on third-party data.

The increase in Beer net sales is primarily due to (i) strong volume growth within our Mexican beer portfolio of \$143.8 million and (ii) a favorable impact from pricing in select markets within our Mexican beer portfolio of \$28.9 million. The strong volume growth is largely attributable to continued consumer demand, increased marketing spend and new product introductions, as well as timing as the shipment volume growth trend outpaced the depletion volume growth trend for Third Quarter 2019. For Nine Months 2019, the shipment volume growth trend is more closely aligned to the depletion volume growth trend.

Table of Contents

	Third Quarter 2019	Third Quarter 2018	Dollar Change	Percent Change
Wine and Spirits Segment				
(in millions, branded product, 9-liter case equivalents)				
Net sales	\$ 762.8	\$ 759.4	\$ 3.4	— %
Shipment volume				
Total	14.8	14.8		— %
U.S. Domestic	13.8	13.6		1.5 %
U.S. Domestic Focus Brands	8.3	8.3		— %

Depletion volume ⁽¹⁾

U.S. Domestic	(3.2 %)
U.S. Domestic Focus Brands	0.3 %

Wine and Spirits net sales remained relatively flat as a favorable impact from pricing of \$10.0 million was offset by unfavorable product mix shift. U.S. depletion trends remained soft for Third Quarter 2019. This trend is not expected to improve for the remainder of the year. Additionally, for Nine Months 2019, our U.S. shipment volume trend has outpaced our U.S. depletion volume trend primarily due to timing. We expect this shipment timing benefit to reverse for the fourth quarter of fiscal 2019 as we expect U.S. shipment volume trends to be generally aligned with U.S. depletion volume trends for Fiscal 2019. Refer to “Nine Months 2019 Compared to Nine Months 2018 – Net Sales” for additional discussion.

Gross Profit

	Third Quarter 2019	Third Quarter 2018	Dollar Change	Percent Change
(in millions)				
Beer	\$ 651.0	\$ 569.4	\$ 81.6	14 %
Wine and Spirits	340.9	344.7	(3.8)	(1 %)
Comparable Adjustments	(21.9)	(3.8)	(18.1)	NM
Consolidated gross profit	\$ 970.0	\$ 910.3	\$ 59.7	7 %

NM = Not meaningful

The increase in Beer is primarily due to the volume growth and the favorable impact from pricing in select markets within our Mexican beer portfolio of \$79.9 million and \$28.9 million, respectively, partially offset by a higher cost of product sold for our Mexican beer business of \$21.3 million. The higher cost of product sold is primarily due to increased transportation and operational costs within our Mexican beer portfolio of \$18.9 million and \$8.5 million, respectively, partially offset by foreign currency transactional benefits of \$6.1 million. The higher operational costs are largely attributable to higher costs associated with our glass production plant joint venture in connection with a temporary raw material supply issue.

The decrease in Wine and Spirits is primarily due to unfavorable product mix shift of \$17.0 million, largely offset by the favorable impact from pricing of \$10.0 million.

Gross profit as a percent of net sales decreased to 49.2% for Third Quarter 2019 compared with 50.5% for Third Quarter 2018. This was largely due to the higher cost of product sold within the Beer segment and an unfavorable change in Comparable Adjustments, which resulted in approximately 105 basis points and 90 basis points of rate decline, respectively; partially offset by the favorable impact from Beer pricing in select markets, which contributed

approximately 70 basis points of rate growth.

43

Table of Contents

Selling, General and Administrative Expenses

	Third Quarter 2019	Third Quarter 2018	Dollar Change	Percent Change
(in millions)				
Beer	\$ 200.1	\$ 174.6	\$ 25.5	15 %
Wine and Spirits	134.9	145.3	(10.4)	(7 %)
Corporate Operations and Other	45.0	41.3	3.7	9 %
Comparable Adjustments	33.5	59.5	(26.0)	(44 %)
Consolidated selling, general and administrative expenses	\$ 413.5	\$ 420.7	\$ (7.2)	(2 %)

The increase in Beer is primarily due to an increase in marketing spend of \$24.8 million. The increase in marketing spend is due largely to planned investment to support the growth of our Mexican beer portfolio, including support of the new product introductions. The decrease in Wine and Spirits is primarily due to a decrease in general and administrative expenses of \$10.9 million, driven by lower compensation and benefits and travel and entertainment expenses associated largely with reduced headcount and certain cost savings initiatives. The increase in Corporate Operations and Other is due to higher general and administrative expenses primarily attributable to increases in compensation and benefits largely due to support of our growth initiatives.

Selling, general and administrative expenses as a percent of net sales decreased to 21.0% for Third Quarter 2019 as compared with 23.3% for Third Quarter 2018. The decrease is driven largely by the favorable change in Comparable Adjustments, the decrease in Wine and Spirits selling, general and administrative expenses compared with nominal growth in Wine and Spirits net sales, and growth in Beer net sales having exceeded the growth in Beer selling, general and administrative expenses. These contributed approximately 140 basis points, 60 basis points and 55 basis points, respectively, of rate decline.

Operating Income

	Third Quarter 2019	Third Quarter 2018	Dollar Change	Percent Change
(in millions)				
Beer	\$ 450.9	\$ 394.8	\$ 56.1	14 %
Wine and Spirits	206.0	199.4	6.6	3 %
Corporate Operations and Other	(45.0)	(41.3)	(3.7)	(9 %)
Comparable Adjustments	(55.4)	(63.3)	7.9	(12 %)
Consolidated operating income	\$ 556.5	\$ 489.6	\$ 66.9	14 %

The increase in Beer is primarily attributable to the strong volume growth and the favorable impact from pricing, partially offset by the planned increase in marketing spend and the higher cost of product sold. The increase in Wine and Spirits was driven largely by reduced selling, general and administrative expenses for Third Quarter 2019 as well as the favorable impact from pricing, partially offset by the unfavorable product mix shift. Refer to “Nine Months 2019 Compared to Nine Months 2018 – Operating Income” for additional discussion.

