

CONSTELLATION BRANDS, INC.

Form 10-Q

October 05, 2016

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 31, 2016

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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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 September 30, 2016, is set forth below:

| Class   | Number of Shares Outstanding |
|---|------------------------------|
| Class A Common Stock, par value \$.01 per share | 177,722,867                  |
| Class B Common Stock, par value \$.01 per share | 23,352,727                   |
| Class 1 Common Stock, par value \$.01 per share | 2,000                        |

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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.

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## 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)

|   | August 31,<br>2016 | February 29,<br>2016 |
|---|--------------------|----------------------|
| <b>ASSETS</b>   |                    |                      |
| Current assets:   |                    |                      |
| Cash and cash equivalents   | \$177.3            | \$83.1               |
| Accounts receivable   | 831.1              | 732.5                |
| Inventories   | 1,855.2            | 1,851.6              |
| Prepaid expenses and other  | 306.2              | 310.4                |
| Total current assets  | 3,169.8            | 2,977.6              |
| Property, plant and equipment   | 3,632.1            | 3,333.4              |
| Goodwill  | 7,356.8            | 7,138.6              |
| Intangible assets   | 3,441.5            | 3,403.8              |
| Other assets  | 117.2              | 111.6                |
| Total assets  | \$17,717.4         | \$16,965.0           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                    |                      |
| Current liabilities:  |                    |                      |
| Notes payable to banks  | \$114.3            | \$408.3              |
| Current maturities of long-term debt  | 893.1              | 856.7                |
| Accounts payable  | 624.5              | 429.3                |
| Accrued excise taxes  | 35.9               | 33.6                 |
| Other accrued expenses and liabilities  | 531.8              | 544.4                |
| Total current liabilities   | 2,199.6            | 2,272.3              |
| Long-term debt, less current maturities   | 7,021.6            | 6,816.2              |
| Deferred income taxes   | 1,164.1            | 1,022.2              |
| Other liabilities   | 158.0              | 162.5                |
| Total liabilities   | 10,543.3           | 10,273.2             |
| Commitments and contingencies   |                    |                      |
| CBI stockholders' equity:   |                    |                      |
| Class A Common Stock, \$.01 par value- Authorized, 322,000,000 shares; Issued, 256,740,571 shares and 255,558,026 shares, respectively          | 2.6                | 2.6                  |
| Class B Convertible Common Stock, \$.01 par value- Authorized, 30,000,000 shares; Issued, 28,358,527 shares and 28,358,529 shares, respectively | 0.3                | 0.3                  |
| Additional paid-in capital  | 2,675.4            | 2,589.0              |
| Retained earnings   | 6,608.7            | 6,090.5              |
| Accumulated other comprehensive loss  | (443.1 )           | (452.5 )             |
|   | 8,843.9            | 8,229.9              |
| Less: Treasury stock –  |                    |                      |
| Class A Common Stock, at cost, 78,931,744 shares and 79,454,011 shares, respectively  | (1,659.3 )         | (1,668.1 )           |
| Class B Convertible Common Stock, at cost, 5,005,800 shares   | (2.2 )             | (2.2 )               |
|   | (1,661.5 )         | (1,670.3 )           |
| Total CBI stockholders' equity  | 7,182.4            | 6,559.6              |
| Noncontrolling interests  | (8.3 )             | 132.2                |
| Total stockholders' equity  | 7,174.1            | 6,691.8              |

|  |            |            |
|--|------------|------------|
| Total liabilities and stockholders' equity | \$17,717.4 | \$16,965.0 |
|--|------------|------------|

The accompanying notes are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions, except per share data)

(unaudited)

|   | For the Six Months<br>Ended August 31, |            | For the Three<br>Months Ended<br>August 31, |           |
|---|--|------------|---|-----------|
|   | 2016                                   | 2015       | 2016  | 2015      |
| Sales   | \$4,275.8                              | \$3,710.9  | \$2,222.8                                   | \$1,912.9 |
| Less – excise taxes   | (382.8 )                               | (346.2 )   | (201.6 )                                    | (179.5 )  |
| Net sales   | 3,893.0                                | 3,364.7    | 2,021.2                                     | 1,733.4   |
| Cost of product sold  | (2,042.7 )                             | (1,852.0 ) | (1,052.2 )                                  | (957.8 )  |
| Gross profit  | 1,850.3                                | 1,512.7    | 969.0                                       | 775.6     |
| Selling, general and administrative expenses                | (686.7 )                               | (606.0 )   | (358.1 )                                    | (296.2 )  |
| Operating income  | 1,163.6                                | 906.7      | 610.9                                       | 479.4     |
| Equity in earnings of equity method investees               | 0.7                                    | 1.2        | —   | 0.2       |
| Interest expense  | (178.7 )                               | (154.8 )   | (94.1 )                                     | (77.3 )   |
| Loss on write-off of debt issuance costs                    | —                                      | (1.1 )     | —   | (1.1 )    |
| Income before income taxes                                  | 985.6                                  | 752.0      | 516.8                                       | 401.2     |
| Provision for income taxes                                  | (313.3 )                               | (207.7 )   | (163.6 )                                    | (97.1 )   |
| Net income  | 672.3                                  | 544.3      | 353.2                                       | 304.1     |
| Net (income) loss attributable to noncontrolling interests  | 4.9                                    | (3.3 )     | 5.7   | (1.7 )    |
| Net income attributable to CBI                              | \$677.2                                | \$541.0    | \$358.9                                     | \$302.4   |
| Comprehensive income  | \$678.1                                | \$293.3    | \$364.9                                     | \$109.8   |
| Comprehensive loss attributable to noncontrolling interests | 8.5                                    | 8.4        | 7.4   | 7.2       |
| Comprehensive income attributable to CBI                    | \$686.6                                | \$301.7    | \$372.3                                     | \$117.0   |
| Net income per common share attributable to CBI:            |  |            |   |           |
| Basic – Class A Common Stock                                | \$3.42                                 | \$2.80     | \$1.81                                      | \$1.56    |
| Basic – Class B Convertible Common Stock                    | \$3.10                                 | \$2.54     | \$1.64                                      | \$1.42    |
| Diluted – Class A Common Stock                              | \$3.30                                 | \$2.67     | \$1.75                                      | \$1.49    |
| Diluted – Class B Convertible Common Stock                  | \$3.04                                 | \$2.47     | \$1.61                                      | \$1.38    |
| Weighted average common shares outstanding:                 |  |            |   |           |
| Basic – Class A Common Stock                                | 177.001                                | 171.805    | 177.460                                     | 172.239   |
| Basic – Class B Convertible Common Stock                    | 23.353                                 | 23.370     | 23.353                                      | 23.364    |
| Diluted – Class A Common Stock                              | 205.508                                | 202.984    | 205.650                                     | 203.110   |
| Diluted – Class B Convertible Common Stock                  | 23.353                                 | 23.370     | 23.353                                      | 23.364    |
| Cash dividends declared per common share:                   |  |            |   |           |
| Class A Common Stock  | \$0.80                                 | \$0.62     | \$0.40                                      | \$0.31    |
| Class B Convertible Common Stock                            | \$0.72                                 | \$0.56     | \$0.36                                      | \$0.28    |

The accompanying notes are an integral part of these statements.





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CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(unaudited)

|  | For the Six<br>Months Ended<br>August 31, |          |
|--|---|----------|
|  | 2016                                      | 2015     |
| Cash flows from operating activities:  |   |          |
| Net income   | \$672.3                                   | \$544.3  |
| Adjustments to reconcile net income to net cash provided by operating activities:        |   |          |
| Deferred tax provision   | 139.9                                     | 94.0     |
| Depreciation   | 113.9                                     | 88.7     |
| Stock-based compensation   | 31.4                                      | 26.0     |
| Amortization of debt issuance costs  | 6.4                                       | 6.2      |
| Amortization of intangible assets  | 6.3                                       | 22.7     |
| Noncash portion of loss on write-off of debt issuance costs                              | —   | 1.1      |
| Change in operating assets and liabilities, net of effects from purchases of businesses: |   |          |
| Accounts receivable  | (94.9 )                                   | (128.9 ) |
| Inventories  | 48.9                                      | 63.6     |
| Prepaid expenses and other current assets  | (28.6 )                                   | 44.7     |
| Accounts payable   | 144.3                                     | 94.1     |
| Accrued excise taxes   | 2.1                                       | (1.4 )   |
| Other accrued expenses and liabilities   | 28.5                                      | (22.5 )  |
| Other  | (25.6 )                                   | (29.5 )  |
| Total adjustments  | 372.6                                     | 258.8    |
| Net cash provided by operating activities  | 1,044.9                                   | 803.1    |
| Cash flows from investing activities:  |   |          |
| Purchases of property, plant and equipment   | (368.6 )                                  | (294.8 ) |
| Purchases of businesses  | (284.9 )                                  | (317.9 ) |
| Other investing activities   | (0.1 )                                    | 3.7      |
| Net cash used in investing activities  | (653.6 )                                  | (609.0 ) |
| Cash flows from financing activities:  |   |          |
| Principal payments of long-term debt   | (842.4 )                                  | (109.3 ) |
| Net repayments of notes payable  | (295.8 )                                  | (18.5 )  |
| Dividends paid   | (158.8 )                                  | (119.8 ) |
| Payments of minimum tax withholdings on stock-based payment awards                       | (64.7 )                                   | (38.4 )  |
| Purchases of treasury stock  | (5.5 )                                    | —        |
| Payments of debt issuance costs  | (4.6 )                                    | (7.6 )   |
| Proceeds from issuance of long-term debt   | 940.6                                     | 200.0    |
| Excess tax benefits from stock-based payment awards                                      | 100.9                                     | 89.7     |
| Proceeds from shares issued under equity compensation plans                              | 33.3                                      | 33.2     |
| Net cash provided by (used in) financing activities                                      | (297.0 )                                  | 29.3     |
| Effect of exchange rate changes on cash and cash equivalents                             | (0.1 )                                    | (3.8 )   |
| Net increase in cash and cash equivalents  | 94.2                                      | 219.6    |

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|  |         |         |
|--|---------|---------|
| Cash and cash equivalents, beginning of period | 83.1    | 110.1   |
| Cash and cash equivalents, end of period       | \$177.3 | \$329.7 |

Supplemental disclosures of noncash investing and financing activities:

|  |         |        |
|--|---------|--------|
| Additions to property, plant and equipment                     | \$209.4 | \$63.1 |
| Conversion of noncontrolling equity interest to long-term debt | \$132.0 | \$—    |

The accompanying notes are an integral part of these statements.

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CONSTELLATION BRANDS, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 AUGUST 31, 2016  
 (unaudited)

## 1. 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 29, 2016 (the “2016 Annual Report”). Results of operations for interim periods are not necessarily indicative of annual results. During the three months ended August 31, 2016, we recorded an immaterial adjustment on our balance sheet for the conversion of noncontrolling equity interest to long-term debt of \$132.0 million related to a prior period (see Note 7).

## 2. 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:

|                            | August 31, February 29, |            |
|----------------------------|-------------------------|------------|
|                            | 2016                    | 2016       |
| (in millions)              |                         |            |
| Raw materials and supplies | \$ 137.8                | \$ 107.2   |
| In-process inventories     | 1,147.0                 | 1,218.7    |
| Finished case goods        | 570.4                   | 525.7      |
|                            | \$ 1,855.2              | \$ 1,851.6 |

## 3. 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 2016 Annual Report and have not changed significantly for the six months and three months ended August 31, 2016.

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

|  | August 31, February 29, |          |
|--|-------------------------|----------|
|  | 2016                    | 2016     |
| (in millions)  |                         |          |
| Derivative instruments designated as hedging instruments     |                         |          |
| Foreign currency contracts                                   | \$ 899.2                | \$ 731.6 |
| Interest rate swap contracts                                 | \$ 750.0                | \$ 600.0 |
| Derivative instruments not designated as hedging instruments |                         |          |
| Foreign currency contracts                                   | \$ 471.3                | \$ 975.6 |

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|                                |            |            |
|--------------------------------|------------|------------|
| Commodity derivative contracts | \$ 186.3   | \$ 198.7   |
| Interest rate swap contracts   | \$ 1,000.0 | \$ 1,000.0 |

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## 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 August 31, 2016, the estimated fair value of derivative instruments in a net liability position due to counterparties was \$69.6 million. If we were required to settle the net liability position under these derivative instruments on August 31, 2016, we would have had sufficient availability under our available liquidity on hand to satisfy this obligation.

## Results of period derivative activity –

The estimated fair value and location of our derivative instruments on our balance sheets are as follows (see Note 4):

| Assets   | August 31, February 29, |        | Liabilities                            | August 31, February 29, |         |
|--|-------------------------|--------|--|-------------------------|---------|
|  | 2016                    | 2016   |  | 2016                    | 2016    |
| (in millions)  |                         |        |  |                         |         |
| Derivative instruments designated as hedging instruments     |                         |        |  |                         |         |
| Foreign currency contracts:                                  |                         |        |  |                         |         |
| Prepaid expenses and other                                   | \$ 6.3                  | \$ 5.5 | Other accrued expenses and liabilities | \$ 25.2                 | \$ 33.0 |
| Other assets   | \$ 3.8                  | \$ 1.2 | Other liabilities                      | \$ 27.1                 | \$ 26.2 |
| Interest rate swap contracts:                                |                         |        |  |                         |         |
| Other assets   | \$ 0.4                  | \$ 0.3 | Other accrued expenses and liabilities | \$ 1.0                  | \$ 1.5  |
|  |                         |        | Other liabilities                      | \$ 0.7                  | \$ 0.4  |
| Derivative instruments not designated as hedging instruments |                         |        |  |                         |         |
| Foreign currency contracts:                                  |                         |        |  |                         |         |
| Prepaid expenses and other                                   | \$ 3.1                  | \$ 4.8 | Other accrued expenses and liabilities | \$ 2.1                  | \$ 9.8  |
| Commodity derivative contracts:                              |                         |        |  |                         |         |
| Prepaid expenses and other                                   | \$ 2.3                  | \$ 0.6 | Other accrued expenses and liabilities | \$ 18.7                 | \$ 29.3 |
| Other assets   | \$ 1.1                  | \$ 0.3 | Other liabilities                      | \$ 7.4                  | \$ 16.8 |
| Interest rate swap contracts:                                |                         |        |  |                         |         |
| Prepaid expenses and other                                   | \$ 0.4                  | \$ 0.7 | Other accrued expenses and liabilities | \$ 2.8                  | \$ 5.7  |

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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 (Effective portion) | Location of Net Gain (Loss) Reclassified from AOCI to Income (Effective portion) | Net Gain (Loss) Reclassified from AOCI to Income (Effective portion) |
|--|---|--|--|
| (in millions)  |   |  |  |
| For the Six Months Ended August 31, 2016                             |   |  |  |
| Foreign currency contracts   | \$ (0.6 )   | Sales  | \$ 0.2   |
|  |   | Cost of product sold   | (10.7 )  |
| Interest rate swap contracts   | 0.1   | Interest expense   | (3.7 )   |
|  | \$ (0.5 )   |  | \$ (14.2 )   |
| For the Six Months Ended August 31, 2015                             |   |  |  |
| Foreign currency contracts   | \$ (34.9 )  | Sales  | \$ 0.9   |
|  |   | Cost of product sold   | (7.8 )   |
| Interest rate swap contracts   | (1.0 )  | Interest expense   | (4.2 )   |
|  | \$ (35.9 )  |  | \$ (11.1 )   |
| For the Three Months Ended August 31, 2016                           |   |  |  |
| Foreign currency contracts   | \$ 1.7  | Sales  | \$ 0.1   |
|  |   | Cost of product sold   | (5.7 )   |
| Interest rate swap contracts   | (0.8 )  | Interest expense   | (1.8 )   |
|  | \$ 0.9  |  | \$ (7.4 )  |
| For the Three Months Ended August 31, 2015                           |   |  |  |
| Foreign currency contracts   | \$ (28.0 )  | Sales  | \$ 0.3   |
|  |   | Cost of product sold   | (4.3 )   |
| Interest rate swap contracts   | (0.3 )  | Interest expense   | (2.1 )   |
|  | \$ (28.3 )  |  | \$ (6.1 )  |

We expect \$13.8 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.