Income (Loss) From Unconsolidated Investments

Income (loss) from unconsolidated investments decreased to a loss of \$134.6 million for Third Quarter 2019 from a gain of \$249.1 million for Third Quarter 2018, a decrease of \$383.7 million. This decrease is driven largely by an unrealized net loss from the changes in fair value of our securities measured at fair value of \$163.9 million for Third Quarter 2019 as compared with an unrealized net gain of \$216.8 million for Third Quarter 2018.

Table of Contents

Interest Expense

Interest expense decreased to \$72.8 million for Third Quarter 2019 from \$81.4 million for Third Quarter 2018, a decrease of \$8.6 million, or 11%. This decrease is predominantly due to the recognition of a gain of \$32.4 million for Third Quarter 2019 in connection with the settlement of the forward-starting interest rate swap contracts entered into to economically hedge our exposure to interest rate volatility associated with the debt financing for the November 2018 Canopy Transaction. This gain was partially offset by the recognition of \$12.1 million of additional interest expense associated with bridge commitment fees for the November 2018 Canopy Transaction and higher average borrowings of approximately \$2.2 billion. The higher average borrowings are primarily attributable to the November 2018 Canopy Transaction as well as the significant purchases of treasury stock for Fiscal 2018.

Provision for Income Taxes

Our effective tax rate for Third Quarter 2019 was 10.2% as compared with 23.3% for Third Quarter 2018 due largely to:

- The new, lower federal statutory rate of 21% for Third Quarter 2019 associated with the December 2017 TCJ Act, as compared to the federal statutory rate of 35% in effect for Third Quarter 2018;
- The recognition of an income tax benefit upon the completion of our analysis of the income tax implications of the TCJ Act for Third Quarter 2019 resulting from a decrease in the mandatory one-time transition tax on unremitted earnings of our foreign businesses; and
- A larger net income tax benefit from higher stock-based compensation award activity for Third Quarter 2019 from increased option exercise activity.

For Third Quarter 2019, our effective tax rate was also unfavorably impacted by the lower effective tax rate on the benefit of the net unrealized losses from the changes in fair value of the November 2017 Canopy investments.

For additional information, refer to Note 11 of the Financial Statements included herein.

Net Income Attributable to CBI

Net income attributable to CBI decreased to \$303.1 million for Third Quarter 2019 from \$492.8 million for Third Quarter 2018, a decrease of \$189.7 million. This decrease is largely attributable to the decrease in income from unconsolidated investments discussed above. The decrease was partially offset by solid operating performance for the Beer segment, which contributed an additional \$56.1 million of operating income, as well as a net income tax benefit of \$37.6 million resulting from the TCJ Act.

Nine Months 2019 Compared to Nine Months 2018

Net Sales

	Nine Months 2019	Nine Months 2018	Dollar Change	Percent Change	
(in millions)					
Beer	\$4,112.0	\$3,663.4	\$ 448.6	12	%
Wine and Spirits:					
Wine	1,933.1	1,882.7	50.4	3	%
Spirits	273.7	272.2	1.5	1	%
Total Wine and Spirits	2,206.8	2,154.9	51.9	2	%

Consolidated net sales \$6,318.8 \$5,818.3 \$500.5 9 %

45

Table of Contents

Beer Segment	Nine Months 2019	Nine Months 2018	Dollar Change	Percent Change
(in millions, branded product, 24-pack, 12-ounce case equivalents)				
Net sales	\$4,112.0	\$3,663.4	\$ 448.6	12 %
Shipment volume	233.2	211.6		10.2 %
Depletion volume ⁽¹⁾				9.0 %

(1) Depletions represent distributor shipments of our respective branded products to retail customers, based on third-party data.

The increase in Beer net sales is primarily due to (i) volume growth within our Mexican beer portfolio of \$366.4 million, which benefited from continued consumer demand, increased marketing spend and new product introductions, and (ii) a favorable impact from pricing in select markets within our Mexican beer portfolio of \$77.1 million.

Wine and Spirits Segment	Nine Months 2019	Nine Months 2018	Dollar Change	Percent Change
(in millions, branded product, 9-liter case equivalents)				
Net sales	\$2,206.8	\$2,154.9	\$ 51.9	2 %
Shipment volume				
Total	44.3	43.4		2.1 %
U.S. Domestic	41.1	40.1		2.5 %
U.S. Domestic Focus Brands	25.5	24.3		4.9 %
Depletion volume ⁽¹⁾				
U.S. Domestic				(2.1 %)
U.S. Domestic Focus Brands				1.1 %

The increase in Wine and Spirits net sales is primarily due to higher branded wine and spirits volume and a favorable impact from pricing of \$40.8 million and \$24.6 million, respectively. The increase in volume is largely attributable to timing as the U.S. shipment volume trend outpaced the U.S. depletion volume trend. Shipment volumes were accelerated for the second quarter of fiscal 2019 in advance of expected continuing logistic and transportation constraints anticipated for Third Quarter 2019. Although these constraints were realized, U.S. depletion volume growth trends for Third Quarter 2019 remained softer than expected. Accordingly, this shipment timing benefit did not reverse in Third Quarter 2019 as anticipated. We now expect this shipment timing benefit to reverse for the fourth quarter of fiscal 2019 as U.S. shipment volume trends should be generally aligned with U.S. depletion volume trends for Fiscal 2019. These trends are expected to be down in the low-single digit range for Fiscal 2019. Accordingly, we now expect net sales for Wine and Spirits to decrease low-single digits for Fiscal 2019.

Table of Contents

Gross Profit

	Nine Months 2019	Nine Months 2018	Dollar Change	Percent Change
(in millions)				
Beer	\$2,243.8	\$1,999.7	\$244.1	12 %
Wine and Spirits	968.3	975.7	(7.4)	(1 %)
Comparable Adjustments	(25.3)	(8.1)	(17.2)	NM
Consolidated gross profit	\$3,186.8	\$2,967.3	\$219.5	7 %

The increase in Beer is primarily due to the volume growth and the favorable impact from pricing in select markets within our Mexican beer portfolio of \$202.3 million and \$77.1 million, respectively, partially offset by higher cost of product sold for our Mexican beer business of \$35.6 million. The higher cost of product sold is predominantly due to increased transportation of \$43.8 million, partially offset by foreign currency transactional benefits within our Mexican beer portfolio of \$12.3 million. The Beer segment also recognized higher operational costs for Nine Months 2019, largely attributable to higher depreciation, brewery maintenance and compensation and benefits; however, these costs were offset by brewery sourcing benefits.

The decrease in Wine and Spirits is largely due to higher cost of product sold and an unfavorable product mix shift of \$30.9 million and \$23.5 million, respectively, partially offset by the favorable impact from pricing and branded wine and spirits volume growth of \$24.6 million and \$18.8 million, respectively. The higher cost of product sold is largely attributable to higher raw material costs, including grape, bulk wine and imported vodka costs, as well as increased transportation costs.

Gross profit as a percent of net sales decreased to 50.4% for Nine Months 2019 compared with 51.0% for Nine Months 2018 primarily due to the higher cost of product sold within both the Beer and Wine and Spirits segments, which resulted in approximately 55 basis points and 45 basis points of rate decline, respectively, partially offset by the favorable impact from Beer pricing in select markets, which contributed approximately 55 basis points of rate growth.

Selling, General and Administrative Expenses

	Nine Months 2019	Nine Months 2018	Dollar Change	Percent Change
(in millions)				
Beer	\$642.3	\$538.4	\$103.9	19 %
Wine and Spirits	393.1	388.9	4.2	1 %
Corporate Operations and Other	146.5	120.2	26.3	22 %
Comparable Adjustments	58.0	151.8	(93.8)	(62 %)
Consolidated selling, general and administrative expenses	\$1,239.9	\$1,199.3	\$40.6	3 %

The increase in Beer is primarily due to an increase in marketing spend of \$73.2 million and general and administrative expenses of \$31.1 million. The increase in marketing spend is due largely to planned investment to support the growth of our Mexican beer portfolio, including support of the new product introductions. The increase in general and administrative expenses is largely driven by unfavorable foreign currency transaction losses and higher expenses supporting the growth of the business, including compensation and benefits associated primarily with increased headcount and information technology.

The increase in Wine and Spirits is due to an increase in marketing spend of \$14.9 million, partially offset by a decrease in general and administrative expenses of \$10.7 million. The increase in marketing spend is primarily

Table of Contents

attributable to planned investment supporting the portfolio. The decrease in general and administrative expenses is largely driven by certain cost savings initiatives.

The increase in Corporate Operations and Other is due to higher general and administrative expenses driven predominantly by increases in compensation and benefits of approximately \$20 million and consulting of approximately \$4 million, both largely attributable to supporting our growth initiatives.

Selling, general and administrative expenses as a percent of net sales decreased to 19.6% for Nine Months 2019 as compared with 20.6% for Nine Months 2018. The decrease is driven by the favorable change in Comparable Adjustments, which contributed approximately 165 basis points to the rate decline. This decrease was partially offset by the increase in Corporate Operations and Other general and administrative expenses, which resulted in approximately 45 basis points of rate growth, and the growth in Beer selling, general and administrative expenses exceeding the growth in Beer net sales, which resulted in approximately 30 basis points of rate growth.

Operating Income

	Nine Months 2019	Nine Months 2018	Dollar Change	Percent Change
(in millions)				
Beer	\$1,601.5	\$1,461.3	\$140.2	10 %
Wine and Spirits	575.2	586.8	(11.6)	(2 %)
Corporate Operations and Other	(146.5)	(120.2)	(26.3)	(22 %)
Comparable Adjustments	(83.3)	(159.9)	76.6	(48 %)
Consolidated operating income	\$1,946.9	\$1,768.0	\$178.9	10 %

The increase in Beer is primarily attributable to the strong volume growth and the favorable impact from pricing, partially offset by the planned increase in marketing spend and the higher cost of product sold. As previously discussed, Corporate Operations and Other reduction in operating income is due largely to the higher costs supporting our growth initiatives.

The decrease in Wine and Spirits was driven largely by the higher cost of product sold as the segment's net sales growth was offset by its increased marketing spend. With the expected low-single digit decline in net sales for Wine and Spirits for Fiscal 2019, we also expect operating income for the segment to be down in the low-single digit range for Fiscal 2019.

Income (Loss) From Unconsolidated Investments

Income from unconsolidated investments increased to \$918.2 million for Nine Months 2019 from \$249.7 million for Nine Months 2018, an increase of \$668.5 million. This increase is driven largely by an unrealized net gain from the changes in fair value of our securities measured at fair value of \$786.5 million for Nine Months 2019 as compared with an unrealized net gain of \$216.8 million recognized for Nine Months 2018. Nine Months 2019 also benefited from a net gain in connection with the sale of our Accolade Wine Investment of \$99.8 million.

Interest Expense

Interest expense increased to \$248.6 million for Nine Months 2019 from \$245.1 million for Nine Months 2018, an increase of \$3.5 million, or 1%. This increase is predominantly due to higher average borrowings of approximately \$1.4 billion. The higher average borrowings are primarily attributable to the significant purchases of treasury stock for Fiscal 2018 and the November 2018 Canopy Transaction.

Table of Contents

Provision for Income Taxes

Our effective tax rate for Nine Months 2019 was 15.5% as compared with 20.1% for Nine Months 2018 due largely to:

- The new, lower federal statutory rate of 21% for Nine Months 2019 associated with the December 2017 TCJ Act, as compared to the federal statutory rate of 35% in effect for Nine Months 2018;
- Lower effective tax rates applicable to our foreign businesses, net of incremental U.S. tax on foreign earnings under the TCJ Act; and
- The recognition of an income tax benefit upon the completion of our analysis of the income tax implications of the TCJ Act for Third Quarter 2019 resulting from a decrease in the mandatory one-time transition tax on unremitted earnings of our foreign businesses.

For Nine Months 2019, our effective tax rate was also unfavorably impacted by a lower net income tax benefit from stock-based compensation award activity as a result of the rate reduction under the TCJ Act and reduced vesting and exercise activity.