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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 Six Months Ended August 31, 2016                     |  |                                      |
| Commodity derivative contracts                               | Cost of product sold                             | \$ 7.7                               |
| Foreign currency contracts                                   | Selling, general and administrative expenses     | (14.3 )                              |
|  |  | \$ (6.6 )                            |
| For the Six Months Ended August 31, 2015                     |  |                                      |
| Commodity derivative contracts                               | Cost of product sold                             | \$ (16.4 )                           |
| Foreign currency contracts                                   | Selling, general and administrative expenses     | (15.1 )                              |
|  |  | \$ (31.5 )                           |
| For the Three Months Ended August 31, 2016                   |  |                                      |
| Commodity derivative contracts                               | Cost of product sold                             | \$ (5.4 )                            |
| Foreign currency contracts                                   | Selling, general and administrative expenses     | (3.8 )                               |
|  |  | \$ (9.2 )                            |
| For the Three Months Ended August 31, 2015                   |  |                                      |
| Commodity derivative contracts                               | Cost of product sold                             | \$ (11.2 )                           |
| Foreign currency contracts                                   | Selling, general and administrative expenses     | (11.0 )                              |
|  |  | \$ (22.2 )                           |

#### 4. FAIR VALUE OF FINANCIAL INSTRUMENTS:

Authoritative guidance establishes a framework for measuring fair value and requires disclosures about fair value measurements for financial instruments. This guidance emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on assumptions that market participants would use in pricing an asset or liability. It establishes 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 methods and assumptions we use to estimate the fair value for each class of our financial instruments are presented in Notes 1 and 7 of our consolidated financial statements included in our 2016 Annual Report and have not changed significantly for the six months and three months ended August 31, 2016. The carrying amounts of certain of our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and notes payable to banks, approximate fair value as of August 31, 2016, and February 29, 2016, due to the relatively short

maturity of these instruments. As of August 31, 2016, the carrying amount of long-term debt, including the current portion, was \$7,914.7 million, compared with an estimated fair value of \$8,111.3 million. As

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of February 29, 2016, the carrying amount of long-term debt, including the current portion, was \$7,672.9 million, compared with an estimated fair value of \$7,252.0 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                   | Significant  | Significant  | Total   |
|  | Quoted                  | Unobservable | Unobservable |         |
|  | Prices                  | Inputs       | Inputs       |         |
|  | Observable              | (Level 2)    | (Level 3)    |         |
|  | Markets                 |              |              |         |
|  | (Level 1)               |              |              |         |
| (in millions)                              |                         |              |              |         |
| August 31, 2016                            |                         |              |              |         |
| Assets:                                    |                         |              |              |         |
| Foreign currency contracts                 | \$—                     | \$ 13.2      | \$ —         | \$ 13.2 |
| Commodity derivative contracts             | \$—                     | \$ 3.4       | \$ —         | \$ 3.4  |
| Interest rate swap contracts               | \$—                     | \$ 0.8       | \$ —         | \$ 0.8  |
| Available-for-sale (“AFS”) debt securities | \$—                     | \$ —         | \$ 4.9       | \$ 4.9  |
| Liabilities:                               |                         |              |              |         |
| Foreign currency contracts                 | \$—                     | \$ 54.4      | \$ —         | \$ 54.4 |
| Commodity derivative contracts             | \$—                     | \$ 26.1      | \$ —         | \$ 26.1 |
| Interest rate swap contracts               | \$—                     | \$ 4.5       | \$ —         | \$ 4.5  |
| February 29, 2016                          |                         |              |              |         |
| Assets:                                    |                         |              |              |         |
| Foreign currency contracts                 | \$—                     | \$ 11.5      | \$ —         | \$ 11.5 |
| Commodity derivative contracts             | \$—                     | \$ 0.9       | \$ —         | \$ 0.9  |
| Interest rate swap contracts               | \$—                     | \$ 1.0       | \$ —         | \$ 1.0  |
| AFS debt securities                        | \$—                     | \$ —         | \$ 4.6       | \$ 4.6  |
| Liabilities:                               |                         |              |              |         |
| Foreign currency contracts                 | \$—                     | \$ 69.0      | \$ —         | \$ 69.0 |
| Commodity derivative contracts             | \$—                     | \$ 46.1      | \$ —         | \$ 46.1 |
| Interest rate swap contracts               | \$—                     | \$ 7.6       | \$ —         | \$ 7.6  |

## 5. GOODWILL:

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

|  | Beer      | Wine and<br>Spirits | Consolidated |
|--|-----------|---------------------|--------------|
| (in millions)                                  |           |                     |              |
| Balance, February 28, 2015                     | \$3,776.2 | \$2,432.0           | \$ 6,208.2   |
| Purchase accounting allocations <sup>(1)</sup> | 761.8     | 203.3               | 965.1        |
| Foreign currency translation adjustments       | (7.9 )    | (26.8 )             | (34.7 )      |
| Balance, February 29, 2016                     | 4,530.1   | 2,608.5             | 7,138.6      |
| Purchase accounting allocations <sup>(2)</sup> | (0.1 )    | 204.5               | 204.4        |
| Foreign currency translation adjustments       | (1.3 )    | 15.1                | 13.8         |
| Balance, August 31, 2016                       | \$4,528.7 | \$2,828.1           | \$ 7,356.8   |



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- (1) Purchase accounting allocations associated with the acquisitions of Ballast Point (as defined below) (Beer) and Meiomì (as defined below) (Wine and Spirits).
- (2) Preliminary purchase accounting allocations associated primarily with the acquisition of Prisoner (as defined below) (Wine and Spirits).

As of August 31, 2016, and February 29, 2016, we have accumulated impairment losses associated with goodwill assigned to our Wine and Spirits' Canadian reporting unit of C\$289.1 million, or \$220.6 million and \$213.5 million, respectively.

**Prisoner –**

In April 2016, we acquired The Prisoner Wine Company business, consisting primarily of trademarks, related inventories and certain grape supply contracts, for \$284.9 million (“Prisoner”). The results of operations of Prisoner are reported in the Wine and Spirits segment and have been included in our results of operations from the date of acquisition.

**Ballast Point –**

In December 2015, we acquired all of the issued and outstanding common and preferred stock of Home Brew Mart, Inc. d/b/a/ Ballast Point Brewing & Spirits (“Ballast Point”). The following table summarizes the allocation of the estimated fair value for the significant assets acquired:

(in millions)

|                            |         |
|----------------------------|---------|
| Goodwill                   | \$761.7 |
| Trademarks                 | 222.8   |
| Other                      | 15.5    |
| Total estimated fair value | 1,000.0 |
| Less – cash acquired       | (1.5 )  |
| Purchase price             | \$998.5 |

Goodwill associated with the acquisition is primarily attributable to the future growth opportunities associated with the acquisition of a high-growth premium platform that enables us to compete in the fast-growing craft beer category, further strengthening our position in the high-end U.S. beer market. None of the goodwill recognized is expected to be deductible for income tax purposes. The results of operations of Ballast Point are reported in the Beer segment and have been included in our consolidated results of operations from the date of acquisition.

**Meiomì –**

In August 2015, we acquired the Meiomì wine business, consisting primarily of the trademark, related inventories and certain grape supply contracts, for \$316.2 million (“Meiomì”). The results of operations of Meiomì are reported in the Wine and Spirits segment and have been included in our consolidated results of operations from the date of acquisition.

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## 6. INTANGIBLE ASSETS:

The major components of intangible assets are as follows:

|                                    | August 31, 2016       |                     | February 29, 2016     |                     |
|------------------------------------|-----------------------|---------------------|-----------------------|---------------------|
|                                    | Gross Carrying Amount | Net Carrying Amount | Gross Carrying Amount | Net Carrying Amount |
| (in millions)                      |                       |                     |                       |                     |
| Amortizable intangible assets      |                       |                     |                       |                     |
| Customer relationships             | \$ 104.7              | \$ 59.4             | \$ 102.5              | \$ 60.2             |
| Favorable interim supply agreement | 68.3                  | —                   | 68.3                  | 2.2                 |
| Other                              | 20.9                  | 2.7                 | 22.3                  | 3.5                 |
| Total                              | \$ 193.9              | \$ 62.1             | \$ 193.1              | \$ 65.9             |
| Nonamortizable intangible assets   |                       |                     |                       |                     |
| Trademarks                         |                       | 3,375.2             |                       | 3,333.8             |
| Other                              |                       | 4.2                 |                       | 4.1                 |
| Total                              |                       | 3,379.4             |                       | 3,337.9             |
| Total intangible assets            |                       | \$ 3,441.5          |                       | \$ 3,403.8          |

We did not incur costs to renew or extend the term of acquired intangible assets for the six months and three months ended August 31, 2016, and August 31, 2015. Net carrying amount represents the gross carrying value net of accumulated amortization. Amortization expense for intangible assets was \$6.3 million and \$22.7 million for the six months ended August 31, 2016, and August 31, 2015, respectively, and \$2.1 million and \$11.0 million for the three months ended August 31, 2016, and August 31, 2015, respectively. Estimated amortization expense for the remaining six months of fiscal 2017 and for each of the five succeeding fiscal years and thereafter is as follows:

| (in millions) |         |
|---------------|---------|
| 2017          | \$ 4.2  |
| 2018          | \$ 6.2  |
| 2019          | \$ 6.2  |
| 2020          | \$ 5.9  |
| 2021          | \$ 5.6  |
| 2022          | \$ 5.3  |
| Thereafter    | \$ 28.7 |

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## 7. BORROWINGS:

Borrowings consist of the following:

| (in millions)                                   | August 31, 2016 |            |            | February 29,  |
|---|-----------------|------------|------------|---------------|
|   | Current         | Long-term  | Total      | 2016<br>Total |
| Notes payable to banks                          |                 |            |            |               |
| Senior Credit Facility – Revolving Credit Loans | \$—             | \$—        | \$—        | \$ 92.0       |
| Other   | 114.3           | —          | 114.3      | 316.3         |
|   | \$114.3         | \$—        | \$114.3    | \$ 408.3      |
| Long-term debt                                  |                 |            |            |               |
| Senior Credit Facility – Term Loans             | \$172.5         | \$ 3,305.9 | \$3,478.4  | \$ 2,856.8    |
| Senior Notes                                    | 699.4           | 3,320.5    | 4,019.9    | 4,716.3       |
| Other   | 21.2            | 395.2      | 416.4      | 99.8          |
|   | \$893.1         | \$ 7,021.6 | \$ 7,914.7 | \$ 7,672.9    |

## Senior credit facility –

In March 2016, the Company, CIH International S.à r.l., a wholly-owned indirect subsidiary of ours (“CIH”), CIH Holdings S.à r.l., a wholly-owned indirect subsidiary of ours (“CIHH”), Bank of America, N.A., as administrative agent (the “Administrative Agent”), and certain other lenders entered into a Restatement Agreement (the “2016 Restatement Agreement”) that amended and restated our prior senior credit facility (as amended and restated by the 2016 Restatement Agreement, the “2016 Credit Agreement”). The principal changes effected by the 2016 Restatement Agreement were:

- The creation of a new \$700.0 million European Term A-1 loan facility maturing on March 10, 2021;
- An increase of the European revolving commitment under the revolving credit facility by \$425.0 million to \$1.0 billion;
- The addition of CIHH as a new borrower under the new European Term A-1 loan facility and the European revolving commitment; and
- The entry into a cross-guarantee agreement by CIH and CIHH whereby each guarantees the other’s obligations under the 2016 Credit Agreement.

In addition, the European obligations under the 2016 Credit Agreement are guaranteed by us and certain of our U.S. subsidiaries. These obligations are also secured by a pledge of (i) 100% of certain interests in certain of CIH’s subsidiaries, (ii) 100% of certain interests in certain of CIHH’s subsidiaries and (iii) 100% of the ownership interests in certain of our U.S. subsidiaries and 65% of the ownership interests in certain of our foreign subsidiaries.

Proceeds from borrowings under the 2016 Credit Agreement were used to refinance outstanding obligations under our prior senior credit facility and short-term borrowings under our accounts receivable securitization facilities, and for other general corporate purposes.

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The 2016 Credit Agreement provides for aggregate credit facilities of \$4,690.5 million, consisting of the following:

|  | Amount    | Maturity       |
|--|-----------|----------------|
| (in millions)                                |           |                |
| Revolving Credit Facility <sup>(1)(2)</sup>  | \$1,150.0 | July 16, 2020  |
| U.S. Term A Facility <sup>(1)(3)</sup>       | 1,223.9   | July 16, 2020  |
| U.S. Term A-1 Facility <sup>(1)(3)</sup>     | 240.1     | July 16, 2021  |
| European Term A Facility <sup>(1)(3)</sup>   | 1,376.5   | July 16, 2020  |
| European Term A-1 Facility <sup>(1)(3)</sup> | 700.0     | March 10, 2021 |
|  | \$4,690.5 |                |

(1) Contractual interest rate varies based on our debt ratio (as defined in the 2016 Credit Agreement) and is a function of LIBOR plus a margin, or the base rate plus a margin.

Provides for credit facilities consisting of a \$150.0 million U.S. Revolving Credit Facility and a \$1,000.0 million

(2) European Revolving Credit Facility. Includes two sub-facilities for letters of credit of up to \$200.0 million in the aggregate. We are the borrower under the U.S. Revolving Credit Facility and we and/or CIH and/or CIHH are the borrowers under the European Revolving Credit Facility.

(3) We are the borrower under the U.S. Term A and the U.S. Term A-1 loan facilities. CIH is the borrower under the European Term A loan facility. CIHH is the borrower under the European Term A-1 loan facility.

As of August 31, 2016, information with respect to borrowings under the 2016 Credit Agreement is as follows:

|                               | Revolving<br>Credit<br>Facility | U.S.<br>Term A<br>Facility <sup>(1)</sup> | U.S.<br>Term<br>A-1<br>Facility<br><sup>(1)</sup> | European<br>Term A<br>Facility <sup>(1)</sup> | European<br>Term<br>A-1<br>Facility<br><sup>(1)</sup> |
|-------------------------------|---------------------------------|---|---|---|---|
| (in millions)                 |                                 |   |   |   |   |
| Outstanding borrowings        | \$—                             | \$1,199.7                                 | \$239.1   | \$1,351.5                                     | \$688.1   |
| Interest rate                 | —                               | % 2.0                                     | % 2.2   | % 2.0   | % 2.0   |
| Libor margin                  | 1.5                             | % 1.5                                     | % 1.75  | % 1.5   | % 1.5   |
| Outstanding letters of credit | \$16.8                          |   |   |   |   |
| Remaining borrowing capacity  | \$1,133.2                       |   |   |   |   |

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

As of August 31, 2016, the required principal repayments of the term loans under the 2016 Credit Agreement (excluding unamortized debt issuance costs of \$18.9 million) for the remaining six months of fiscal 2017 and for each of the five succeeding fiscal years are as follows:

|               | U.S.<br>Term A<br>Facility | U.S.<br>Term<br>A-1<br>Facility | European<br>Term A<br>Facility | European<br>Term<br>A-1<br>Facility | Total     |
|---------------|----------------------------|---------------------------------|--------------------------------|-------------------------------------|-----------|
| (in millions) |                            |                                 |                                |                                     |           |
| 2017          | \$31.8                     | \$1.2                           | \$35.7                         | \$17.5                              | \$86.2    |
| 2018          | 63.6                       | 2.4                             | 71.5                           | 35.0                                | 172.5     |
| 2019          | 63.6                       | 2.4                             | 71.5                           | 35.0                                | 172.5     |
| 2020          | 63.6                       | 2.4                             | 71.5                           | 35.0                                | 172.5     |
| 2021          | 985.4                      | 2.4                             | 1,108.4                        | 35.0                                | 2,131.2   |
| 2022          | —                          | 228.7                           | —                              | 533.7                               | 762.4     |
|               | \$1,208.0                  | \$239.5                         | \$1,358.6                      | \$691.2                             | \$3,497.3 |



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Interest rate swap contracts –

In April 2012, we entered into interest rate swap agreements which fixed our interest rates on \$500.0 million of our floating LIBOR rate debt at an average rate of 2.8% (exclusive of borrowing margins) through September 1, 2016. We have entered into \$250.0 million of additional one-month LIBOR base rate delayed-start interest rate swap agreements effective September 1, 2016, which are designated as cash flow hedges for \$250.0 million of our floating LIBOR rate debt. As a result, we have fixed our interest rates on \$250.0 million of our floating LIBOR rate debt at an average rate of 1.1% (exclusive of borrowing margins) from September 1, 2016, through July 1, 2020.

Senior notes –

In August 2006, we issued \$700.0 million aggregate principal amount of 7.25% Senior Notes due September 2016 (the “August 2006 Senior Notes”). On August 30, 2016, we repaid the August 2006 Senior Notes primarily with cash flows from operating activities.

Other –

Canadian credit agreement:

In June 2016, through a wholly-owned indirect subsidiary of ours, we entered into a new secured Canadian credit agreement which provides for a C\$275.0 million term loan facility (\$214.1 million at issuance) and a C\$50.0 million revolving credit facility which was undrawn at issuance (the “Canadian Credit Agreement”). The interest rate varies based on the subsidiary’s consolidated leverage ratio (as defined in the Canadian Credit Agreement) and is a function of a base rate plus a margin. The Canadian Credit Agreement has a maturity of June 21, 2018. Proceeds from borrowings under the Canadian Credit Agreement were used for general corporate purposes. As of August 31, 2016, under the Canadian Credit Agreement, there were outstanding term loan borrowings of C\$275.0 million, or \$209.8 million (excluding unamortized debt issuance costs of \$0.9 million), bearing an interest rate of 2.64%. There were no outstanding revolver borrowings under the Canadian Credit Agreement as of August 31, 2016.

Other long-term debt:

We have outstanding borrowings with our glass production plant joint venture partner, Owens-Illinois, which are included in our consolidated balance sheet as of August 31, 2016, in accordance with our consolidation of this variable interest entity. These borrowings have a maturity date of December 2064 with both a fixed and variable interest rate component. The variable interest rate is based upon certain performance measures as defined in the contractual agreement. As of August 31, 2016, amounts outstanding under the contractual agreement were \$158.5 million with a weighted average interest rate of 5.7%.

Accounts receivable securitization facilities:

On September 28, 2015, we amended our prior trade accounts receivable securitization facility (as amended, the “CBI Facility”) for an additional 364-day term. Under the CBI Facility, trade accounts receivable generated by us and certain of our subsidiaries are sold by us to a wholly-owned bankruptcy remote single purpose subsidiary, the CBI SPV, which is consolidated by us for financial reporting purposes. The CBI Facility provides borrowing capacity of \$235.0 million up to \$330.0 million structured to account for the seasonality of our business, subject to further limitations based upon various pre-agreed formulas.

Also, on September 28, 2015, Crown Imports amended its prior trade accounts receivable securitization facility (as amended, the “Crown Facility”) for an additional 364-day term. Under the Crown Facility, trade accounts receivable generated by Crown Imports are sold by Crown Imports to its wholly-owned bankruptcy remote single purpose subsidiary, the Crown SPV, which is consolidated by us for financial reporting purposes. The Crown Facility provides borrowing capacity of \$100.0 million up to \$190.0 million structured to account for the seasonality of Crown Imports’ business.