In connection with the completion of our analysis of the income tax implications of the TCJ Act and the recognition of the additional income tax benefit for Third Quarter 2019, we now expect our effective tax rate for Fiscal 2019 to be in the range of 16% to 17%. This includes the impact of an estimated benefit related to the recognition of the income tax effect of stock based compensation awards in the income statement when the awards vest or are settled and lower effective tax rates applicable to our foreign businesses. This range does not assume any future changes in the fair value of the Canopy investments accounted for at fair value and the associated income tax effect.

For additional information, refer to Note 11 of the Financial Statements included herein.

Net Income Attributable to CBI

Net income attributable to CBI increased to \$2,196.4 million for Nine Months 2019 from \$1,392.9 million for Nine Months 2018, an increase of \$803.5 million. This increase is largely attributable to the increase in income from unconsolidated investments discussed above. Solid operating performance from Beer contributed an additional \$140.2 million of operating income.

Financial Liquidity and Capital Resources

General

Our ability to consistently generate cash flow from operating activities is one of our most significant financial strengths. Our strong cash flows enable us to invest in our people and our brands, make appropriate capital investments, provide a quarterly cash dividend program, and from time-to-time, repurchase shares of our common stock and make strategic acquisitions that we believe will enhance stockholder value. Our primary source of liquidity has been cash flow from operating activities. Our principal use of cash in our operating activities is for purchasing and carrying inventories and carrying seasonal accounts receivable. Historically, we have used cash flow from operating activities to repay our short-term borrowings and fund capital expenditures. Additionally, we have a commercial paper program which we use to fund our short-term borrowing requirements and to maintain our access to the capital markets. We will continue to use our short-term borrowings, including our commercial paper program, to support our working capital requirements and capital expenditures.

We have maintained adequate liquidity to meet working capital requirements, fund capital expenditures and repay scheduled principal and interest payments on debt. Absent deterioration of market conditions, we believe that cash flows from operating activities and financing activities, primarily short-term borrowings, will provide adequate

Table of Contents

resources to satisfy our working capital, scheduled principal and interest payments on debt, anticipated dividend payments and anticipated capital expenditure requirements for both our short-term and long-term capital needs.

In November 2018, we completed the November 2018 Canopy Transaction for C\$5,078.7 million, or \$3,869.9 million. In addition, we incurred \$24.5 million of direct acquisition costs. The aggregate cash paid at closing was financed with (i) the net proceeds from the issuance of \$2,150.0 million aggregate principal amount of October 2018 Senior Notes, (ii) \$1,500.0 million in term loans under the Term Credit Agreement and (iii) the remainder from proceeds of borrowings under our commercial paper program. Based on our ability to consistently generate strong cash flow from operating activities, we expect to be able to return to our targeted leverage ratio within 24 months following the close of this transaction, while continuing to make appropriate investments in our business that we believe will enhance stockholder value.

In August 2018, we entered into forward-starting interest rate swap contracts to economically hedge our exposure to interest rate volatility associated with the debt financing for the November 2018 Canopy Transaction. The interest rate swap contracts were not designated as a hedge for accounting purposes. For Third Quarter 2019 and Nine Months 2019, we recognized a gain of \$32.4 million and \$35.0 million, respectively, in connection with the settlement of the interest rate swap contracts in October 2018. This amount was recognized in interest expense.

Cash Flows

	Nine Months 2019	Nine Months 2018	Dollar Change
(in millions)			
Net cash provided by (used in):			
Operating activities	\$1,973.9	\$1,468.4	\$505.5
Investing activities	(4,587.3)	(1,038.3)	(3,549.0)
Financing activities	2,661.3	(458.1)	3,119.4
Effect of exchange rate changes on cash and cash equivalents	(7.6)	5.1	(12.7)
Net increase (decrease) in cash and cash equivalents	\$40.3	\$(22.9)	\$63.2

Operating Activities

The increase in net cash provided by operating activities for Nine Months 2019 is largely due to strong cash flow from the Beer segment driven primarily by the segment's solid operating results and a benefit from accounts payable primarily attributable to timing of payments. Additionally, net cash provided by operating activities for Nine Months 2019 benefited from lower income tax payments predominantly due to (i) lower federal tax payments resulting from the reduction in the U.S. corporate income tax rate associated with the enactment of the TCJ Act and (ii) the receipt of a federal tax refund for Nine Months 2019.

Investing Activities

The increase in net cash used in investing activities for Nine Months 2019 is primarily due to the November 2018 Canopy Transaction. The increase in net cash used in investing activities was partially offset by (i) proceeds from the May 2018 sale of our Accolade Wine Investment of \$110.2 million, (ii) the lower level of business acquisition activity of \$86.6 million and (iii) lower capital expenditures of \$85.3 million.

Table of Contents

Financing Activities

The increase in net cash provided by (used in) financing activities consists of:

	Nine Months 2019	Nine Months 2018	Dollar Change
(in millions)			
Net proceeds from debt, current and long-term, and related activities	\$3,564.5	\$67.6	\$3,496.9
Purchases of treasury stock	(504.3)	(239.2)	(265.1)
Dividends paid	(417.9)	(301.1)	(116.8)
Net cash provided by stock-based compensation activities	19.0	14.6	4.4
Net cash provided by (used in) financing activities	\$2,661.3	\$(458.1)	\$3,119.4

Debt

Total debt outstanding as of November 30, 2018, amounted to \$13,569.6 million, an increase of \$3,382.9 million from February 28, 2018. This increase was predominately due to the financing of the November 2018 Canopy Transaction, including the issuance of the October 2018 Senior Notes and the Term Credit Agreement, partially offset by the conversion of \$248.4 million from long-term debt to noncontrolling equity interests associated with the noncash settlement of a prior contractual agreement with our glass production plant joint venture partner.

Senior Credit Facility

In August 2018, we entered into the August 2018 Restatement Agreement that amended and restated our 2017 Credit Agreement, primarily for technical amendments. In September 2018, we entered into the 2018 Restatement Agreement that amended and restated the August 2018 Credit Agreement. Among other things, the 2018 Restatement Agreement increased our revolving credit facility by \$500.0 million to \$2.0 billion and extended its maturity to September 14, 2023. Additionally, the 2018 Restatement Agreement modified certain financial covenants and added various representations and warranties, covenants and an event of default in connection with the then-pending additional investment in Canopy.