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As of August 31, 2016, our accounts receivable securitization facilities are as follows:

|                | Outstanding Borrowings | Weighted Average Interest Rate | Remaining Borrowing Capacity |
|----------------|------------------------|--------------------------------|------------------------------|
| (in millions)  |                        |                                |                              |
| CBI Facility   | \$ —                   | — %                            | \$ 300.0                     |
| Crown Facility | \$ 70.0                | 1.5 %                          | \$ 105.0                     |

On September 27, 2016, our existing accounts receivable securitization facilities were amended, resulting in the extension of each facility for an additional 364-day term. In addition, the newly amended CBI Facility provides borrowing capacity of \$235.0 million up to \$340.0 million and the newly amended Crown Facility provides borrowing capacity of \$120.0 million up to \$210.0 million. The remaining provisions of the amended facilities are substantially identical in all material respects to the prior facilities.

#### 8. INCOME TAXES:

Our effective tax rate for the six months ended August 31, 2016, and August 31, 2015, was 31.8% and 27.6%, respectively. Our effective tax rate for the three months ended August 31, 2016, and August 31, 2015, was 31.7% and 24.2%, respectively.

Our effective tax rates for the six months and three months ended August 31, 2016, were lower than the federal statutory rate of 35% primarily due to lower effective tax rates applicable to our foreign businesses. Our effective tax rates for the six months and three months ended August 31, 2015, were lower than the federal statutory rate primarily due to decreases in uncertain tax positions and lower effective tax rates applicable to our foreign businesses.

During the three months ended August 31, 2015, the Internal Revenue Service (“IRS”) concluded its examination of our fiscal years ended February 28, 2010, and February 28, 2011. We received a Revenue Agent’s Report (“RAR”) from the IRS proposing tax assessments for those years. We disagree with certain assessments in this report and have submitted a written protest stating our formal disagreement with the conclusions presented in the RAR. We believe that our position will be successfully sustained.

#### 9. STOCKHOLDERS’ EQUITY:

In April 2012, our Board of Directors authorized the repurchase of up to \$1.0 billion of our Class A Common Stock and Class B Convertible Common Stock (the “2013 Authorization”). The Board of Directors did not specify a date upon which this authorization would expire. Shares repurchased under the 2013 Authorization have become treasury shares.

For the six months ended August 31, 2016, we repurchased 34,500 shares of Class A Common Stock pursuant to the 2013 Authorization at an aggregate cost of \$5.5 million through open market transactions. Additionally, we entered into a trading plan under Rule 10b5-1 effective for repurchases on and after August 31, 2016, through October 7, 2016. Subsequent to August 31, 2016, we repurchased 133,311 shares of Class A Common Stock at an aggregate cost of \$21.9 million through open market transactions.

As of October 5, 2016, total shares repurchased under the 2013 Authorization are as follows:

|                          | Class A Common Shares        |
|--------------------------|------------------------------|
| Repurchase Authorization | Dollar Value                 |
|                          | Number of Shares Repurchased |
|                          | of                           |

|                                  |            | Shares<br>Repurchased |
|----------------------------------|------------|-----------------------|
| (in millions, except share data) |            |                       |
| 2013 Authorization               | \$ 1,000.0 | \$357.9 14,437,939    |

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## 10. NET INCOME PER COMMON SHARE ATTRIBUTABLE TO CBI:

For the six months and three months ended August 31, 2016, and August 31, 2015, 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 six months and three months ended August 31, 2016, and August 31, 2015, 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.

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

|  | For the Six Months Ended   |                      |                      |                      |
|--|----------------------------|----------------------|----------------------|----------------------|
|  | August 31, 2016            |                      | August 31, 2015      |                      |
|  | Common Stock Class A       | Common Stock Class B | Common Stock Class A | Common Stock Class B |
| (in millions, except per share data)                           |                            |                      |                      |                      |
| Net income attributable to CBI allocated – basic               | \$604.9                    | \$72.3               | \$481.6              | \$59.4               |
| Conversion of Class B common shares into Class A common shares | 72.3                       | —                    | 59.4                 | —                    |
| Effect of stock-based awards on allocated net income           | —                          | (1.4 )               | —                    | (1.8 )               |
| Net income attributable to CBI allocated – diluted             | \$677.2                    | \$70.9               | \$541.0              | \$57.6               |
| Weighted average common shares outstanding – basic             | 177.001                    | 123.353              | 171.805              | 23.370               |
| Conversion of Class B common shares into Class A common shares | 23.353                     | —                    | 23.370               | —                    |
| Stock-based awards, primarily stock options                    | 5.154                      | —                    | 7.809                | —                    |
| Weighted average common shares outstanding – diluted           | 205.508                    | 23.353               | 202.984              | 23.370               |
| Net income per common share attributable to CBI – basic        | \$3.42                     | \$3.10               | \$2.80               | \$2.54               |
| Net income per common share attributable to CBI – diluted      | \$3.30                     | \$3.04               | \$2.67               | \$2.47               |
|  | For the Three Months Ended |                      |                      |                      |
|  | August 31, 2016            |                      | August 31, 2015      |                      |
|  | Common Stock Class A       | Common Stock Class B | Common Stock Class A | Common Stock Class B |
| Net income attributable to CBI allocated – basic               | \$320.7                    | \$38.2               | \$269.3              | \$33.1               |
| Conversion of Class B common shares into Class A common shares | 38.2                       | —                    | 33.1                 | —                    |
| Effect of stock-based awards on allocated net income           | —                          | (0.7 )               | —                    | (1.0 )               |
| Net income attributable to CBI allocated – diluted             | \$358.9                    | \$37.5               | \$302.4              | \$32.1               |
| Weighted average common shares outstanding – basic             | 177.460                    | 23.353               | 172.239              | 23.364               |
| Conversion of Class B common shares into Class A common shares | 23.353                     | —                    | 23.364               | —                    |
| Stock-based awards, primarily stock options                    | 4.837                      | —                    | 7.507                | —                    |
| Weighted average common shares outstanding – diluted           | 205.650                    | 23.353               | 203.110              | 23.364               |
| Net income per common share attributable to CBI – basic        | \$1.81                     | \$1.64               | \$1.56               | \$1.42               |
| Net income per common share attributable to CBI – diluted      | \$1.75                     | \$1.61               | \$1.49               | \$1.38               |



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## 11. 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<br>Amount | Tax (Expense)<br>Benefit | Net of Tax<br>Amount |
|--|----------------------|--------------------------|----------------------|
| (in millions)  |                      |                          |                      |
| For the Six Months Ended August 31, 2016               |                      |                          |                      |
| Net income attributable to CBI                         |                      |                          | \$ 677.2             |
| Other comprehensive income (loss) attributable to CBI: |                      |                          |                      |
| Foreign currency translation adjustments:              |                      |                          |                      |
| Net losses   | \$ (2.8 )            | \$ (1.7 )                | (4.5 )               |
| Reclassification adjustments                           | —                    | —                        | —                    |
| Net loss recognized in other comprehensive income      | (2.8 )               | (1.7 )                   | (4.5 )               |
| Unrealized loss on cash flow hedges:                   |                      |                          |                      |
| Net derivative losses                                  | (3.1 )               | 2.6                      | (0.5 )               |
| Reclassification adjustments                           | 20.9                 | (6.7 )                   | 14.2                 |
| Net gain recognized in other comprehensive income      | 17.8                 | (4.1 )                   | 13.7                 |
| Unrealized gain on AFS debt securities:                |                      |                          |                      |
| Net AFS debt securities gains                          | 0.2                  | 0.1                      | 0.3                  |
| Reclassification adjustments                           | —                    | —                        | —                    |
| Net gain recognized in other comprehensive income      | 0.2                  | 0.1                      | 0.3                  |
| Pension/postretirement adjustments:                    |                      |                          |                      |
| Net actuarial losses                                   | (0.6 )               | 0.2                      | (0.4 )               |
| Reclassification adjustments                           | 0.3                  | —                        | 0.3                  |
| Net loss recognized in other comprehensive income      | (0.3 )               | 0.2                      | (0.1 )               |
| Other comprehensive income attributable to CBI         | \$ 14.9              | \$ (5.5 )                | 9.4                  |
| Comprehensive income attributable to CBI               |                      |                          | \$ 686.6             |

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|  | Before Tax<br>Amount | Tax (Expense)<br>Benefit | Net of Tax<br>Amount |
|--|----------------------|--------------------------|----------------------|
| (in millions)  |                      |                          |                      |
| For the Six Months Ended August 31, 2015               |                      |                          |                      |
| Net income attributable to CBI                         |                      |                          | \$ 541.0             |
| Other comprehensive income (loss) attributable to CBI: |                      |                          |                      |
| Foreign currency translation adjustments:              |                      |                          |                      |
| Net losses   | \$ (217.8 )          | \$ 2.8                   | (215.0 )             |
| Reclassification adjustments                           | —                    | —                        | —                    |
| Net loss recognized in other comprehensive loss        | (217.8 )             | 2.8                      | (215.0 )             |
| Unrealized loss on cash flow hedges:                   |                      |                          |                      |
| Net derivative losses                                  | (48.9 )              | 13.0                     | (35.9 )              |
| Reclassification adjustments                           | 16.3                 | (5.1 )                   | 11.2                 |
| Net loss recognized in other comprehensive loss        | (32.6 )              | 7.9                      | (24.7 )              |
| Unrealized loss on AFS debt securities:                |                      |                          |                      |
| Net AFS debt securities losses                         | (0.4 )               | —                        | (0.4 )               |
| Reclassification adjustments                           | —                    | —                        | —                    |
| Net loss recognized in other comprehensive loss        | (0.4 )               | —                        | (0.4 )               |
| Pension/postretirement adjustments:                    |                      |                          |                      |
| Net actuarial gains                                    | 0.9                  | (0.3 )                   | 0.6                  |
| Reclassification adjustments                           | 0.2                  | —                        | 0.2                  |
| Net gain recognized in other comprehensive loss        | 1.1                  | (0.3 )                   | 0.8                  |
| Other comprehensive loss attributable to CBI           | \$ (249.7 )          | \$ 10.4                  | (239.3 )             |
| Comprehensive income attributable to CBI               |                      |                          | \$ 301.7             |
| For the Three Months Ended August 31, 2016             |                      |                          |                      |
| Net income attributable to CBI                         |                      |                          | \$ 358.9             |
| Other comprehensive income attributable to CBI:        |                      |                          |                      |
| Foreign currency translation adjustments:              |                      |                          |                      |
| Net gains  | \$ 4.6               | \$ 0.1                   | 4.7                  |
| Reclassification adjustments                           | —                    | —                        | —                    |
| Net gain recognized in other comprehensive income      | 4.6                  | 0.1                      | 4.7                  |
| Unrealized gain on cash flow hedges:                   |                      |                          |                      |
| Net derivative gains                                   | 0.1                  | 0.8                      | 0.9                  |
| Reclassification adjustments                           | 10.8                 | (3.3 )                   | 7.5                  |
| Net gain recognized in other comprehensive income      | 10.9                 | (2.5 )                   | 8.4                  |
| Unrealized gain on AFS debt securities:                |                      |                          |                      |
| Net AFS debt securities gains                          | 0.1                  | 0.1                      | 0.2                  |
| Reclassification adjustments                           | —                    | —                        | —                    |
| Net gain recognized in other comprehensive income      | 0.1                  | 0.1                      | 0.2                  |
| Pension/postretirement adjustments:                    |                      |                          |                      |
| Net actuarial gains                                    | —                    | —                        | —                    |
| Reclassification adjustments                           | 0.1                  | —                        | 0.1                  |
| Net gain recognized in other comprehensive income      | 0.1                  | —                        | 0.1                  |
| Other comprehensive income attributable to CBI         | \$ 15.7              | \$ (2.3 )                | 13.4                 |
| Comprehensive income attributable to CBI               |                      |                          | \$ 372.3             |





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|  | Before Tax<br>Amount | Tax (Expense)<br>Benefit | Net of Tax<br>Amount |
|--|----------------------|--------------------------|----------------------|
| (in millions)  |                      |                          |                      |
| For the Three Months Ended August 31, 2015             |                      |                          |                      |
| Net income attributable to CBI                         |                      |                          | \$ 302.4             |
| Other comprehensive income (loss) attributable to CBI: |                      |                          |                      |
| Foreign currency translation adjustments:              |                      |                          |                      |
| Net losses   | \$ (167.1 )          | \$ 3.4                   | (163.7 )             |
| Reclassification adjustments                           | —                    | —                        | —                    |
| Net loss recognized in other comprehensive loss        | (167.1 )             | 3.4                      | (163.7 )             |
| Unrealized loss on cash flow hedges:                   |                      |                          |                      |
| Net derivative losses                                  | (38.4 )              | 10.1                     | (28.3 )              |
| Reclassification adjustments                           | 8.7                  | (2.6 )                   | 6.1                  |
| Net loss recognized in other comprehensive loss        | (29.7 )              | 7.5                      | (22.2 )              |
| Unrealized loss on AFS debt securities:                |                      |                          |                      |
| Net AFS debt securities losses                         | (0.3 )               | —                        | (0.3 )               |
| Reclassification adjustments                           | —                    | —                        | —                    |
| Net loss recognized in other comprehensive loss        | (0.3 )               | —                        | (0.3 )               |
| Pension/postretirement adjustments:                    |                      |                          |                      |
| Net actuarial gains                                    | 1.0                  | (0.3 )                   | 0.7                  |
| Reclassification adjustments                           | 0.1                  | —                        | 0.1                  |
| Net gain recognized in other comprehensive loss        | 1.1                  | (0.3 )                   | 0.8                  |
| Other comprehensive loss attributable to CBI           | \$ (196.0 )          | \$ 10.6                  | (185.4 )             |
| Comprehensive income attributable to CBI               |                      |                          | \$ 117.0             |

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

|  | Foreign<br>Currency<br>Translation<br>Adjustments | Net<br>Unrealized<br>Losses on<br>Derivative<br>Instruments | Net<br>Unrealized<br>Gains<br>(Losses)<br>on AFS<br>Debt<br>Securities | Pension/<br>Postretirement<br>Adjustments | Accumulated<br>Other<br>Comprehensive<br>Loss |
|--|---|---|--|---|---|
| (in millions)  |   |   |  |   |   |
| Balance, February 29, 2016   | \$ (390.5 )                                       | \$ (46.1 )  | \$ (2.8 )  | \$ (13.1 )                                | \$ (452.5 )                                   |
| Other comprehensive income (loss):                                       |   |   |  |   |   |
| Other comprehensive income (loss) before<br>reclassification adjustments | (4.5 )  | (0.5 )  | 0.3  | (0.4 )                                    | (5.1 )  |
| Amounts reclassified from accumulated other<br>comprehensive loss        | —   | 14.2  | —  | 0.3                                       | 14.5  |
| Other comprehensive income (loss)  | (4.5 )  | 13.7  | 0.3  | (0.1 )                                    | 9.4   |
| Balance, August 31, 2016   | \$ (395.0 )                                       | \$ (32.4 )  | \$ (2.5 )  | \$ (13.2 )                                | \$ (443.1 )                                   |

## 12. CONDENSED CONSOLIDATING FINANCIAL INFORMATION:

The following information sets forth the condensed consolidating balance sheets as of August 31, 2016, and February 29, 2016, the condensed consolidating statements of comprehensive income for the six months and three months ended August 31, 2016, and August 31, 2015, and the condensed consolidating statements of cash flows for the six months ended August 31, 2016, and August 31, 2015, 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

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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 2016 Annual Report. 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.

|  | Parent<br>Company | Subsidiary<br>Guarantors | Subsidiary<br>Nonguarantors | Eliminations  | Consolidated |
|--|-------------------|--------------------------|-----------------------------|---------------|--------------|
| (in millions)  |                   |                          |                             |               |              |
| Condensed Consolidating Balance Sheet at August 31, 2016 |                   |                          |                             |               |              |
| Current assets:  |                   |                          |                             |               |              |
| Cash and cash equivalents                                | \$25.9            | \$ 8.0                   | \$ 143.4                    | \$—           | \$ 177.3     |
| Accounts receivable                                      | 0.3               | 21.3                     | 809.5                       | —             | 831.1        |
| Inventories  | 162.3             | 1,386.0                  | 423.3                       | (116.4 )      | 1,855.2      |
| Intercompany receivable                                  | 19,941.0          | 26,759.5                 | 10,573.3                    | (57,273.8 )   | —            |
| Prepaid expenses and other                               | 39.9              | 49.4                     | 269.0                       | (52.1 )       | 306.2        |
| Total current assets                                     | 20,169.4          | 28,224.2                 | 12,218.5                    | (57,442.3 )   | 3,169.8      |
| Property, plant and equipment                            | 68.3              | 908.0                    | 2,655.8                     | —             | 3,632.1      |
| Investments in subsidiaries                              | 13,000.9          | 22.3                     | —                           | (13,023.2 )   | —            |
| Goodwill   | —                 | 6,580.7                  | 776.1                       | —             | 7,356.8      |
| Intangible assets  | —                 | 1,004.7                  | 2,436.8                     | —             | 3,441.5      |
| Intercompany notes receivable                            | 4,941.9           | 198.1                    | 163.0                       | (5,303.0 )    | —            |
| Other assets   | 18.0              | 73.2                     | 26.0                        | —             | 117.2        |
| Total assets   | \$38,198.5        | \$37,011.2               | \$ 18,276.2                 | \$(75,768.5 ) | \$ 17,717.4  |
| Current liabilities:                                     |                   |                          |                             |               |              |
| Notes payable to banks                                   | \$—               | \$—                      | \$ 114.3                    | \$—           | \$ 114.3     |
| Current maturities of long-term debt                     | 769.3             | 16.7                     | 107.1                       | —             | 893.1        |
| Accounts payable   | 38.9              | 210.7                    | 374.9                       | —             | 624.5        |
| Accrued excise taxes                                     | 19.3              | 11.5                     | 5.1                         | —             | 35.9         |
| Intercompany payable                                     | 25,012.7          | 21,426.3                 | 10,834.8                    | (57,273.8 )   | —            |
| Other accrued expenses and liabilities                   | 268.6             | 207.9                    | 143.9                       | (88.6 )       | 531.8        |
| Total current liabilities                                | 26,108.8          | 21,873.1                 | 11,580.1                    | (57,362.4 )   | 2,199.6      |
| Long-term debt, less current maturities                  | 4,695.2           | 24.9                     | 2,301.5                     | —             | 7,021.6      |
| Deferred income taxes                                    | 17.2              | 792.8                    | 354.1                       | —             | 1,164.1      |
| Intercompany notes payable                               | 163.1             | 5,121.6                  | 18.3                        | (5,303.0 )    | —            |
| Other liabilities  | 31.8              | 31.4                     | 94.8                        | —             | 158.0        |
| Total liabilities  | 31,016.1          | 27,843.8                 | 14,348.8                    | (62,665.4 )   | 10,543.3     |
| Total CBI stockholders' equity                           | 7,182.4           | 9,167.4                  | 3,935.7                     | (13,103.1 )   | 7,182.4      |
| Noncontrolling interests                                 | —                 | —                        | (8.3 )                      | —             | (8.3 )       |
| Total stockholders' equity                               | 7,182.4           | 9,167.4                  | 3,927.4                     | (13,103.1 )   | 7,174.1      |
| Total liabilities and stockholders' equity               | \$38,198.5        | \$37,011.2               | \$ 18,276.2                 | \$(75,768.5 ) | \$ 17,717.4  |



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|  | Parent<br>Company | Subsidiary<br>Guarantors | Subsidiary<br>Nonguarantors | Eliminations  | Consolidated |
|--|-------------------|--------------------------|-----------------------------|---------------|--------------|
| (in millions)  |                   |                          |                             |               |              |
| Condensed Consolidating Balance Sheet at February 29, 2016 |                   |                          |                             |               |              |
| Current assets:  |                   |                          |                             |               |              |
| Cash and cash equivalents                                  | \$6.0             | \$4.2                    | \$ 72.9                     | \$—           | \$ 83.1      |
| Accounts receivable  | 0.4               | 22.3                     | 709.8                       | —             | 732.5        |
| Inventories  | 151.6             | 1,483.5                  | 344.0                       | (127.5 )      | 1,851.6      |
| Intercompany receivable                                    | 17,459.3          | 23,758.9                 | 9,393.5                     | (50,611.7 )   | —            |
| Prepaid expenses and other                                 | 29.6              | 67.8                     | 281.1                       | (68.1 )       | 310.4        |
| Total current assets                                       | 17,646.9          | 25,336.7                 | 10,801.3                    | (50,807.3 )   | 2,977.6      |
| Property, plant and equipment                              | 63.2              | 879.8                    | 2,390.4                     | —             | 3,333.4      |
| Investments in subsidiaries                                | 13,047.2          | 19.0                     | —                           | (13,066.2 )   | —            |
| Goodwill   | —                 | 6,376.4                  | 762.2                       | —             | 7,138.6      |
| Intangible assets  | —                 | 970.9                    | 2,430.8                     | 2.1           | 3,403.8      |
| Intercompany notes receivable                              | 4,705.9           | 86.6                     | —                           | (4,792.5 )    | —            |
| Other assets   | 20.0              | 69.6                     | 22.0                        | —             | 111.6        |
| Total assets   | \$35,483.2        | \$33,739.0               | \$ 16,406.7                 | \$(68,663.9 ) | \$ 16,965.0  |
| Current liabilities:                                       |                   |                          |                             |               |              |
| Notes payable to banks                                     | \$—               | \$—                      | \$ 408.3                    | \$—           | \$ 408.3     |
| Current maturities of long-term debt                       | 765.6             | 18.0                     | 73.1                        | —             | 856.7        |
| Accounts payable   | 37.7              | 100.7                    | 290.9                       | —             | 429.3        |
| Accrued excise taxes                                       | 14.7              | 14.7                     | 4.2                         | —             | 33.6         |
| Intercompany payable                                       | 22,293.3          | 19,018.6                 | 9,299.8                     | (50,611.7 )   | —            |
| Other accrued expenses and liabilities                     | 349.1             | 185.1                    | 119.4                       | (109.2 )      | 544.4        |
| Total current liabilities                                  | 23,460.4          | 19,337.1                 | 10,195.7                    | (50,720.9 )   | 2,272.3      |
| Long-term debt, less current maturities                    | 5,421.4           | 26.3                     | 1,368.5                     | —             | 6,816.2      |
| Deferred income taxes                                      | 11.9              | 734.8                    | 275.5                       | —             | 1,022.2      |
| Intercompany notes payable                                 | —                 | 4,776.6                  | 15.9                        | (4,792.5 )    | —            |
| Other liabilities  | 29.9              | 39.1                     | 93.5                        | —             | 162.5        |
| Total liabilities  | 28,923.6          | 24,913.9                 | 11,949.1                    | (55,513.4 )   | 10,273.2     |
| Total CBI stockholders' equity                             | 6,559.6           | 8,825.1                  | 4,325.4                     | (13,150.5 )   | 6,559.6      |
| Noncontrolling interests                                   | —                 | —                        | 132.2                       | —             | 132.2        |
| Total stockholders' equity                                 | 6,559.6           | 8,825.1                  | 4,457.6                     | (13,150.5 )   | 6,691.8      |
| Total liabilities and stockholders' equity                 | \$35,483.2        | \$33,739.0               | \$ 16,406.7                 | \$(68,663.9 ) | \$ 16,965.0  |

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|  | Parent<br>Company | Subsidiary<br>Guarantors | Subsidiary<br>Nonguarantors | Eliminations  | Consolidated |
|--|-------------------|--------------------------|-----------------------------|---------------|--------------|
| (in millions)  |                   |                          |                             |               |              |
| Condensed Consolidating Statement of Comprehensive Income for the Six Months Ended August 31, 2016 |                   |                          |                             |               |              |
| Sales  | \$1,335.4         | \$3,498.0                | \$ 1,788.8                  | \$ (2,346.4 ) | \$ 4,275.8   |
| Less – excise taxes  | (170.1 )          | (180.4 )                 | (32.3 )                     | —             | (382.8 )     |
| Net sales  | 1,165.3           | 3,317.6                  | 1,756.5                     | (2,346.4 )    | 3,893.0      |
| Cost of product sold   | (950.5 )          | (2,400.8 )               | (1,023.8 )                  | 2,332.4       | (2,042.7 )   |
| Gross profit   | 214.8             | 916.8                    | 732.7                       | (14.0 )       | 1,850.3      |
| Selling, general and administrative expenses   | (200.7 )          | (396.2 )                 | (111.6 )                    | 21.8          | (686.7 )     |
| Operating income   | 14.1              | 520.6                    | 621.1                       | 7.8           | 1,163.6      |
| Equity in earnings of equity method investees and subsidiaries                                     | 776.6             | 3.6                      | 0.4                         | (779.9 )      | 0.7          |
| Interest income  | 0.4               | —                        | 0.6                         | —             | 1.0          |
| Intercompany interest income   | 114.7             | 149.2                    | 0.1                         | (264.0 )      | —            |
| Interest expense   | (151.1 )          | (0.8 )                   | (27.8 )                     | —             | (179.7 )     |
| Intercompany interest expense  | (149.0 )          | (114.6 )                 | (0.4 )                      | 264.0         | —            |
| Income before income taxes   | 605.7             | 558.0                    | 594.0                       | (772.1 )      | 985.6        |
| (Provision for) benefit from income taxes  | 71.5              | (217.4 )                 | (163.2 )                    | (4.2 )        | (313.3 )     |
| Net income   | 677.2             | 340.6                    | 430.8                       | (776.3 )      | 672.3        |
| Net loss attributable to noncontrolling interests  | —                 | —                        | 4.9                         | —             | 4.9          |
| Net income attributable to CBI   | \$677.2           | \$340.6                  | \$ 435.7                    | \$ (776.3 )   | \$ 677.2     |
| Comprehensive income attributable to CBI   | \$686.6           | \$342.3                  | \$ 441.7                    | \$ (784.0 )   | \$ 686.6     |
| Condensed Consolidating Statement of Comprehensive Income for the Six Months Ended August 31, 2015 |                   |                          |                             |               |              |
| Sales  | \$1,183.6         | \$2,922.4                | \$ 1,618.0                  | \$ (2,013.1 ) | \$ 3,710.9   |
| Less – excise taxes  | (159.7 )          | (154.8 )                 | (31.7 )                     | —             | (346.2 )     |
| Net sales  | 1,023.9           | 2,767.6                  | 1,586.3                     | (2,013.1 )    | 3,364.7      |
| Cost of product sold   | (828.5 )          | (2,079.6 )               | (952.1 )                    | 2,008.2       | (1,852.0 )   |
| Gross profit   | 195.4             | 688.0                    | 634.2                       | (4.9 )        | 1,512.7      |
| Selling, general and administrative expenses   | (199.6 )          | (351.3 )                 | (62.2 )                     | 7.1           | (606.0 )     |
| Operating income (loss)  | (4.2 )            | 336.7                    | 572.0                       | 2.2           | 906.7        |
| Equity in earnings of equity method investees and subsidiaries                                     | 626.3             | 3.7                      | 0.4                         | (629.2 )      | 1.2          |
| Interest income  | 0.1               | —                        | 0.3                         | —             | 0.4          |
| Intercompany interest income   | 92.0              | 130.3                    | —                           | (222.3 )      | —            |
| Interest expense   | (140.8 )          | (0.6 )                   | (13.8 )                     | —             | (155.2 )     |
| Intercompany interest expense  | (130.0 )          | (91.9 )                  | (0.4 )                      | 222.3         | —            |
| Loss on write-off of debt issuance costs   | (0.4 )            | —                        | (0.7 )                      | —             | (1.1 )       |
| Income before income taxes   | 443.0             | 378.2                    | 557.8                       | (627.0 )      | 752.0        |
| (Provision for) benefit from income taxes  | 98.0              | (147.9 )                 | (156.8 )                    | (1.0 )        | (207.7 )     |
| Net income   | 541.0             | 230.3                    | 401.0                       | (628.0 )      | 544.3        |
| Net income attributable to noncontrolling interests  | —                 | —                        | (3.3 )                      | —             | (3.3 )       |
| Net income attributable to CBI   | \$541.0           | \$230.3                  | \$ 397.7                    | \$ (628.0 )   | \$ 541.0     |
| Comprehensive income attributable to CBI   | \$301.7           | \$230.1                  | \$ 155.8                    | \$ (385.9 )   | \$ 301.7     |



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|  | Parent<br>Company | Subsidiary<br>Guarantors | Subsidiary<br>Nonguarantors | Eliminations  | Consolidated |
|--|-------------------|--------------------------|-----------------------------|---------------|--------------|
| (in millions)  |                   |                          |                             |               |              |
| Condensed Consolidating Statement of Comprehensive Income for the Three Months Ended August 31, 2016 |                   |                          |                             |               |              |
| Sales  | \$ 711.7          | \$ 1,811.2               | \$ 822.7                    | \$ (1,122.8 ) | \$ 2,222.8   |
| Less – excise taxes  | (92.1 )           | (93.5 )                  | (16.0 )                     | —             | (201.6 )     |
| Net sales  | 619.6             | 1,717.7                  | 806.7                       | (1,122.8 )    | 2,021.2      |
| Cost of product sold   | (499.1 )          | (1,249.3 )               | (459.0 )                    | 1,155.2       | (1,052.2 )   |
| Gross profit   | 120.5             | 468.4                    | 347.7                       | 32.4          | 969.0        |
| Selling, general and administrative expenses   | (109.4 )          | (203.1 )                 | (56.4 )                     | 10.8          | (358.1 )     |
| Operating income   | 11.1              | 265.3                    | 291.3                       | 43.2          | 610.9        |
| Equity in earnings of equity method investees and subsidiaries                                       | 407.7             | 1.3                      | 0.4                         | (409.4 )      | —            |
| Interest income  | 0.3               | —                        | 0.3                         | —             | 0.6          |
| Intercompany interest income   | 57.3              | 75.9                     | 0.1                         | (133.3 )      | —            |
| Interest expense   | (76.8 )           | (0.4 )                   | (17.5 )                     | —             | (94.7 )      |
| Intercompany interest expense  | (75.9 )           | (57.2 )                  | (0.2 )                      | 133.3         | —            |
| Income before income taxes   | 323.7             | 284.9                    | 274.4                       | (366.2 )      | 516.8        |
| (Provision for) benefit from income taxes  | 35.2              | (111.5 )                 | (71.7 )                     | (15.6 )       | (163.6 )     |
| Net income   | 358.9             | 173.4                    | 202.7                       | (381.8 )      | 353.2        |
| Net loss attributable to noncontrolling interests  | —                 | —                        | 5.7                         | —             | 5.7          |
| Net income attributable to CBI   | \$ 358.9          | \$ 173.4                 | \$ 208.4                    | \$ (381.8 )   | \$ 358.9     |
| Comprehensive income attributable to CBI   | \$ 372.3          | \$ 173.6                 | \$ 220.2                    | \$ (393.8 )   | \$ 372.3     |
| Condensed Consolidating Statement of Comprehensive Income for the Three Months Ended August 31, 2015 |                   |                          |                             |               |              |
| Sales  | \$ 625.0          | \$ 1,497.5               | \$ 792.8                    | \$ (1,002.4 ) | \$ 1,912.9   |
| Less – excise taxes  | (83.5 )           | (79.7 )                  | (16.3 )                     | —             | (179.5 )     |
| Net sales  | 541.5             | 1,417.8                  | 776.5                       | (1,002.4 )    | 1,733.4      |
| Cost of product sold   | (437.7 )          | (1,076.0 )               | (466.0 )                    | 1,021.9       | (957.8 )     |
| Gross profit   | 103.8             | 341.8                    | 310.5                       | 19.5          | 775.6        |
| Selling, general and administrative expenses   | (96.8 )           | (174.1 )                 | (28.7 )                     | 3.4           | (296.2 )     |
| Operating income   | 7.0               | 167.7                    | 281.8                       | 22.9          | 479.4        |
| Equity in earnings of equity method investees and subsidiaries                                       | 322.1             | 1.5                      | 0.2                         | (323.6 )      | 0.2          |
| Interest income  | —                 | —                        | 0.1                         | —             | 0.1          |
| Intercompany interest income   | 46.2              | 66.4                     | —                           | (112.6 )      | —            |
| Interest expense   | (71.5 )           | (0.3 )                   | (5.6 )                      | —             | (77.4 )      |
| Intercompany interest expense  | (66.4 )           | (46.0 )                  | (0.2 )                      | 112.6         | —            |
| Loss on write-off of debt issuance costs   | (0.4 )            | —                        | (0.7 )                      | —             | (1.1 )       |
| Income before income taxes   | 237.0             | 189.3                    | 275.6                       | (300.7 )      | 401.2        |
| (Provision for) benefit from income taxes  | 65.4              | (74.8 )                  | (80.1 )                     | (7.6 )        | (97.1 )      |
| Net income   | 302.4             | 114.5                    | 195.5                       | (308.3 )      | 304.1        |
| Net income attributable to noncontrolling interests  | —                 | —                        | (1.7 )                      | —             | (1.7 )       |
| Net income attributable to CBI   | \$ 302.4          | \$ 114.5                 | \$ 193.8                    | \$ (308.3 )   | \$ 302.4     |
| Comprehensive income attributable to CBI   | \$ 117.0          | \$ 115.0                 | \$ 6.2                      | \$ (121.2 )   | \$ 117.0     |





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|  | Parent<br>Company | Subsidiary<br>Guarantors | Subsidiary<br>Nonguarantors | Eliminations | Consolidated |
|--|-------------------|--------------------------|-----------------------------|--------------|--------------|
| (in millions)  |                   |                          |                             |              |              |
| Condensed Consolidating Statement of Cash Flows for the Six Months Ended August 31, 2016 |                   |                          |                             |              |              |
| Net cash provided by operating activities  | \$ 157.8          | \$ 563.3                 | \$ 815.8                    | \$ (492.0 )  | \$ 1,044.9   |
| Cash flows from investing activities:  |                   |                          |                             |              |              |
| Purchases of property, plant and equipment   | (5.6 )            | (73.3 )                  | (289.7 )                    | —            | (368.6 )     |
| Purchase of business   | —                 | (284.9 )                 | —                           | —            | (284.9 )     |
| Net proceeds from (repayments of) intercompany notes                                     | (39.0 )           | 5.0                      | —                           | 34.0         | —            |
| Net returns of capital from equity affiliates  | 335.4             | —                        | —                           | (335.4 )     | —            |
| Other investing activities   | 0.2               | (0.1 )                   | (0.2 )                      | —            | (0.1 )       |
| Net cash provided by (used in) investing activities                                      | 291.0             | (353.3 )                 | (289.9 )                    | (301.4 )     | (653.6 )     |
| Cash flows from financing activities:  |                   |                          |                             |              |              |
| Dividends paid to parent company   | —                 | —                        | (831.7 )                    | 831.7        | —            |
| Net contributions from (returns of capital to) equity affiliates                         | (0.4 )            | 4.7                      | —                           | (4.3 )       | —            |
| Net proceeds from (repayments of) intercompany notes                                     | 334.6             | (138.4 )                 | (162.2 )                    | (34.0 )      | —            |
| Principal payments of long-term debt   | (733.0 )          | (10.9 )                  | (98.5 )                     | —            | (842.4 )     |
| Net repayments of notes payable  | —                 | —                        | (295.8 )                    | —            | (295.8 )     |
| Dividends paid   | (158.8 )          | —                        | —                           | —            | (158.8 )     |
| Payments of minimum tax withholdings on stock-based payment awards                       | —                 | (61.6 )                  | (3.1 )                      | —            | (64.7 )      |
| Purchases of treasury stock  | (5.5 )            | —                        | —                           | —            | (5.5 )       |
| Payments of debt issuance costs  | —                 | —                        | (4.6 )                      | —            | (4.6 )       |
| Proceeds from issuance of long-term debt   | —                 | —                        | 940.6                       | —            | 940.6        |
| Excess tax benefits from stock-based payment awards                                      | 100.9             | —                        | —                           | —            | 100.9        |
| Proceeds from shares issued under equity compensation plans                              | 33.3              | —                        | —                           | —            | 33.3         |
| Net cash used in financing activities  | (428.9 )          | (206.2 )                 | (455.3 )                    | 793.4        | (297.0 )     |
| Effect of exchange rate changes on cash and cash equivalents                             | —                 | —                        | (0.1 )                      | —            | (0.1 )       |
| Net increase in cash and cash equivalents  | 19.9              | 3.8                      | 70.5                        | —            | 94.2         |
| Cash and cash equivalents, beginning of period   | 6.0               | 4.2                      | 72.9                        | —            | 83.1         |
| Cash and cash equivalents, end of period   | \$ 25.9           | \$ 8.0                   | \$ 143.4                    | \$ —         | \$ 177.3     |