General

The majority of our outstanding borrowings as of November 30, 2018, consisted of fixed-rate senior unsecured notes, with maturities ranging from calendar 2019 to calendar 2048, and variable-rate senior unsecured term loan facilities under our 2018 Credit Agreement and Term Credit Agreement, with maturities ranging from calendar 2021 to calendar 2024.

Additionally, we have a commercial paper program which provides for the issuance of up to an aggregate principal amount of \$2.0 billion of commercial paper. Our commercial paper program is backed by unused commitments under our revolving credit facility under the 2018 Credit Agreement. Accordingly, outstanding borrowings under our commercial paper program reduce the amount available under our revolving credit facility under the 2018 Credit Agreement.

We do not have purchase commitments from buyers for our commercial paper and, therefore, our ability to issue commercial paper is subject to market demand. If the commercial paper market is not available to us for any reason when outstanding commercial paper borrowings mature, we will utilize unused commitments under our revolving credit facility under the 2018 Credit Agreement to repay commercial paper borrowings. We do not expect that fluctuations in demand for commercial paper will affect our liquidity given our borrowing capacity available under

our revolving credit facility under the 2018 Credit Agreement.

51

Table of Contents

We had the following borrowing capacity available under the 2018 Credit Agreement:

Remaining Borrowing Capacity	December 31, 2018
	November 30, 2018

(in millions)

Revolving Credit Facility ⁽¹⁾ \$1,257.2 \$1,164.4

(1) Net of outstanding revolving credit facility borrowings and outstanding letters of credit under the 2018 Credit Agreement and outstanding borrowings under our commercial paper program.

The financial institutions participating in the 2018 Credit Agreement have complied with prior funding requests and we believe such financial institutions will comply with any future funding requests. However, there can be no assurances that any particular financial institution will continue to do so.

We and our subsidiaries are subject to covenants that are contained in the 2018 Credit Agreement, including those restricting the incurrence of additional indebtedness (including guarantees of indebtedness) by subsidiaries that are not guarantors, additional liens, mergers and consolidations, transactions with affiliates, and sale and leaseback transactions, in each case subject to numerous conditions, exceptions and thresholds. The financial covenants are limited to a minimum interest coverage ratio and a maximum net leverage ratio, both as defined in the 2018 Credit Agreement. As of November 30, 2018, under the 2018 Credit Agreement, the minimum interest coverage ratio was 2.5x and the maximum net leverage ratio was 5.25x.

The obligations under the Term Credit Agreement are guaranteed by certain of our U.S. subsidiaries. In addition, the representations, warranties, covenants and events of default set forth in the Term Credit Agreement are substantially similar to those set forth in the 2018 Credit Agreement.

Our indentures relating to our outstanding senior notes contain certain covenants, including, but not limited to: (i) a limitation on liens on certain assets, (ii) a limitation on certain sale and leaseback transactions and (iii) restrictions on mergers, consolidations and the transfer of all or substantially all of our assets to another person.

As of November 30, 2018, we were in compliance with all of our covenants under the 2018 Credit Agreement, the Term Credit Agreement and our indentures, and have met all debt payment obligations.

For a complete discussion and presentation of all borrowings and available sources of borrowing, refer to Note 12 of our consolidated financial statements included in our 2018 Annual Report and Note 10 of the Financial Statements included herein.

Common Stock Dividends

On January 8, 2019, our Board of Directors declared a quarterly cash dividend of \$0.74 per share of Class A Common Stock, \$0.67 per share of Class B Convertible Common Stock and \$0.67 per share of Class 1 Common Stock payable on February 26, 2019, to stockholders of record of each class on February 12, 2019.

We expect to continue to pay a regular quarterly cash dividend to stockholders of our common stock in the future, but such payments are subject to approval of our Board of Directors and are dependent upon our financial condition, results of operations, capital requirements and other factors, including those set forth under Item 1A “Risk Factors” of our 2018 Annual Report as supplemented by the additional factors set forth under Item 1A “Risk Factors” included in

our Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2018.

Share Repurchase Program

Our Board of Directors have authorized the repurchase of up to \$3.0 billion of our Class A Common Stock and Class B Convertible Common Stock under the 2018 Authorization. Shares repurchased under this authorization have become treasury shares.

52

Table of Contents

As of November 30, 2018, total shares repurchased under this authorization are as follows:

		Class A Common Shares
		Dollar
	Repurchase	Value
	Authorization	of Number of Shares Repurchased
		Shares
		Repurchased
(in millions, except share data)		
2018 Authorization	\$ 3,000.0	\$995.9 4,632,012

Share repurchases under the 2018 Authorization may be accomplished at management’s discretion from time to time based on market conditions, our cash and debt position, and other factors as determined by management. Shares may be repurchased through open market or privately negotiated transactions. We may fund future share repurchases with cash generated from operations and/or proceeds from borrowings. Any repurchased shares will become treasury shares.

For additional information, refer to Note 15 of our consolidated financial statements included in our 2018 Annual Report and Note 12 of the Financial Statements included herein.

Accounting Guidance

Refer to Note 2 of the Financial Statements included herein for information on recently adopted accounting guidance and accounting guidance not yet adopted.