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| (in millions)  | Parent<br>Company | Subsidiary<br>Guarantors | Subsidiary<br>Nonguarantors | Elimination | Consolidated |
|--|-------------------|--------------------------|-----------------------------|-------------|--------------|
| Condensed Consolidating Statement of Cash Flows for the Six Months Ended August 31, 2015 |                   |                          |                             |             |              |
| Net cash provided by (used in) operating activities                                      | \$(239.4 )        | \$ 495.1                 | \$ 547.4                    | \$ —        | \$ 803.1     |
| Cash flows from investing activities:  |                   |                          |                             |             |              |
| Purchases of property, plant and equipment   | (5.4 )            | (19.5 )                  | (269.9 )                    | —           | (294.8 )     |
| Purchase of business   | —                 | (316.2 )                 | (1.7 )                      | —           | (317.9 )     |
| Net proceeds from intercompany notes   | 139.4             | —                        | —                           | (139.4)     | —            |
| Net investments in equity affiliates   | (260.6 )          | —                        | —                           | 260.6       | —            |
| Other investing activities   | 2.0               | —                        | 1.7                         | —           | 3.7          |
| Net cash used in investing activities  | (124.6 )          | (335.7 )                 | (269.9 )                    | 121.2       | (609.0 )     |
| Cash flows from financing activities:  |                   |                          |                             |             |              |
| Net contributions from (returns of capital to) equity affiliates                         | —                 | (10.5 )                  | 271.1                       | (260.6)     | —            |
| Net proceeds from (repayments of) intercompany notes                                     | 308.4             | (103.6 )                 | (344.2 )                    | 139.4       | —            |
| Principal payments of long-term debt   | (31.5 )           | (9.5 )                   | (68.3 )                     | —           | (109.3 )     |
| Net repayments of notes payable  | —                 | —                        | (18.5 )                     | —           | (18.5 )      |
| Dividends paid   | (119.8 )          | —                        | —                           | —           | (119.8 )     |
| Payments of minimum tax withholdings on stock-based payment awards                       | —                 | (35.7 )                  | (2.7 )                      | —           | (38.4 )      |
| Payments of debt issuance costs  | (7.6 )            | —                        | —                           | —           | (7.6 )       |
| Proceeds from issuance of long-term debt   | 200.0             | —                        | —                           | —           | 200.0        |
| Excess tax benefits from stock-based payment awards                                      | 89.7              | —                        | —                           | —           | 89.7         |
| Proceeds from shares issued under equity compensation plans                              | 33.2              | —                        | —                           | —           | 33.2         |
| Net cash provided by (used in) financing activities                                      | 472.4             | (159.3 )                 | (162.6 )                    | (121.2)     | 29.3         |
| Effect of exchange rate changes on cash and cash equivalents                             | —                 | —                        | (3.8 )                      | —           | (3.8 )       |
| Net increase in cash and cash equivalents  | 108.4             | 0.1                      | 111.1                       | —           | 219.6        |
| Cash and cash equivalents, beginning of period   | 24.5              | 0.7                      | 84.9                        | —           | 110.1        |
| Cash and cash equivalents, end of period   | \$ 132.9          | \$ 0.8                   | \$ 196.0                    | \$ —        | \$ 329.7     |

**13. 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 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

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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 items.

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 Six<br>Months Ended<br>August 31,<br>2016 |           | For the Three<br>Months Ended<br>August 31,<br>2015 |           |
|--|---|-----------|---|-----------|
| (in millions)  |   |           |   |           |
| Cost of product sold   |   |           |   |           |
| Settlements of undesignated commodity derivative contracts     | \$ 15.1   | \$ 12.2   | \$ 6.8  | \$ 6.7    |
| Net gain (loss) on undesignated commodity derivative contracts | 7.7   | (16.4 )   | (5.4 )  | (11.2 )   |
| Flow through of inventory step-up                              | (11.5 )   | (1.2 )    | (3.4 )  | (1.2 )    |
| Amortization of favorable interim supply agreement             | (2.2 )  | (17.9 )   | —   | (9.0 )    |
| Total cost of product sold                                     | 9.1   | (23.3 )   | (2.0 )  | (14.7 )   |
| Selling, general and administrative expenses                   |   |           |   |           |
| Costs associated with a potential initial public offering      | (8.1 )  | —         | (4.4 )  | —         |
| Transaction, integration and other acquisition-related costs   | (5.3 )  | (10.8 )   | (3.0 )  | (5.5 )    |
| Restructuring and related charges                              | (1.0 )  | (14.3 )   | 0.1   | (1.3 )    |
| Total selling, general and administrative expenses             | (14.4 )   | (25.1 )   | (7.3 )  | (6.8 )    |
| Comparable Adjustments, Operating loss                         | \$(5.3 )  | \$(48.4 ) | \$(9.3 )  | \$(21.5 ) |

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 2016 Annual Report. Segment information is as follows:

|                               | For the Six Months<br>Ended August 31, |           | For the Three<br>Months Ended<br>August 31, |           |
|-------------------------------|--|-----------|---|-----------|
|                               | 2016                                   | 2015      | 2016  | 2015      |
| (in millions)                 |  |           |   |           |
| Beer                          |  |           |   |           |
| Net sales                     | \$2,373.5                              | \$1,985.3 | \$1,222.5                                   | \$1,019.5 |
| Segment operating income      | \$860.0                                | \$692.4   | \$450.7                                     | \$355.9   |
| Long-lived tangible assets    | \$2,449.4                              | \$1,630.8 | \$2,449.4                                   | \$1,630.8 |
| Total assets                  | \$10,255.6                             | \$8,461.5 | \$10,255.6                                  | \$8,461.5 |
| Capital expenditures          | \$303.9                                | \$260.7   | \$158.9                                     | \$149.2   |
| Depreciation and amortization | \$53.2                                 | \$27.9    | \$27.3                                      | \$13.6    |



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|  | For the Six Months<br>Ended August 31, |            | For the Three Months<br>Ended August 31, |            |
|--|--|------------|--|------------|
|  | 2016                                   | 2015       | 2016                                     | 2015       |
| (in millions)  |  |            |  |            |
| Wine and Spirits                                       |  |            |  |            |
| Net sales:   |  |            |  |            |
| Wine   | \$1,348.5                              | \$1,212.1  | \$705.4                                  | \$624.3    |
| Spirits  | 171.0                                  | 167.3      | 93.3                                     | 89.6       |
| Net sales  | \$1,519.5                              | \$1,379.4  | \$798.7                                  | \$713.9    |
| Segment operating income                               | \$373.7                                | \$320.1    | \$205.7                                  | \$175.9    |
| Equity in earnings (losses) of equity method investees | \$0.7                                  | \$1.2      | \$(0.1)                                  | \$0.2      |
| Long-lived tangible assets                             | \$1,048.3                              | \$1,030.0  | \$1,048.3                                | \$1,030.0  |
| Investments in equity method investees                 | \$76.5                                 | \$73.3     | \$76.5                                   | \$73.3     |
| Total assets   | \$7,073.0                              | \$6,725.7  | \$7,073.0                                | \$6,725.7  |
| Capital expenditures                                   | \$29.6                                 | \$31.9     | \$17.1                                   | \$15.2     |
| Depreciation and amortization                          | \$50.2                                 | \$51.6     | \$25.3                                   | \$27.4     |
| Corporate Operations and Other                         |  |            |  |            |
| Segment operating loss                                 | \$(64.8)                               | \$(57.4)   | \$(36.2)                                 | \$(30.9)   |
| Equity in earnings of equity method investees          | \$—                                    | \$—        | \$0.1                                    | \$—        |
| Long-lived tangible assets                             | \$134.4                                | \$112.5    | \$134.4                                  | \$112.5    |
| Investments in equity method investees                 | \$7.0                                  | \$1.0      | \$7.0                                    | \$1.0      |
| Total assets   | \$388.8                                | \$435.6    | \$388.8                                  | \$435.6    |
| Capital expenditures                                   | \$35.1                                 | \$2.2      | \$23.2                                   | \$0.7      |
| Depreciation and amortization                          | \$14.6                                 | \$14.0     | \$7.6                                    | \$6.7      |
| Comparable Adjustments                                 |  |            |  |            |
| Operating loss   | \$(5.3)                                | \$(48.4)   | \$(9.3)                                  | \$(21.5)   |
| Depreciation and amortization                          | \$2.2                                  | \$17.9     | \$—                                      | \$9.0      |
| Consolidated   |  |            |  |            |
| Net sales  | \$3,893.0                              | \$3,364.7  | \$2,021.2                                | \$1,733.4  |
| Operating income                                       | \$1,163.6                              | \$906.7    | \$610.9                                  | \$479.4    |
| Equity in earnings of equity method investees          | \$0.7                                  | \$1.2      | \$—                                      | \$0.2      |
| Long-lived tangible assets                             | \$3,632.1                              | \$2,773.3  | \$3,632.1                                | \$2,773.3  |
| Investments in equity method investees                 | \$83.5                                 | \$74.3     | \$83.5                                   | \$74.3     |
| Total assets   | \$17,717.4                             | \$15,622.8 | \$17,717.4                               | \$15,622.8 |
| Capital expenditures                                   | \$368.6                                | \$294.8    | \$199.2                                  | \$165.1    |
| Depreciation and amortization                          | \$120.2                                | \$111.4    | \$60.2                                   | \$56.7     |

## 14. ACCOUNTING GUIDANCE NOT YET ADOPTED:

## 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. A five step process will be utilized to recognize revenue, as follows: (i) identify the contract with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance

obligation. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We are required to adopt this guidance for our annual and interim periods beginning March 1, 2018,

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utilizing one of two methods: retrospective restatement for each reporting period presented at time of adoption, or retrospectively with the cumulative effect of initially applying this guidance recognized at the date of initial application. We are currently assessing the financial impact of this guidance on our consolidated financial statements.

### Leases –

In February 2016, the FASB issued guidance for the accounting for leases. Under this guidance, a lessee will recognize assets and liabilities for most leases, but will recognize expense similar to current lease accounting guidance. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. We are required to adopt this guidance for our annual and interim periods beginning March 1, 2019, using a modified retrospective approach. We are currently assessing the financial impact of this guidance on our consolidated financial statements.

### Stock compensation –

In March 2016, the FASB issued guidance for the accounting for certain aspects of share-based payment transactions. The guidance requires, among other things, the recognition of the income tax effect of awards in the income statement when the awards vest or are settled, thereby eliminating the recording of the income tax effect in additional paid-in capital. The guidance also requires cash flows from excess tax benefits along with other income tax cash flows to be classified as cash flows from operating activities. We are required to adopt this guidance for our annual and interim periods beginning March 1, 2017. We are currently assessing the financial impact of this guidance on our consolidated financial statements.

## 15. SUBSEQUENT EVENT:

### High West –

In September 2016, we signed a definitive agreement and plan of merger to acquire all of the issued and outstanding common and preferred membership interests of High West Holdings, LLC, for approximately \$160 million, subject to customary closing conditions and adjustments (“High West”). The acquisition includes a portfolio of high-end craft whiskeys and other select spirits offerings. The transaction is expected to close by the end of October. The results of operations of High West will be reported in the Wine and Spirits segment and will be included in our consolidated results of operations from the date of acquisition.

## 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 2016 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 on a business segment basis and a discussion of recent acquisitions.

- **Results of operations.** This section provides an analysis of our results of operations presented on a business segment basis. 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.

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### Overview

We are a leading international beverage alcohol company with a broad portfolio of consumer-preferred high-end imported and craft beer brands, premium wine and spirits brands, and other select beverage alcohol products. 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., the leading producer and marketer of wine in Canada, and a leading supplier of wine from New Zealand and Italy to our core North American markets.

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 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 business strategy in the Beer segment focuses on leading the high-end of the U.S. beer market. In connection with this strategy, we completed the expansion of our brewery located in Nava, Coahuila, Mexico (the "Nava Brewery") from 10 million hectoliters production capacity to 20 million hectoliters production capacity in June 2016. In addition, our business strategy includes:

- continued focus on growing our Mexican 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;
- completion of an additional 7.5 million hectoliters production capacity expansion of the Nava Brewery, from 20 million to 25 million by summer of calendar 2017 and from 25 million to 27.5 million by early calendar 2018;
- construction of a new, state-of-the-art brewery located in Mexicali, Baja California, Mexico (the "Mexicali Brewery");
- and
- participation in the fast-growing craft beer category.

Our business strategy in the Wine and Spirits segment is centered on continued focus on consumer-preferred premium wine brands, complemented by premium spirits. In this segment, we continue to focus on the premiumization of our branded wine and spirits portfolio (see "Recent Development" below). In markets where it is feasible, we have a consolidated 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. In addition, 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 include: Black Box, Clos du Bois,

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Estancia, Franciscan Estate, Inniskillin, Kim Crawford, Mark West, Meiomi, Mount Veeder, Nobilo, Robert Mondavi, Ruffino, Saved, Simi, SVEDKA Vodka, The Dreaming Tree, The Prisoner Brands and Wild Horse.

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 separate distribution networks utilized for our imported and craft beer portfolio and our wine and spirits portfolio. Within our next largest market, Canada, we offer a range of beverage alcohol products primarily across the branded wine category. 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, reduce borrowings and pay quarterly cash dividends.

### Recent Development

#### High West

In September 2016, we signed a definitive agreement and plan of merger to acquire High West for approximately \$160 million, subject to customary closing conditions and adjustments. The acquisition includes a portfolio of high-end craft whiskeys and other select spirits offerings. The transaction is expected to close by the end of October. The results of operations of High West will be reported in the Wine and Spirits segment and will be included in our consolidated results of operations from the date of acquisition.

#### Potential Canadian Wine Business Initial Public Offering

In April 2016, we announced our plan to evaluate the merits of executing an initial public offering for a portion of our Canadian wine business in order to create better visibility to this business and additional capital to develop higher growth, higher margin opportunities across our businesses. A decision regarding whether to pursue a potential initial public offering is expected to be made during calendar 2016.

### Acquisitions

#### Wine and Spirits Segment

##### Prisoner Acquisition

In April 2016, we acquired Prisoner, which primarily included the acquisition of trademarks, related inventories and certain grape supply contracts. This acquisition, which includes a portfolio of five fast-growing, higher-margin, super-luxury wine brands, aligns with our portfolio premiumization strategy and strengthens our position in the super-luxury wine category. The results of operations of Prisoner are reported in the Wine and Spirits segment and have been included in our consolidated results of operations from the date of acquisition.

##### Meiomi Acquisition

In August 2015, we acquired Meiomi, which primarily included the acquisition of the trademark, related inventories and certain grape supply contracts. The acquisition of this higher-margin, luxury growth brand has complemented our existing portfolio and further strengthened our position in the U.S. pinot noir category. The results of operations of Meiomi are reported in the Wine and Spirits segment and have been included in our consolidated results of operations

from the date of acquisition.

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Beer Segment

Ballast Point Acquisition

In December 2015, we acquired Ballast Point for \$998.5 million, net of cash acquired. The transaction primarily included the acquisition of goodwill, trademarks and property, plant and equipment. This acquisition provides us with a high-growth premium platform that enables us to compete in the fast-growing craft beer category, further strengthening our position in the high-end U.S. beer market. The results of operations of Ballast Point are reported in the Beer segment and have been included in our consolidated results of operations from the date of acquisition.

Results of Operations

Financial Highlights

References to organic throughout the following discussion exclude the impact of acquired brand activity in connection with the acquisitions of Prisoner and Meiomi (wine), and the acquisition of Ballast Point (beer), as appropriate.

For the three months ended August 31, 2016 (“Second Quarter 2017”), and August 31, 2015 (“Second Quarter 2016”):

Our results of operations benefited from improvements in both the Beer and Wine and Spirits segments.

Net sales increased 17% primarily due to strong consumer demand within the Mexican beer portfolio, organic volume growth within our branded wine and spirits portfolio and net sales from the acquired Ballast Point and Meiomi brands.

Operating income increased 27% primarily due to the strong consumer demand and the favorable impact from pricing in select markets within the Mexican beer portfolio and organic branded wine and spirits growth.

Net income attributable to CBI and diluted net income per common share attributable to CBI increased 19% and 17%, respectively, primarily due to the items discussed above, partially offset by a higher provision for income taxes.

For the six months ended August 31, 2016 (“Six Months 2017”), and August 31, 2015 (“Six Months 2016”):

Our results of operations benefited from improvements in both the Beer and Wine and Spirits segments.

Net sales increased 16% primarily due to strong consumer demand within the Mexican beer portfolio, net sales from the acquired Ballast Point and Meiomi brands, and organic volume growth within our branded wine portfolio.

Operating income increased 28% primarily due to the strong consumer demand and the favorable impact from pricing in select markets within the Mexican beer portfolio, benefits from the acquisitions of Ballast Point, Meiomi and Prisoner, and lower Comparable Adjustments.

Net income attributable to CBI and diluted net income per common share attributable to CBI increased 25% and 24%, respectively, primarily due to the items discussed above and lower growth in interest expense as compared with growth in operating income, partially offset by a higher provision for income taxes.





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## 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 items.

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

|  | Second<br>Quarter<br>2017 | Second<br>Quarter<br>2016 | Six<br>Months<br>2017 | Six<br>Months<br>2016 |
|--|---------------------------|---------------------------|-----------------------|-----------------------|
| (in millions)  |                           |                           |                       |                       |
| Cost of product sold   |                           |                           |                       |                       |
| Net gain (loss) on undesignated commodity derivative contracts | \$ (5.4 )                 | \$ (11.2 )                | \$ 7.7                | \$ (16.4 )            |
| Flow through of inventory step-up                              | (3.4 )                    | (1.2 )                    | (11.5 )               | (1.2 )                |
| Settlements of undesignated commodity derivative contracts     | 6.8                       | 6.7                       | 15.1                  | 12.2                  |
| Amortization of favorable interim supply agreement             | —                         | (9.0 )                    | (2.2 )                | (17.9 )               |
| Total cost of product sold                                     | (2.0 )                    | (14.7 )                   | 9.1                   | (23.3 )               |
| Selling, general and administrative expenses                   |                           |                           |                       |                       |
| Costs associated with a potential initial public offering      | (4.4 )                    | —                         | (8.1 )                | —                     |
| Transaction, integration and other acquisition-related costs   | (3.0 )                    | (5.5 )                    | (5.3 )                | (10.8 )               |
| Restructuring and related charges                              | 0.1                       | (1.3 )                    | (1.0 )                | (14.3 )               |
| Total selling, general and administrative expenses             | (7.3 )                    | (6.8 )                    | (14.4 )               | (25.1 )               |
| Loss on write-off of debt issuance costs                       | —                         | (1.1 )                    | —                     | (1.1 )                |
| Comparable Adjustments   | \$ (9.3 )                 | \$ (22.6 )                | \$ (5.3 )             | \$ (49.5 )            |

## 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.

## Inventory Step-Up

In connection with acquisitions, the allocation of purchase price in excess of book value for certain inventory on hand at the date of acquisition is referred to as inventory step-up. Inventory step-up represents an assumed manufacturing profit attributable to the acquired company prior to acquisition. Flow through of inventory step-up was associated with the Meiommi and Prisoner acquisitions.



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## Favorable Interim Supply Agreement

In connection with the June 2013 acquisition of the beer business, a temporary supply agreement was negotiated under a favorable pricing arrangement for the required volume of beer needed to fulfill expected U.S. demand in excess of the Nava Brewery's capacity. Amortization of favorable interim supply agreement reflects amounts associated with non-Nava Brewery product purchased from the date of acquisition which has been sold to our U.S. customers during the respective period.

## Selling, General and Administrative Expenses

## Costs Associated With A Potential Initial Public Offering

Costs associated with a potential initial public offering represent costs incurred in connection with our continuing evaluation of the merits of executing an initial public offering for a portion of our Canadian wine business.

## Transaction, Integration And Other Acquisition-Related Costs

Transaction, integration and other acquisition-related costs primarily represent costs associated with the continuing integration of the June 2013 beer business and the December 2014 glass production plant acquisitions.

## Restructuring And Related Charges

Restructuring and related charges consist primarily of employee termination benefit costs recognized in connection with our plan initiated in May 2015 to streamline and simplify processes, and shift resources and investment to long-term, profitable growth opportunities across the business.

## Second Quarter 2017 Compared to Second Quarter 2016

## Net Sales

|                        | Second<br>Quarter<br>2017 | Second<br>Quarter<br>2016 | % Increase |   |
|------------------------|---------------------------|---------------------------|------------|---|
| (in millions)          |                           |                           |            |   |
| Beer                   | \$1,222.5                 | \$1,019.5                 | 20         | % |
| Wine and Spirits:      |                           |                           |            |   |
| Wine                   | 705.4                     | 624.3                     | 13         | % |
| Spirits                | 93.3                      | 89.6                      | 4          | % |
| Total Wine and Spirits | 798.7                     | 713.9                     | 12         | % |
| Consolidated net sales | \$2,021.2                 | \$1,733.4                 | 17         | % |

Net sales increased \$287.8 million due to an increase in Beer's net sales of \$203.0 million driven predominantly by volume growth within our Mexican beer portfolio, and Wine and Spirits' net sales of \$84.8 million due largely to organic branded wine volume growth and net sales from the acquired Meiom and Prisoner brands.

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| Beer   | Second<br>Quarter<br>2017 | Second<br>Quarter<br>2016 | % Increase |   |
|--|---------------------------|---------------------------|------------|---|
| (in millions, branded product, 24-pack, 12-ounce case equivalents) |                           |                           |            |   |
| Net sales  | \$1,222.5                 | \$1,019.5                 | 20         | % |
| Shipment volume  |                           |                           |            |   |
| Total  | 73.9                      | 64.0                      | 15.5       | % |
| Organic  | 72.4                      | 64.0                      | 13.1       | % |
| Depletion volume <sup>(1)</sup>                                    |                           |                           | 13.8       | % |

The increase in Beer's net sales is primarily due to (i) the volume growth within our Mexican beer portfolio, which benefited from continued consumer demand, (ii) net sales from the acquired Ballast Point brand of \$46.0 million and (iii) a favorable impact from pricing in select markets within our Mexican beer portfolio.

| Wine and Spirits   | Second<br>Quarter<br>2017 | Second<br>Quarter<br>2016 | % Increase |   |
|--|---------------------------|---------------------------|------------|---|
| (in millions, branded product, 9-liter case equivalents) |                           |                           |            |   |
| Net sales  | \$798.7                   | \$713.9                   | 12         | % |
| Shipment volume  |                           |                           |            |   |
| Total  | 18.2                      | 17.0                      | 7.1        | % |
| Organic  | 18.0                      | 17.0                      | 5.9        | % |
| U.S. Domestic  | 14.2                      | 12.8                      | 10.9       | % |
| Organic U.S. Domestic                                    | 14.0                      | 12.8                      | 9.4        | % |
| U.S. Domestic Focus Brands                               | 8.2                       | 6.9                       | 18.8       | % |
| Organic U.S. Domestic Focus Brands                       | 8.0                       | 6.9                       | 15.9       | % |
| Depletion volume <sup>(1)</sup>                          |                           |                           |            |   |
| U.S. Domestic  |                           |                           | 3.3        | % |
| U.S. Domestic Focus Brands                               |                           |                           | 8.7        | % |

<sup>(1)</sup> Depletions represent distributor shipments of our respective branded products to retail customers, based on third-party data, including acquired brands from the date of acquisition and for the comparable prior year period.

The increase in Wine and Spirits' net sales is primarily due to (i) organic branded wine and spirits volume growth, (ii) net sales from the acquired Meiomi and Prisoner brands of \$26.0 million and (iii) favorable product mix shift (predominantly within the U.S. organic branded wine portfolio).

For Second Quarter 2017, U.S. shipment volume growth has outpaced depletion volume growth primarily due to timing of shipments. Accordingly, shipment volume growth is expected to lag depletion volume growth in the last half of fiscal 2017 as we expect U.S. shipment volume growth to be generally aligned with depletion volume growth for Fiscal 2017.



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## Gross Profit

|                               | Second<br>Quarter<br>2017 | Second<br>Quarter<br>2016 | % Increase |   |
|-------------------------------|---------------------------|---------------------------|------------|---|
| (in millions)                 |                           |                           |            |   |
| Beer                          | \$615.5                   | \$493.2                   | 25         | % |
| Wine and Spirits              | 355.5                     | 297.1                     | 20         | % |
| Comparable Adjustments (2.0 ) | (14.7 )                   |                           | 86         | % |
| Consolidated gross profit     | \$969.0                   | \$775.6                   | 25         | % |

Gross profit increased \$193.4 million due to an increase in Beer of \$122.3 million and Wine and Spirits of \$58.4 million, combined with a decrease in Comparable Adjustments of \$12.7 million. The increase in Beer is primarily due to (i) the volume growth and the favorable impact from pricing in select markets within our Mexican beer portfolio, (ii) gross profit from the acquired Ballast Point brand and (iii) lower cost of product sold for our organic beer business. The lower cost of product sold is primarily due to lower freight costs and a favorable impact from foreign currency, partially offset by higher depreciation expense. The increase in Wine and Spirits is primarily due to growth from the organic wine and spirits business, including (i) the branded wine and spirits volume growth, (ii) the favorable product mix shift and (iii) lower cost of product sold; combined with gross profit from the acquired Meiomi and Prisoner brands.

Gross profit as a percent of net sales increased to 47.9% for Second Quarter 2017 compared with 44.7% for Second Quarter 2016 primarily due to (i) lower cost of product sold across both segments, (ii) the favorable impact from Beer pricing in select markets and (iii) the decrease in Comparable Adjustments.

## Selling, General and Administrative Expenses

|   | Second<br>Quarter<br>2017 | Second<br>Quarter<br>2016 | % Increase |   |
|---|---------------------------|---------------------------|------------|---|
| (in millions)   |                           |                           |            |   |
| Beer  | \$164.8                   | \$137.3                   | 20         | % |
| Wine and Spirits  | 149.8                     | 121.2                     | 24         | % |
| Corporate Operations and Other                            | 36.2                      | 30.9                      | 17         | % |
| Comparable Adjustments                                    | 7.3                       | 6.8                       | 7          | % |
| Consolidated selling, general and administrative expenses | \$358.1                   | \$296.2                   | 21         | % |

Selling, general and administrative expenses increased \$61.9 million primarily due to increases in Wine and Spirits of \$28.6 million, Beer of \$27.5 million and Corporate Operations and Other of \$5.3 million.

The increase in Wine and Spirits is primarily due to increases in general and administrative expenses of \$19.1 million and marketing spend of \$9.7 million. The increase in general and administrative expenses is predominantly driven by higher compensation and benefits supporting the organic growth of the business and an overlap of prior year foreign currency transaction gains with current year foreign currency transaction losses. The increase in marketing spend is due largely to planned investment to support the growth of our branded wine and spirits portfolio.

The increase in Beer is primarily due to increases in marketing spend of \$14.6 million and general and administrative expenses of \$12.9 million. The increase in marketing spend is due largely to planned investment to support the growth of our Mexican beer portfolio. The increase in general and administrative expenses is predominantly driven by (i) higher compensation and benefits supporting the organic growth of the business and (ii) the acquired Ballast Point business.



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The increase in Corporate Operations and Other is due to higher general and administrative expenses largely attributable to (i) an overlap of prior year foreign currency transaction gains with current year foreign currency transaction losses and (ii) increased consulting and compensation and benefits primarily supporting the growth of the business.

Selling, general and administrative expenses as a percent of net sales increased to 17.7% for Second Quarter 2017 as compared with 17.1% for Second Quarter 2016 primarily due to the growth of Wine and Spirits' selling, general and administrative expenses exceeding the growth in net sales for the Wine and Spirits segment.

## Operating Income

|                                | Second<br>Quarter<br>2017 | Second<br>Quarter<br>2016 | % Increase<br>(Decrease) |    |
|--------------------------------|---------------------------|---------------------------|--------------------------|----|
| (in millions)                  |                           |                           |                          |    |
| Beer                           | \$450.7                   | \$355.9                   | 27                       | %  |
| Wine and Spirits               | 205.7                     | 175.9                     | 17                       | %  |
| Corporate Operations and Other | (36.2 )                   | (30.9 )                   | (17                      | %) |
| Comparable Adjustments         | (9.3 )                    | (21.5 )                   | 57                       | %  |
| Consolidated operating income  | \$610.9                   | \$479.4                   | 27                       | %  |

Operating income increased \$131.5 million primarily due to the growth in our Beer and Wine and Spirits segments due largely to the factors discussed above. In addition, the decrease in Comparable Adjustments contributed to an increase in operating income of \$12.2 million.

## Interest Expense

Interest expense increased to \$94.1 million for Second Quarter 2017 from \$77.3 million for Second Quarter 2016, an increase of \$16.8 million, or 22%. This increase was primarily due to higher average borrowings in connection with the issuance of the December 2015 senior notes, the proceeds of which were used to fund a portion of the purchase price for the acquisition of Ballast Point. In addition, interest expense increased in connection with the conversion of noncontrolling equity interest to long-term debt associated with our glass production plant joint venture (refer to Notes 1 and 7 of the Financial Statements).

## Provision for Income Taxes

Our effective tax rate for Second Quarter 2017 and Second Quarter 2016 was 31.7% and 24.2%, respectively. For Second Quarter 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. For Second Quarter 2016, our effective tax rate was lower than the federal statutory rate primarily due to a decrease in uncertain tax positions and lower effective tax rates applicable to our foreign businesses.

We continue to expect our effective tax rate for Fiscal 2017 to be in the range of 28% to 31%. The lower end of our range currently reflects our expectation that certain factors may be resolved later in Fiscal 2017 which will allow us to assert our intent that certain earnings of foreign subsidiaries will be permanently reinvested.

## Net Income Attributable to CBI

As a result of the above factors, net income attributable to CBI increased to \$358.9 million for Second Quarter 2017 from \$302.4 million for Second Quarter 2016, an increase of \$56.5 million, or 19%.





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## Six Months 2017 Compared to Six Months 2016

## Net Sales

|                        | Six<br>Months<br>2017 | Six<br>Months<br>2016 | % Increase |   |
|------------------------|-----------------------|-----------------------|------------|---|
| (in millions)          |                       |                       |            |   |
| Beer                   | \$2,373.5             | \$1,985.3             | 20         | % |
| Wine and Spirits:      |                       |                       |            |   |
| Wine                   | 1,348.5               | 1,212.1               | 11         | % |
| Spirits                | 171.0                 | 167.3                 | 2          | % |
| Total Wine and Spirits | 1,519.5               | 1,379.4               | 10         | % |
| Consolidated net sales | \$3,893.0             | \$3,364.7             | 16         | % |

Net sales increased \$528.3 million due to an increase in Beer's net sales of \$388.2 million driven predominantly by volume growth within our Mexican beer portfolio, and Wine and Spirits' net sales of \$140.1 million due largely to organic branded wine volume growth and net sales from the acquired Meiomi and Prisoner brands.

| Beer   | Six<br>Months<br>2017 | Six<br>Months<br>2016 | % Increase |   |
|--|-----------------------|-----------------------|------------|---|
| (in millions, branded product, 24-pack, 12-ounce case equivalents) |                       |                       |            |   |
| Net sales  | \$2,373.5             | \$1,985.3             | 20         | % |
| Shipment volume  |                       |                       |            |   |
| Total  | 142.8                 | 124.3                 | 14.9       | % |
| Organic  | 139.9                 | 124.3                 | 12.6       | % |
| Depletion volume <sup>(1)</sup>                                    |                       |                       | 11.9       | % |

The increase in Beer's net sales is primarily due to (i) the volume growth within our Mexican beer portfolio, which benefited from continued consumer demand, (ii) net sales from the acquired Ballast Point brand of \$88.4 million and (iii) a favorable impact from pricing in select markets within our Mexican beer portfolio.

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|  | Six<br>Months<br>2017 | Six<br>Months<br>2016 | % Increase |   |
|--|-----------------------|-----------------------|------------|---|
| Wine and Spirits   |                       |                       |            |   |
| (in millions, branded product, 9-liter case equivalents) |                       |                       |            |   |
| Net sales  | \$1,519.5             | \$1,379.4             | 10         | % |
| Shipment volume  |                       |                       |            |   |
| Total  | 34.6                  | 32.7                  | 5.8        | % |
| Organic  | 34.1                  | 32.7                  | 4.3        | % |
| U.S. Domestic  | 26.6                  | 24.5                  | 8.6        | % |
| Organic U.S. Domestic                                    | 26.1                  | 24.5                  | 6.5        | % |
| U.S. Domestic Focus Brands                               | 15.3                  | 13.2                  | 15.9       | % |
| Organic U.S. Domestic Focus Brands                       | 14.8                  | 13.2                  | 12.1       | % |
| Depletion volume <sup>(1)</sup>                          |                       |                       |            |   |
| U.S. Domestic  |                       |                       | 4.1        | % |
| U.S. Domestic Focus Brands                               |                       |                       | 10.2       | % |

(1) Depletions represent distributor shipments of our respective branded products to retail customers, based on third-party data, including acquired brands from the date of acquisition and for the comparable prior year period.

The increase in Wine and Spirits' net sales is primarily due to (i) organic branded wine volume growth, (ii) net sales from the acquired Meiom and Prisoner brands of \$66.2 million and (iii) favorable product mix shift (predominantly within the U.S. organic branded wine portfolio).

For Six Months 2017, U.S. shipment volume growth has outpaced depletion volume growth primarily due to timing of shipments in the second quarter of fiscal 2017. Accordingly, shipment volume growth is expected to lag depletion volume growth in the last half of fiscal 2017 as we expect U.S. shipment volume growth to be generally aligned with depletion volume growth for Fiscal 2017.