Information Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those set forth in, or implied by, such forward-looking statements. All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q, including without limitation (I) the statements under Part I – Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” regarding (i) our business strategy, future operations, future financial position, future net sales and expected volume trends, expected effective tax rates and anticipated tax liabilities, prospects, plans and objectives of management, (ii) information concerning expected or potential actions of third parties, including potential changes to international trade agreements, tariffs, taxes and other governmental rules and regulations, (iii) information concerning the future expected balance of supply and demand for our products, (iv) timing and source of funds for operating activities, (v) the manner, timing and duration of the share repurchase program and source of funds for share repurchases, and (vi) the amount and timing of future dividends, (II) the statements regarding our beer operations expansion, construction and optimization activities, including anticipated costs and timeframes for completion, and (III) the statements regarding (i) the volatility of the fair value of our investments in Canopy, (ii) our activities following the close of the November 2018 Canopy Transaction, and (iii) time to return to our targeted leverage ratio following the close of the November 2018 Canopy Transaction are forward-looking statements. When used in this Quarterly Report on Form 10-Q, the words “anticipate,” “intend,” “expect,” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. We undertake

no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. In addition to the risks and uncertainties of ordinary business operations and conditions in the general economy and markets in which we compete, our forward-looking statements contained in this Quarterly Report on Form 10-Q are also subject to the risk and uncertainty that (i) the actual balance of supply and demand for our products will vary from current expectations due to, among other

Table of Contents

reasons, actual raw material supply, actual shipments to distributors and actual consumer demand, (ii) the actual demand for our products, actual net sales and actual volume trends will vary from current expectations due to, among other reasons, actual shipments to distributors and actual consumer demand, (iii) the amount and timing of and source of funds for any share repurchases may vary due to market conditions, our cash and debt position, the impact of the beer operations expansion activities, the impact of the November 2018 Canopy Transaction, and other factors as determined by management from time to time, (iv) the amount and timing of future dividends may differ from our current expectations if our ability to use cash flow to fund dividends is affected by unanticipated increases in total net debt, we are unable to generate cash flow at anticipated levels, or we fail to generate expected earnings, (v) the fair value of our investments in Canopy may vary due to market and economic conditions in Canopy's locations, (vi) the timeframe and actual costs associated with the beer operations expansion, construction and optimization activities may vary from management's current expectations due to market conditions, our cash and debt position, receipt of required regulatory approvals by the expected dates and on the expected terms and other factors as determined by management, and (vii) the time to return to our targeted leverage ratio may vary from management's current expectations due to market conditions, our ability to generate cash flow at expected levels and our ability to generate expected earnings. For additional information about risks and uncertainties that could adversely affect our forward-looking statements, please refer to Item 1A "Risk Factors" of our 2018 Annual Report as supplemented by Item 1A "Risk Factors" of our Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2018.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a result of our global operating, acquisition and financing activities, we are exposed to market risk associated with changes in foreign currency exchange rates, commodity prices, interest rates and equity prices. To manage the volatility relating to these risks, we periodically purchase and/or sell derivative instruments including foreign currency forward and option contracts, commodity swap contracts and interest rate swap contracts. We use derivative instruments to reduce earnings and cash flow volatility resulting from shifts in market rates, as well as to hedge economic exposures. We have not entered into derivative instruments to hedge our exposure to equity price risks. We do not enter into derivative instruments for trading or speculative purposes.

Foreign Currency and Commodity Price Risk

Foreign currency derivative instruments are or may be used to hedge existing foreign currency denominated assets and liabilities, forecasted foreign currency denominated sales/purchases to/from third parties as well as intercompany sales/purchases, intercompany principal and interest payments, and in connection with acquisitions, divestitures or investments outside the U.S. As of November 30, 2018, we had exposures to foreign currency risk primarily related to the Mexican peso, euro, New Zealand dollar and Canadian dollar. Approximately 81% of our balance sheet exposures and forecasted transactional exposures for the remaining three months of fiscal 2019 were hedged as of November 30, 2018.

Commodity derivative instruments are or may be used to hedge forecasted commodity purchases from third parties as either economic hedges or accounting hedges. As of November 30, 2018, exposures to commodity price risk which we are currently hedging primarily include diesel fuel, natural gas and aluminum prices. Approximately 86% of our forecasted transactional exposures for the remaining three months of fiscal 2019 were hedged as of November 30, 2018.

Table of Contents

We have performed a sensitivity analysis to estimate our exposure to market risk of foreign exchange rates and commodity prices reflecting the impact of a hypothetical 10% adverse change in the applicable market. The volatility of the applicable rates and prices is dependent on many factors which cannot be forecasted with reliable accuracy. Losses or gains from the revaluation or settlement of the related underlying positions would substantially offset such gains or losses on the derivative instruments. The aggregate notional value, estimated fair value and sensitivity analysis for our open foreign currency and commodity derivative instruments are summarized as follows:

	Aggregate Notional Value		Fair Value, Net Asset (Liability)		Increase (Decrease) in Fair Value – Hypothetical 10% Adverse Change	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
(in millions)						
Foreign currency contracts	\$1,955.5	\$ 1,871.5	\$(56.2)	\$ 3.2	\$136.5	\$ (108.7)
Commodity derivative contracts	\$260.2	\$ 164.3	\$(8.9)	\$ 2.8	\$22.1	\$ (14.8)

Interest Rate Risk

The estimated fair value of our fixed interest rate debt is subject to interest rate risk, credit risk and foreign currency risk. In addition, we also have variable interest rate debt outstanding (primarily LIBOR-based), certain of which includes a fixed margin subject to the same risks identified for our fixed interest rate debt. As of November 30, 2018, and November 30, 2017, we had no interest rate swap contracts outstanding. Refer to Note 10 of the Financial Statements for a discussion of the interest rate swap contracts entered into to economically hedge our exposure to interest rate volatility associated with the debt financing for the November 2018 Canopy Transaction.

We have performed a sensitivity analysis to estimate our exposure to market risk of interest rates reflecting the impact of a hypothetical 1% increase in the prevailing interest rates. The volatility of the applicable rates is dependent on many factors which cannot be forecasted with reliable accuracy. The aggregate notional value, estimated fair value and sensitivity analysis for our outstanding fixed and variable interest rate debt, including current maturities, are summarized as follows:

	Aggregate Notional Value		Fair Value		Decrease in Fair Value – Hypothetical 1% Rate Increase	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
(in millions)						
Fixed interest rate debt	\$10,282.1	\$ 7,490.8	\$9,855.4	\$ 7,720.7	\$(569.0)	\$ (406.8)
Variable interest rate debt	\$3,376.5	\$ 1,923.8	\$3,333.6	\$ 1,902.8	\$(98.1)	\$ (41.8)

Equity Price Risk

The estimated fair value of our investments in the Canopy warrants and the Canopy convertible debt securities are subject to equity price risk, interest rate risk, credit risk and foreign currency risk. These investments are recorded at fair value utilizing various option-pricing models and have the potential to fluctuate from, among other items, changes in the quoted market price of the underlying equity security. We manage our equity price risk exposure by closely monitoring the financial condition, performance and outlook of Canopy Growth Corporation.