## Gross Profit

|                           | Six<br>Months<br>2017 | Six<br>Months<br>2016 | % Increase |    |
|---------------------------|-----------------------|-----------------------|------------|----|
| (in millions)             |                       |                       |            |    |
| Beer                      | \$1,187.7             | \$968.1               | 23         | %  |
| Wine and Spirits          | 653.5                 | 567.9                 | 15         | %  |
| Comparable Adjustments    | 9.1                   | (23.3)                |            | NM |
| Consolidated gross profit | \$1,850.3             | \$1,512.7             | 22         | %  |

NM = Not meaningful

Gross profit increased \$337.6 million primarily due to an increase in Beer of \$219.6 million and Wine and Spirits of \$85.6 million. In addition, the change in Comparable Adjustments contributed to an increase in gross profit of \$32.4 million. The increase in Beer is primarily due to (i) the volume growth and the favorable impact from pricing in select markets within our Mexican beer portfolio, (ii) gross profit from the acquired Ballast Point brand and (iii) lower cost of product sold for our organic beer business. The lower cost of product sold is primarily due to a favorable impact

from foreign currency and lower freight costs, partially offset by higher depreciation expense. The increase in Wine and Spirits is primarily due to (i) gross profit from the acquired Meiom and Prisoner brands and (ii) growth from the organic wine and spirits business driven primarily by the branded wine volume growth and the favorable product mix shift.

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Gross profit as a percent of net sales increased to 47.5% for Six Months 2017 compared to 45.0% for Six Months 2016 primarily due to (i) the change in Comparable Adjustments, (ii) the favorable impact from Beer pricing in select markets, (iii) lower cost of product sold across both segments and (iv) the acquisitions of Meiom and Prisoner.

## Selling, General and Administrative Expenses

|   | Six<br>Months<br>2017 | Six<br>Months<br>2016 | % Increase<br>(Decrease) |    |
|---|-----------------------|-----------------------|--------------------------|----|
| (in millions)   |                       |                       |                          |    |
| Beer  | \$ 327.7              | \$ 275.7              | 19                       | %  |
| Wine and Spirits  | 279.8                 | 247.8                 | 13                       | %  |
| Corporate Operations and Other                            | 64.8                  | 57.4                  | 13                       | %  |
| Comparable Adjustments                                    | 14.4                  | 25.1                  | (43                      | %) |
| Consolidated selling, general and administrative expenses | \$ 686.7              | \$ 606.0              | 13                       | %  |

Selling, general and administrative expenses increased \$80.7 million. This increase is due to increases in Beer of \$52.0 million, Wine and Spirits of \$32.0 million and Corporate Operations and Other of \$7.4 million, partially offset by a decrease in Comparable Adjustments of \$10.7 million.

The increase in Beer is primarily due to increases in general and administrative expenses of \$29.4 million and marketing spend of \$22.6 million. The increase in general and administrative expenses is predominantly driven by the acquired Ballast Point business and higher compensation and benefits supporting the organic growth of the business. The increase in marketing spend is due largely to planned investment to support the growth of our Mexican beer portfolio.

The increase in Wine and Spirits is primarily due to increases in general and administrative expenses of \$18.5 million and marketing spend of \$14.1 million. The increase in general and administrative expenses is predominantly driven by higher compensation and benefits supporting the growth of the business and an overlap of prior year foreign currency transaction gains with current year foreign currency transaction losses. The increase in marketing spend is due largely to planned investment to support the growth of our branded wine and spirits portfolio.

The increase in Corporate Operations and Other is due to higher general and administrative expenses primarily attributable to (i) higher compensation and benefits, (ii) an overlap of prior year foreign currency transaction gains with current year foreign currency transaction losses and (iii) higher consulting and information technology expenses. The increases in compensation and benefits and consulting and information technology expenses are both largely attributable to supporting the growth of the business.

Selling, general and administrative expenses as a percent of net sales decreased to 17.6% for Six Months 2017 as compared to 18.0% for Six Months 2016. The decrease is due to (i) growth in net sales having exceeded growth in selling, general and administrative expenses for the Beer segment and (ii) the decrease in Comparable Adjustments; partially offset by (i) growth in selling, general and administrative expenses having exceeded growth in net sales for the Wine and Spirits segment and (ii) the higher general and administrative expenses for Corporate Operations and Other.



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## Operating Income

|                                | Six<br>Months<br>2017 | Six<br>Months<br>2016 | % Increase<br>(Decrease) |
|--------------------------------|-----------------------|-----------------------|--------------------------|
| (in millions)                  |                       |                       |                          |
| Beer                           | \$860.0               | \$692.4               | 24%                      |
| Wine and Spirits               | 373.7                 | 320.1                 | 17%                      |
| Corporate Operations and Other | (64.8 )               | (57.4 )               | (13%)                    |
| Comparable Adjustments         | (5.3 )                | (48.4 )               | 89%                      |
| Consolidated operating income  | \$1,163.6             | \$906.7               | 28%                      |

Operating income increased \$256.9 million primarily due to the growth in the Beer segment driven largely by the strong volume growth and favorable impact from pricing in select markets, and growth in the Wine and Spirits segment driven predominantly by the benefit from the acquisitions of Meiom and Prisoner and the organic volume growth. In addition, the decrease in Comparable Adjustments contributed to an increase in operating income of \$43.1 million.

## Interest Expense

Interest expense increased to \$178.7 million for Six Months 2017 from \$154.8 million for Six Months 2016, an increase of \$23.9 million, or 15%. This increase was primarily due to higher average borrowings in connection with the issuance of the December 2015 senior notes, the proceeds of which were used to fund a portion of the purchase price for the acquisition of Ballast Point. In addition, interest expense increased in connection with the conversion of noncontrolling equity interest to long-term debt associated with our glass production plant joint venture.

## Provision for Income Taxes

Our effective tax rate for Six Months 2017 and Six Months 2016 was 31.8% and 27.6%, respectively. For Six Months 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. For Six Months 2016, our effective tax rate was lower than the federal statutory rate primarily due to a decrease in uncertain tax positions and lower effective tax rates applicable to our foreign businesses.

We continue to expect our effective tax rate for Fiscal 2017 to be in the range of 28% to 31%. The lower end of our range currently reflects our expectation that certain factors may be resolved later in Fiscal 2017 which will allow us to assert our intent that certain earnings of foreign subsidiaries will be permanently reinvested.

## Net Income Attributable to CBI

As a result of the above factors, net income attributable to CBI increased to \$677.2 million for Six Months 2017 from \$541.0 million for Six Months 2016, an increase of \$136.2 million, or 25%.

## 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

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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. We will continue to use our short-term borrowings, including our accounts receivable securitization facilities, 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 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, including (i) our Nava Brewery and glass production plant expansions and (ii) our Mexicali Brewery construction.

## Senior Credit Facility

In March 2016, we entered into a Restatement Agreement that amended and restated our prior senior credit facility. Among other things, the Restatement Agreement created a new \$700.0 million European Term A-1 loan facility maturing on March 10, 2021. Proceeds from borrowings under the 2016 Credit Agreement were used to refinance outstanding obligations under our prior senior credit facility and short-term borrowings under our accounts receivable securitization facilities, and for other general corporate purposes.

For additional information with respect to this and other borrowings, refer to Note 7 of the Financial Statements.

## Cash Flows

|  | Six<br>Months<br>2017 | Six<br>Months<br>2016 |
|--|-----------------------|-----------------------|
| (in millions)  |                       |                       |
| Net cash provided by operating activities                    | \$1,044.9             | \$803.1               |
| Net cash used in investing activities                        | (653.6 )              | (609.0 )              |
| Net cash provided by (used in) financing activities          | (297.0 )              | 29.3                  |
| Effect of exchange rate changes on cash and cash equivalents | (0.1 )                | (3.8 )                |
| Net increase in cash and cash equivalents                    | \$94.2                | \$219.6               |

## Operating Activities

Net cash provided by operating activities increased \$241.8 million for Six Months 2017 driven largely by strong cash flow from the Beer and Wine and Spirits segments. The increase in Beer was primarily due to strong volume growth and favorable pricing in the Mexican beer portfolio, partially offset by (i) an increase in prepaid value-added taxes predominately attributable to timing and (ii) an increase in beer inventory levels to support the continuing growth within the Mexican beer portfolio. The increase in Wine and Spirits resulted primarily from (i) accounts receivable inflows from strong net sales in the fourth quarter of fiscal 2016, (ii) an increase in distributor payments due largely to timing of receipt of payments in fiscal 2017 and (iii) inflows from lower inventory in connection with the strong Second Quarter 2017 net sales.

## Investing Activities

Net cash used in investing activities increased \$44.6 million for Six Months 2017. This increase resulted primarily from additional purchases of property plant and equipment for Six Months 2017 driven largely by the Nava Brewery

and glass production plant expansions and Mexicali Brewery construction. This increase was partially offset by the slightly lower purchase price for the April 2016 acquisition of Prisoner as compared with the August 2015 acquisition of Meiom.

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In connection with a shift in the timing of spend associated with our Nava Brewery expansion activities, we have revised our planned capital expenditures for Fiscal 2017 to be in the range of \$1.125 billion to \$1.225 billion, including from \$1.025 billion to \$1.125 billion for the Beer Segment associated primarily with (i) the Nava Brewery and the adjacent glass plant facility expansions and (ii) the Mexicali Brewery build.

Financing Activities

Net cash used in financing activities increased \$326.3 million for Six Months 2017 primarily from the following:

- Six Months 2017 principal payments of long-term debt for the repayment of the August 2006 Senior Notes of \$700.0 million;
- Six Months 2017 net repayments of notes payable of \$295.8 million compared with Six Months 2016 net repayments of notes payable of \$18.5 million;
- Increased quarterly cash dividend payments; and
- Increased payments of minimum tax withholdings on stock-based payment awards;

partially offset by:

- Six Months 2017 proceeds from issuance of long-term debt of \$700.0 million from term loan borrowings under the 2016 Credit Agreement (used to refinance borrowings under our prior senior credit facility and accounts receivable securitization facilities, and for other general corporate purposes);
- Six Months 2017 proceeds from issuance of long-term debt of C\$275.0 million (\$214.1 million at issuance) from term loan borrowings under the Canadian Credit Agreement (used for general corporate purposes); compared with
- Six Months 2016 proceeds from issuance of long-term debt of \$200.0 million from term loan borrowings under our prior senior credit facility (used to fund a portion of the purchase price for the acquisition of Meiom).

Debt

Total debt outstanding as of August 31, 2016, amounted to \$8,029.0 million, a decrease of \$52.2 million from February 29, 2016. This decrease was due largely to the repayment of the August 2006 Senior Notes and the net repayments of notes payable, partially offset by proceeds from the issuance of the European Term A-1 loan borrowings under the 2016 Credit Agreement.

The majority of our outstanding borrowings as of August 31, 2016, consisted of fixed-rate senior unsecured notes, with maturities ranging from calendar 2017 to calendar 2025, and variable-rate senior secured term loan facilities under our 2016 Credit Agreement, with maturities ranging from calendar 2020 to calendar 2021.

We had the following borrowing capacity available under our 2016 Credit Agreement and our accounts receivable securitization facilities:

|                           | Remaining Borrowing Capacity |                    |
|---------------------------|------------------------------|--------------------|
|                           | August 31, 2016              | September 30, 2016 |
| (in millions)             |                              |                    |
| Revolving Credit Facility | \$ 1,133.2                   | \$ 1,133.2         |
| CBI Facility              | \$ 300.0                     | \$ 300.0           |
| Crown Facility            | \$ 105.0                     | \$ 22.0            |

The financial institutions participating in our 2016 Credit Agreement and our accounts receivable securitization facilities have complied with all prior funding requests and we believe such financial institutions will

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comply with any future funding requests. However, there can be no assurances that any particular financial institution will continue to do so.

As of August 31, 2016, we also have additional credit arrangements totaling \$807.2 million, with \$461.6 million outstanding under these arrangements. These arrangements primarily support the financing needs of our domestic and foreign subsidiary operations, as well as our glass production plant joint venture.

We have entered into various interest rate swap agreements to manage our exposure to the volatility of the interest rates associated with our variable-rate senior secured term loan facilities. As a result of these hedges, we have fixed our interest rates on \$250.0 million of our floating LIBOR rate debt at an average rate of 1.1% (exclusive of borrowing margins) through July 1, 2020.

We and our subsidiaries are subject to covenants that are contained in the 2016 Credit Agreement, including those restricting the incurrence of additional indebtedness (including guarantees of indebtedness), additional liens, mergers and consolidations, the payment of dividends, the making of certain investments, prepayments of certain debt, transactions with affiliates, agreements that restrict our non-guarantor subsidiaries from paying dividends, and dispositions of property, 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 debt coverage ratio, both as defined in the 2016 Credit Agreement. As of August 31, 2016, the minimum interest coverage ratio was 2.5x and the maximum net debt coverage ratio was 5.5x.

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 August 31, 2016, we were in compliance with all of our covenants under both our 2016 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 11 of our consolidated financial statements included in our 2016 Annual Report and Note 7 of the Financial Statements included herein.

### Common Stock Dividends

On October 4, 2016, our Board of Directors declared a quarterly cash dividend of \$0.40 per share of Class A Common Stock, \$0.36 per share of Class B Convertible Common Stock and \$0.36 per share of Class 1 Common Stock payable on November 22, 2016, to stockholders of record of each class on November 8, 2016.

We currently expect to pay quarterly cash dividends on 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 2016 Annual Report.

### Share Repurchase Program

Our Board of Directors authorized the repurchase of up to \$1.0 billion of our Class A Common Stock and Class B Convertible Common Stock under the 2013 Authorization. Shares repurchased under this authorization have become treasury shares.

As of October 5, 2016, total shares repurchased under this authorization are as follows:



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|                                  | Repurchase<br>Authorization | Class A Common Shares<br>Dollar<br>Value<br>of<br>Shares<br>Repurchased | Number of Shares Repurchased |
|----------------------------------|-----------------------------|---|------------------------------|
| (in millions, except share data) |                             |   |                              |
| 2013 Authorization               | \$ 1,000.0                  | \$357.9   | 14,437,939                   |

Share repurchases under the 2013 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, proceeds from borrowings under the accounts receivable securitization facilities or proceeds from revolver borrowings under our senior credit facility. Any repurchased shares will become treasury shares.

For additional information, refer to Note 14 of our consolidated financial statements included in our 2016 Annual Report and Note 9 of the Financial Statements included herein.

## Accounting Guidance Not Yet Adopted

Accounting guidance adopted on March 1, 2016, did not have a material impact on our consolidated financial statements. For further information on accounting guidance not yet adopted, refer to Note 14 of the Financial Statements.

## 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 financial position, prospects, plans and objectives of management, (ii) information concerning expected or potential actions of third parties, (iii) timing and source of funds for operating activities, (iv) the duration of the share repurchase program and source of funds for share repurchases, and (v) the amount and timing of future dividends, (II) the statements regarding our Mexicali Brewery construction and the expansions of our Nava Brewery and our glass production plant, including anticipated costs and timeframes for completion, (III) the statements regarding the acquisition of High West Holdings, LLC, and (IV) the statements regarding a decision whether to pursue an initial public offering for a portion of our Canadian wine business 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 demand for our products will vary from current expectations due to, among other reasons, actual shipments to distributors and actual consumer demand, (ii) 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 acquisition of the beer business, Mexicali Brewery construction and Nava Brewery and glass production plant expansions, and other factors as determined by management from time to time, (iii) the amount and timing of future dividends may differ

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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, (iv) the timeframe and actual costs associated with the Mexicali Brewery construction and the expansions of our Nava Brewery and our glass production plant may vary from management's current expectations due to market conditions, our cash and debt position, receipt of all required permits and regulatory approvals by the expected dates and on the expected terms, and other factors as determined by management, (v) the acquisition of High West Holdings, LLC is subject to regulatory approvals and certain closing conditions, and (vi) the decision whether to pursue an initial public offering of a portion of our Canadian wine business is subject to the determination and discretion of the Company. For additional information about risks and uncertainties that could adversely affect our forward-looking statements, please refer to Item 1A "Risk Factors" of our 2016 Annual Report.

## 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 and interest rates. 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 agreements and interest rate swap agreements. 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 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 or joint venture investments outside the U.S. As of August 31, 2016, we had exposures to foreign currency risk primarily related to the Mexican peso, Canadian dollar, New Zealand dollar and euro. Approximately 69% of our balance sheet exposures and forecasted transactional exposures for the remaining six months of fiscal 2017 were hedged as of August 31, 2016.

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 August 31, 2016, exposures to commodity price risk which we are currently hedging primarily include diesel fuel, heating oil, corn and aluminum prices. Approximately 74% of our forecasted transactional exposures for the remaining six months of fiscal 2017 were hedged as of August 31, 2016.

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<br>Notional Value |                    | Fair Value,<br>Net Liability |                    | Increase<br>in Fair Value –<br>Hypothetical<br>10% Adverse<br>Change |                    |
|-----------------------------|--------------------|------------------------------|--------------------|--|--------------------|
| August 31,<br>2016          | August 31,<br>2015 | August 31,<br>2016           | August 31,<br>2015 | August 31,<br>2016   | August 31,<br>2015 |

(in millions)

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|                                |           |           |        |        |        |        |
|--------------------------------|-----------|-----------|--------|--------|--------|--------|
| Foreign currency contracts     | \$1,370.5 | \$1,573.5 | \$41.2 | \$60.4 | \$51.6 | \$70.5 |
| Commodity derivative contracts | \$186.3   | \$214.5   | \$22.7 | \$30.8 | \$13.5 | \$18.2 |

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## 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 August 31, 2016, and August 31, 2015, we had outstanding cash flow designated interest rate swap agreements which fixed LIBOR interest rates (to minimize interest rate volatility) on \$750.0 million and \$500.0 million, respectively, of our floating LIBOR rate debt. In addition, as of August 31, 2016, and August 31, 2015, we had outstanding offsetting undesignated interest rate swap agreements.