As of November 30, 2018, the fair value of our investments in the Canopy warrants and the Canopy convertible debt securities was \$2,048.1 million, with an unrealized net gain on these investments of \$494.0 million recognized in our results of operations for the nine months ended November 30, 2018. We have performed a sensitivity analysis to estimate our exposure to market risk of the equity price reflecting the impact of a hypothetical

Table of Contents

10% adverse change in the quoted market price of the underlying equity security. As of November 30, 2018, such a hypothetical 10% adverse change would have resulted in a decrease in fair value of \$288.5 million.

For additional discussion on our market risk, refer to Notes 4 and 5 of the Financial Statements.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) are effective to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

In connection with the foregoing evaluation by our Chief Executive Officer and our Chief Financial Officer, no changes were identified in the Company's "internal control over financial reporting" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(f) and 15d-15(f)) that occurred during our fiscal quarter ended November 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 6. Exhibits.

Exhibits required to be filed by Item 601 of Regulation S-K.

For the exhibits that are filed herewith or incorporated herein by reference, see the Index to Exhibits immediately following.

Table of Contents

INDEX TO EXHIBITS

Exhibit

- No.
- 2.1 Subscription Agreement, dated as of August 14, 2018, by and between CBG Holdings LLC and Canopy Growth Corporation, including, among other things, a form of the Amended and Restated Investor Rights Agreement (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated August 14, 2018, filed August 16, 2018, and incorporated herein by reference). +
- 2.2 Foreign Exchange Rate Agreement dated October 26, 2018 between CBG Holdings LLC and Canopy Growth Corporation (filed herewith).
- 3.1 Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2009 and incorporated herein by reference). #
- 3.2 Certificate of Amendment to the Certificate of Incorporation of the Company (filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2009 and incorporated herein by reference). #
- 3.3 By-Laws of the Company, amended and restated as of October 3, 2018 (filed as Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2018 and incorporated herein by reference).
- 4.1 Indenture, dated as of April 17, 2012, by and among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated April 17, 2012, filed April 23, 2012 and incorporated herein by reference). #
- 4.2 Supplemental Indenture No. 1, with respect to 6.0% Senior Notes due May 2022, dated as of April 17, 2012, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (no longer outstanding) (filed as Exhibit 4.1.1 to the Company's Current Report on Form 8-K dated April 17, 2012, filed April 23, 2012 and incorporated herein by reference). #
- 4.3 Supplemental Indenture No. 3, with respect to 3.75% Senior Notes due May 2021, dated as of May 14, 2013, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 14, 2013, filed May 16, 2013 and incorporated herein by reference). #
- 4.4 Supplemental Indenture No. 4, with respect to 4.25% Senior Notes due May 2023, dated as of May 14, 2013, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated May 14, 2013, filed May 16, 2013 and incorporated herein by reference). #
- 4.5 Supplemental Indenture No. 5, dated as of June 7, 2013, among the Company, Constellation Brands Beach Holdings, Inc., Crown Imports LLC, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.4 to the Company's Current Report on Form 8-K dated June 7, 2013, filed June 11, 2013 and incorporated herein by reference). #
- 4.6

Supplemental Indenture No. 6, dated as of May 28, 2014, among the Company, Constellation Marketing Services, Inc., and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.21 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2014 and incorporated herein by reference).

4.7 Supplemental Indenture No. 7, with respect to 3.875% Senior Notes due 2019, dated as of November 3, 2014, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated November 3, 2014, filed November 7, 2014 and incorporated herein by reference).

4.8 Supplemental Indenture No. 8, with respect to 4.750% Senior Notes due 2024, dated as of November 3, 2014, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated November 3, 2014, filed November 7, 2014 and incorporated herein by reference).

4.9 Supplemental Indenture No. 9, with respect to 4.750% Senior Notes due 2025, dated as of December 4, 2015, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated December 4, 2015, filed December 8, 2015 and incorporated herein by reference).

4.10 Supplemental Indenture No. 10, dated as of January 15, 2016, among the Company, Home Brew Mart, Inc. and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.26 to the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2016 and incorporated herein by reference).

57

Table of Contents

- 4.11 Supplemental Indenture No. 11 with respect to 3.700% Senior Notes due 2026, dated as of December 6, 2016, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee, (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated December 6, 2016, filed December 6, 2016 and incorporated herein by reference).
- 4.12 Supplemental Indenture No. 12 with respect to 2.700% Senior Notes due 2022, dated as of May 9, 2017, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 9, 2017, filed May 9, 2017 and incorporated herein by reference).
- 4.13 Supplemental Indenture No. 13 with respect to 3.500% Senior Notes due 2027, dated as of May 9, 2017, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated May 9, 2017, filed May 9, 2017 and incorporated herein by reference).
- 4.14 Supplemental Indenture No. 14 with respect to 4.500% Senior Notes due 2047, dated as of May 9, 2017, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K dated May 9, 2017, filed May 9, 2017 and incorporated herein by reference).
- 4.15 Supplemental Indenture No. 15 with respect to 2.000% Senior Notes due 2019, dated as of November 7, 2017, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated November 7, 2017, filed November 7, 2017 and incorporated herein by reference).
- 4.16 Supplemental Indenture No. 16 with respect to 2.250% Senior Notes due 2020, dated as of November 7, 2017, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated November 7, 2017, filed November 7, 2017 and incorporated herein by reference).
- 4.17 Supplemental Indenture No. 17 with respect to 2.650% Senior Notes due 2022, dated as of November 7, 2017, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K dated November 7, 2017, filed November 7, 2017 and incorporated herein by reference).
- 4.18 Supplemental Indenture No. 18 with respect to 3.200% Senior Notes due 2023, dated as of February 7, 2018, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated February 7, 2018 filed February 7, 2018 and incorporated herein by reference).
- 4.19 Supplemental Indenture No. 19 with respect to 3.600% Senior Notes due 2028, dated as of February 7, 2018, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated February 7, 2018 filed February 7, 2018 and incorporated herein by reference).
- 4.20 Supplemental Indenture No. 20 with respect to 4.100% Senior Notes due 2048, dated as of February 7, 2018, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K dated February 7, 2018 filed February 7, 2018 and incorporated herein by reference).