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, and open interest rate derivative instruments are summarized as follows:

|                              | Aggregate<br>Notional Value |                    | Fair Value,<br>Net Liability |                    | Decrease<br>in Fair Value –<br>Hypothetical<br>1% Rate Increase |                    |
|------------------------------|-----------------------------|--------------------|------------------------------|--------------------|---|--------------------|
|                              | August 31,<br>2016          | August 31,<br>2015 | August 31,<br>2016           | August 31,<br>2015 | August 31,<br>2016  | August 31,<br>2015 |
| (in millions)                |                             |                    |                              |                    |   |                    |
| Fixed interest rate debt     | \$4,099.0                   | \$4,397.4          | \$4,409.7                    | \$4,576.1          | \$(206.7)   | \$(202.6)          |
| Variable interest rate debt  | \$3,979.9                   | \$3,027.1          | \$3,815.9                    | \$2,599.3          | \$(119.7)   | \$(104.9)          |
| Interest rate swap contracts | \$1,750.0                   | \$1,500.0          | \$3.7                        | \$14.7             | \$(8.9)   | \$(3.9)            |

For additional discussion on our market risk, refer to Notes 3 and 4 of the Financial Statements.

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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 August 31, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

As previously reported, an action had been filed by private parties against the Company, Anheuser-Busch InBev SA/NV ("ABI"), and Grupo Modelo, S.A.B. de C.V. ("Modelo") alleging certain antitrust claims and seeking to enjoin the proposed transaction between ABI and Modelo. On June 4, 2013, the United States District Court of the Northern District of California ("Northern District") denied Plaintiffs' Motion for a Temporary Restraining Order and the transaction between ABI and Modelo was consummated on June 7, 2013. Plaintiffs' Second Amended and Supplemental Complaint was filed June 25, 2013, and dismissed by the Northern District on September 13, 2013, and the district judge denied Plaintiffs' other procedural motions. Plaintiffs filed their Motion for Relief from Judgment Pursuant to Fed. R. Civ. P. 59(e) or 60(b), or in the alternative, Rule 60(d) on November 11, 2013 and the Motion was denied by the Northern District on January 24, 2014. Plaintiffs filed a Notice of Appeal on February 21, 2014. Plaintiffs, now Appellants, filed their opening brief on August 29, 2014, and the Company and ABI/Modelo filed their answering briefs on October 29, 2014. Appellants' reply brief was filed January 21, 2015. Oral argument was conducted before the United States Court of Appeals for the Ninth Circuit on March 15, 2016. On April 4, 2016, the Ninth Circuit affirmed the Northern District's dismissal of the Complaint without leave to amend and affirmed that the Northern District was within its discretion to deny Plaintiffs' motion. On April 18, 2016, the Ninth Circuit approved Appellants' motion to extend the date by which Appellants must file any petition for rehearing and/or rehearing en banc and ordered that any petition be filed on or before May 4, 2016. As previously reported on the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2016, Appellants filed on May 4, 2016, their petition for rehearing with a suggestion for rehearing en banc. On August 30, 2016, Appellants petitioned the Supreme Court of the United States (the "U.S. Supreme Court") for a Writ of Certiorari, which the U.S. Supreme Court denied on October 3, 2016. Consequently, the decision of the Ninth Circuit, affirming the Northern District's dismissal of the Complaint, remains unchanged.



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## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

## ISSUER PURCHASES OF EQUITY SECURITIES

| Period              | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price<br>Paid<br>Per<br>Share | Total<br>Number<br>of Shares<br>Purchased<br>as<br>Part of a<br>Publicly<br>Announced<br>Program | Approximate<br>Dollar Value<br>of Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Program <sup>(1)</sup> <sup>(2)</sup> |
|---------------------|---|--|--|--|
| June 1 – 30, 2016   | —   | \$—                                      | —  | \$668,549,232  |
| July 1 – 31, 2016   | —   | —  | —  | \$668,549,232  |
| August 1 – 31, 2016 | 27,091                                    | 166.10                                   | 14,304,628   | \$664,049,399  |
| Total               | 27,091                                    | \$166.10                                 | 14,304,628   |  |

In April 2012, our Board of Directors authorized the repurchase of up to an aggregate amount of \$1.0 billion of our <sup>(1)</sup> Class A Common Stock and Class B Convertible Common Stock under the 2013 Authorization. The Board of Directors did not specify a date upon which the 2013 Authorization would expire.

<sup>(2)</sup> We entered into a trading plan under Rule 10b5-1 effective for repurchases on and after August 31, 2016, through October 7, 2016. Subsequent to August 31, 2016, we repurchased 133,311 shares of Class A Common Stock at an aggregate cost of \$21.9 million, or an average cost of \$164.53 per share, through open market transactions.

## 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 located on page 49 of this report. The Index to Exhibits is incorporated herein by reference.

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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: October 5, 2016 By: /s/ Lisa M. Schnorr  
Lisa M. Schnorr, Senior Vice President  
and Controller

Date: October 5, 2016 By: /s/ David Klein  
David Klein, Executive Vice President and  
Chief Financial Officer (principal financial  
officer and principal accounting officer)

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INDEX TO EXHIBITS

Exhibit

- No.
- 2.1 Membership Interest Purchase Agreement, dated as of June 28, 2012, among Constellation Beers Ltd., Constellation Brands Beach Holdings, Inc., Constellation Brands, Inc. and Anheuser-Busch InBev SA/NV (filed as Exhibit 2.1 to the Company's Amendment No. 1 to Current Report on Form 8-K/A dated June 28, 2012, filed November 9, 2012 and incorporated herein by reference). +
- 2.2 Amended and Restated Membership Interest Purchase Agreement, dated as of February 13, 2013, among Constellation Beers Ltd., Constellation Brands Beach Holdings, Inc., Constellation Brands, Inc. and Anheuser-Busch InBev SA/NV (filed as Exhibit 2.1 to the Company's Amendment No. 1 to Current Report on Form 8-K/A dated February 13, 2013, filed February 25, 2013 and incorporated herein by reference). +
- 2.3 First Amendment dated as of April 19, 2013, to the Amended and Restated Membership Interest Purchase Agreement, dated as of February 13, 2013, among Constellation Beers Ltd., Constellation Brands Beach Holdings, Inc., Constellation Brands, Inc. and Anheuser-Busch InBev SA/NV (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated April 19, 2013, filed April 19, 2013 and incorporated herein by reference). +
- 2.4 Stock Purchase Agreement dated as of February 13, 2013, between Anheuser-Busch InBev SA/NV and Constellation Brands, Inc. (filed as Exhibit 2.2 to the Company's Amendment No. 1 to Current Report on Form 8-K/A dated February 13, 2013, filed February 25, 2013 and incorporated herein by reference). +
- 2.5 First Amendment dated as of April 19, 2013, to the Stock Purchase Agreement dated as of February 13, 2013, between Anheuser-Busch InBev SA/NV and Constellation Brands, Inc. (filed as Exhibit 2.2 to the Company's Current Report on Form 8-K dated April 19, 2013, filed April 19, 2013 and incorporated herein by reference). +
- 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 Amended and Restated By-Laws of the Company (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K dated December 6, 2007, filed December 12, 2007 and incorporated herein by reference). #
- 4.1 Indenture, dated as of August 15, 2006, by and among the Company, as Issuer, certain subsidiaries, as Guarantors and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated August 15, 2006, filed August 18, 2006 and incorporated herein by reference). #
- 4.2 Supplemental Indenture No. 1, with respect to 7.25% Senior Notes due 2016 (no longer outstanding), dated as of August 15, 2006, among the Company, as Issuer, certain subsidiaries, as Guarantors, and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated August 15, 2006, filed August 18, 2006 and incorporated herein by reference). #
- 4.3



Supplemental Indenture No. 2, dated as of November 30, 2006, by and among the Company, Vincor International Partnership, Vincor International II, LLC, Vincor Holdings, Inc., R.H. Phillips, Inc., The Hogue Cellars, Ltd., Vincor Finance, LLC, and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.28 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2006 and incorporated herein by reference). #

4.4 Supplemental Indenture No. 3, dated as of May 4, 2007, by and among the Company, Barton SMO Holdings LLC, ALCOFI INC., and Spirits Marque One LLC, and BNY Midwest Trust Company, as Trustee (filed as Exhibit 4.32 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2007 and incorporated herein by reference). #

4.5 Supplemental Indenture No. 4, with respect to 8 3/8% Senior Notes due 2014 (no longer outstanding), dated as of December 5, 2007, by and among the Company, as Issuer, certain subsidiaries, as Guarantors, and The Bank of New York Trust Company, N.A., (as successor to BNY Midwest Trust Company), as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated December 5, 2007, filed December 11, 2007 and incorporated herein by reference). #

4.6 Supplemental Indenture No. 5, dated as of January 22, 2008, by and among the Company, BWE, Inc., Atlas Peak Vineyards, Inc., Buena Vista Winery, Inc., Clos du Bois Wines, Inc., Gary Farrell Wines, Inc., Peak Wines International, Inc., and Planet 10 Spirits, LLC, and The Bank of New York Trust Company, N.A. (successor trustee to BNY Midwest Trust Company), as Trustee (filed as Exhibit 4.37 to the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2008 and incorporated herein by reference). #

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- 4.7 Supplemental Indenture No. 6, dated as of February 27, 2009, by and among the Company, Constellation Services LLC, and The Bank of New York Mellon Trust Company National Association (successor trustee to BNY Midwest Trust Company), as Trustee (filed as Exhibit 4.31 to the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2009 and incorporated herein by reference). #
- 4.8 Supplemental Indenture No. 7, dated as of June 7, 2013, among the Company, Constellation Brands Beach Holdings, Inc., Crown Imports LLC, and The Bank of New York Mellon Trust Company, National Association, as Trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated June 7, 2013, filed June 11, 2013 and incorporated herein by reference).
- 4.9 Supplemental Indenture No. 8, dated as of May 28, 2014, among the Company, Constellation Marketing Services, Inc., and The Bank of New York Mellon Trust Company, National Association, as trustee (filed as Exhibit 4.9 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2014 and incorporated herein by reference).
- 4.10 Supplemental Indenture No. 9, dated as of January 15, 2016, among the Company, Home Brew Mart, Inc. and The Bank of New York Mellon Trust Company, N.A. (successor trustee to BNY Midwest Trust Company), as Trustee (filed as Exhibit 4.10 to the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2016 and incorporated herein by reference).
- 4.11 Indenture, with respect to 7.25% Senior Notes due May 2017, dated May 14, 2007, by and among the Company, as Issuer, certain subsidiaries, as Guarantors, and The Bank of New York Trust Company, N.A., as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 9, 2007, filed May 14, 2007 and incorporated herein by reference). #
- 4.12 Supplemental Indenture No. 1, dated as of January 22, 2008, by and among the Company, BWE, Inc., Atlas Peak Vineyards, Inc., Buena Vista Winery, Inc., Clos du Bois Wines, Inc., Gary Farrell Wines, Inc., Peak Wines International, Inc., and Planet 10 Spirits, LLC, and The Bank of New York Trust Company, N.A. (successor trustee to BNY Midwest Trust Company), as Trustee (filed as Exhibit 4.39 to the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2008 and incorporated herein by reference). #
- 4.13 Supplemental Indenture No. 2, dated as of February 27, 2009, by and among the Company, Constellation Services LLC, and The Bank of New York Mellon Trust Company National Association (successor trustee to BNY Midwest Trust Company), as Trustee (filed as Exhibit 4.34 to the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2009 and incorporated herein by reference). #
- 4.14 Supplemental Indenture No. 3, dated as of June 7, 2013, among the Company, Constellation Brands Beach Holdings, Inc., Crown Imports LLC, and The Bank of New York Mellon Trust Company, National Association, as Trustee (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K dated June 7, 2013, filed June 11, 2013 and incorporated herein by reference).
- 4.15 Supplemental Indenture No. 4, dated as of May 28, 2014, among the Company, Constellation Marketing Services, Inc., and The Bank of New York Mellon Trust Company, National Association, as trustee (filed as Exhibit 4.14 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2014 and incorporated herein by reference).
- 4.16 Supplemental Indenture No. 5, dated as of January 15, 2016, among the Company, Home Brew Mart, Inc. and The Bank of New York Mellon Trust Company, N.A. (successor trustee to BNY Midwest Trust Company), as Trustee (filed as Exhibit 4.16 to the Company's Annual Report on Form 10-K for the fiscal year ended February

29, 2016 and incorporated herein by reference).

4.17 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).

4.18 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 (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).

4.19 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).

4.20 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).

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- 4.21 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).
- 4.22 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).
- 4.23 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).
- 4.24 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).
- 4.25 Supplemental Indenture No. 9, with respect to 4.750% Senior Notes due 2025, dated 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).
- 4.26 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).
- 4.27 Restatement Agreement, dated as of March 10, 2016, by and among the Company, CIH International S.à r.l., CIH Holdings S.à r.l., CI Cerveza S.à r.l., the Guarantors, Bank of America, N.A., as administrative agent, and the Lenders party thereto, including the Fourth Amended and Restated Credit Agreement dated as of March 10, 2016, by and among the Company, CIH International S.à r.l., CIH Holdings 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 March 10, 2016, filed March 15, 2016 and incorporated herein by reference).
- 4.28 Joinder Agreement, dated as of June 7, 2013, between CIH International S.à r.l., Bank of America, N.A., as administrative agent and lender (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, dated June 7, 2013, filed June 11, 2013 and incorporated herein by reference).
- 10.1 Amended and Restated Guarantee Agreement, dated as of June 7, 2013, made by the subsidiaries of the Company 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 10.4 to the Company's Current Report on Form 8-K dated June 7, 2013, filed June 11, 2013 and incorporated herein by reference).
- 10.2 Cross-Guarantee Agreement, dated as of March 10, 2016, by and among CIH International S.à r.l., CIH Holdings S.à r.l. and Bank of America, N.A., as administrative agent (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated March 10, 2016, filed March 15, 2016 and incorporated herein by reference).

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- 10.3 Form of U.S. Pledge Agreement (filed as Exhibit D-1 to Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 2, 2013, filed May 7, 2013 and incorporated herein by reference).
- 10.4 Form of Luxembourg Equity Pledge Agreement (filed as Exhibit D-2 to Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 2, 2013, filed May 7, 2013 and incorporated herein by reference).
- 10.5 Form of Luxembourg PEC Pledge Agreement (filed as Exhibit D-3 to Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 2, 2013, filed May 7, 2013 and incorporated herein by reference).
- 10.6 Form of Barbados Charge Over Shares (filed as Exhibit D-4 to Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 2, 2013, filed May 7, 2013 and incorporated herein by reference).
- 10.7 Form of Mexican Pledge Agreement (filed as 10.60 to the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2016 and incorporated herein by reference).
- 10.8 Executive Employment Agreement effective as of August 1, 2016, between Constellation Brands Canada, Inc. and John A. Wright (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 14, 2016, filed June 15, 2016 and incorporated herein by reference). \*
- 10.9 Form of Terms and Conditions Memorandum for Directors with respect to options to purchase Class 1 Stock pursuant to the Company's Long-Term Stock Incentive Plan (grants on or after July 20, 2016) (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 20, 2016, filed July 22, 2016 and incorporated herein by reference). \*

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- 10.10 Form of Restricted Stock Award Agreement for Directors with respect to awards of restricted stock pursuant to the Company's Long-Term Stock Incentive Plan (awards on or after July 20, 2016) (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated July 20, 2016, filed July 22, 2016 and incorporated herein by reference). \*
- 10.11 Form of Restricted Stock Unit Agreement for Directors with respect to awards of restricted stock units pursuant to the Company's Long-Term Stock Incentive Plan (awards on or after July 20, 2016) (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K dated July 20, 2016, filed July 22, 2016 and incorporated herein by reference). \*
- 10.12 Second Amendment to Interim Supply Agreement dated as of September 20, 2016, by and between CIH International S.à r.l., as successor by assignment to Crown Imports LLC and Grupo Modelo, S. de R.L. de C.V., as successor to Grupo Modelo, S.A.B. de C.V. (filed herewith). ++
- 12.1 Statements re computation of ratios (filed herewith).
- 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).
- 99.1 Stipulation and Order dated April 19, 2013, among Constellation Brands, Inc., Anheuser-Busch Inbev SA/NV, Grupo Modelo, S.A.B. de C.V., and the Antitrust Division of the United States Department of Justice (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K dated April 19, 2013, filed April 19, 2013 and incorporated herein by reference).
- 99.2 Final Judgment filed with the United States District Court for the District of Columbia on October 24, 2013, together with Exhibits B and C (filed as Exhibit 99.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2013 and incorporated herein by reference).
- 99.3 First Amendment, dated and effective April 25, 2016, to the Company's 1989 Employee Stock Purchase Plan (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K dated April 25, 2016, filed April 28, 2016 and incorporated herein by reference). \*
- 101.1 The following materials from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of August 31, 2016 and February 29, 2016, (ii) Consolidated Statements of Comprehensive Income for the six months and three months ended August 31, 2016 and 2015, (iii) Consolidated Statements of Cash Flows for the six months ended August 31, 2016 and 2015, and (iv) Notes to Consolidated Financial Statements.

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

+Portions of this exhibit were redacted pursuant to a confidential treatment request filed with and approved by the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as

amended.

<sup>++</sup> This exhibit has been filed separately with the Securities and Exchange Commission pursuant to an application for confidential treatment. The confidential portions of this exhibit have been omitted and are marked by an asterisk.

\*Designates management contract or compensatory plan or arrangement.

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.