4.21 Restatement Agreement, dated as of August 10, 2018, by and among the Company, CIH International S.à r.l., CB International Finance S.à r.l., Bank of America, N.A., as Administrative Agent, and the Lenders party thereto, including the Seventh Amended and Restated Credit Agreement dated as of August 10, 2018, by and among the Company, CB International Finance S.à r.l., Bank of America, N.A., as Administrative Agent, and the Lenders party thereto (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated August 10, 2018, filed August 14, 2018 and incorporated herein by reference).

4.22 Restatement Agreement, dated as of September 14, 2018, by and among the Company, CB International Finance S.à r.l., certain of the Company's subsidiaries as guarantors, Bank of America, N.A., as Administrative Agent, and the Lenders party thereto, including the Eighth Amended and Restated Credit Agreement dated as of September 14, 2018, by an among the Company, CB International Financing S.à r.l., Bank of America, N.A., as Administrative Agent, and the Lenders party thereto (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated September 14, 2018, filed September 19, 2018 and incorporated herein by reference).

4.23 Term Loan Credit Agreement, dated as of September 14, 2018, by and among the Company, Bank of America, N.A., as Administrative Agent, and the Lenders party thereto (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated September 14, 2018, filed September 19, 2018 and incorporated herein by reference).

4.24 Bridge Credit Agreement, dated September 14, 2018, by and among the Company, Bank of America, N.A., as Administrative Agent, and the Lenders party thereto (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K dated September 14, 2018, filed September 19, 2018 and incorporated herein by reference).

Table of Contents

4.25	<u>Supplemental Indenture No. 21 with respect to Senior Floating Rate Notes due 2021, dated as of October 29, 2018, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated October 29, 2018, filed October 29, 2018, and incorporated herein by reference).</u>
4.26	<u>Supplemental Indenture No. 22 with respect to 4.400% Senior Notes due 2025, dated as of October 29, 2018, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated October 29, 2018, filed October 29, 2018, and incorporated herein by reference).</u>
4.27	<u>Supplemental Indenture No. 23 with respect to 4.650% Senior Notes due 2028, dated as of October 29, 2018, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K dated October 29, 2018, filed October 29, 2018 and incorporated herein by reference).</u>
4.28	<u>Supplemental Indenture No. 24 with respect to 5.250% Senior Notes due 2048, dated as of October 29, 2018, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.4 to the Company's Current Report on Form 8-K dated October 29, 2018, filed October 29, 2018 and incorporated herein by reference).</u>
10.1	<u>Amended and Restated Guarantee Agreement, dated as of July 14, 2017, made by the subsidiaries of Constellation Brands, Inc. from time to time party thereto and Constellation Brands, Inc. in favor of Bank of America, N.A., as Administrative Agent, for the ratable benefit of the Lenders party to the Credit Agreement (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 14, 2017, filed July 19, 2017 and incorporated herein by reference).</u>
10.2	<u>Guarantee Agreement (Term Loan Credit Agreement), dated as of September 14, 2018, made by the subsidiaries of Constellation Brands, Inc. from time to time party thereto in favor of Bank of America, N.A., as Administrative Agent, for the ratable benefit of the Lenders party to the Term Loan Credit Agreement (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 14, 2018, filed September 19, 2018 and incorporated herein by reference).</u>
10.3	<u>Guarantee Agreement (Bridge Credit Agreement), dated as of September 14, 2018, made by the subsidiaries of Constellation Brands, Inc. from time to time party thereto in favor of Bank of America, N.A., as Administrative Agent for the ratable benefit of the Lenders party to the Bridge Credit Agreement (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated September 14, 2018, filed September 19, 2018 and incorporated herein by reference).</u>
10.4	<u>Third Amendment to the Company's 2005 Supplemental Executive Retirement Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 2, 2018, filed October 4, 2018 and incorporated herein by reference). *</u>
10.5	<u>Constellation Brands, Inc. Non-Qualified Savings Plan (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated October 2, 2018, filed October 4, 2018 and incorporated herein by reference). *</u>
10.6	<u>Form of Performance Share Unit Agreement with respect to the Company's Long-Term Stock Incentive Plan (relating to contingent grants) (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 19, 2018, filed October 22, 2018 and incorporated herein by reference). *</u>

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith).

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith).

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (filed herewith).

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (filed herewith).

101.1 The following materials from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of November 30, 2018 and February 28, 2018, (ii) Consolidated Statements of Comprehensive Income for the nine months and three months ended November 30, 2018 and 2017, (iii) Consolidated Statements of Cash Flows for the nine months ended November 30, 2018 and 2017, and (iv) Notes to Consolidated Financial Statements.

#Company's Commission File No. 001-08495.

*Designates management contract or compensatory plan or arrangement.

+ The disclosure schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Constellation Brands agrees to furnish supplementally a copy of such disclosure schedules, or any section thereof, to the SEC upon request.

Table of Contents

The Company agrees, upon request of the Securities and Exchange Commission, to furnish copies of each instrument that defines the rights of holders of long-term debt of the Company or its subsidiaries that is not filed herewith pursuant to Item 601(b)(4)(iii)(A) because the total amount of long-term debt authorized under such instrument does not exceed 10% of the total assets of the Company and its subsidiaries on a consolidated basis.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CONSTELLATION BRANDS, INC.

Date: January 9, 2019 By: /s/ Thomas M. McCorry
Thomas M. McCorry, Senior Vice President
and Controller

Date: January 9, 2019 By: /s/ David Klein
David Klein, Executive Vice President and
Chief Financial Officer (principal financial
officer and principal accounting officer)