

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 May 31, 2017

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**

**CONSTELLATION BRANDS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**16-0716709**

(I.R.S. Employer  
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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

The number of shares outstanding with respect to each of the classes of common stock of Constellation Brands, Inc., as of June 23, 2017, is set forth below:

<u>Class</u>	<u>Number of Shares Outstanding</u>
Class A Common Stock, par value \$.01 per share	171,963,496
Class B Common Stock, par value \$.01 per share	23,338,727
Class 1 Common Stock, par value \$.01 per share	7,720

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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. All references to “Fiscal 2017” refer to our fiscal year ended February 28, 2017. All references to “Fiscal 2018” refer to our fiscal year ending February 28, 2018.*

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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)

	May 31, 2017	February 28, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 199.1	\$ 177.4
Accounts receivable	832.0	737.0
Inventories	1,936.9	1,955.1
Prepaid expenses and other	392.5	360.5
Total current assets	3,360.5	3,230.0
Property, plant and equipment	4,186.9	3,932.8
Goodwill	7,972.3	7,920.5
Intangible assets	3,289.7	3,377.7
Other assets	150.0	141.4
Total assets	\$ 18,959.4	\$ 18,602.4
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable to banks	\$ 988.1	\$ 606.5
Current maturities of long-term debt	146.2	910.9
Accounts payable	558.8	559.8
Other accrued expenses and liabilities	489.3	620.4
Total current liabilities	2,182.4	2,697.6
Long-term debt, less current maturities	8,077.2	7,720.7
Deferred income taxes	1,135.5	1,133.6
Other liabilities	166.5	165.7
Total liabilities	11,561.6	11,717.6
Commitments and contingencies		
CBI stockholders' equity:		
Class A Common Stock, \$.01 par value – Authorized, 322,000,000 shares; Issued, 258,010,515 shares and 257,506,184 shares, respectively	2.6	2.6
Class B Convertible Common Stock, \$.01 par value – Authorized, 30,000,000 shares; Issued, 28,344,527 shares and 28,358,527 shares, respectively	0.3	0.3
Additional paid-in capital	2,759.8	2,755.8
Retained earnings	7,612.3	7,310.0
Accumulated other comprehensive loss	(212.3)	(399.8)
	10,162.7	9,668.9
Less: Treasury stock –		
Class A Common Stock, at cost, 86,082,806 shares and 86,262,971 shares, respectively	(2,770.8)	(2,775.5)
Class B Convertible Common Stock, at cost, 5,005,800 shares	(2.2)	(2.2)
	(2,773.0)	(2,777.7)
Total CBI stockholders' equity	7,389.7	6,891.2
Noncontrolling interests	8.1	(6.4)
Total stockholders' equity	7,397.8	6,884.8
Total liabilities and stockholders' equity	\$ 18,959.4	\$ 18,602.4

The accompanying notes are an integral part of these statements.

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(in millions, except per share data)  
(unaudited)

	For the Three Months Ended May 31,	
	2017	2016
Sales	\$ 2,115.3	\$ 2,053.0
Less – excise taxes	(179.8)	(181.2)
Net sales	1,935.5	1,871.8
Cost of product sold	(940.2)	(990.5)
Gross profit	995.3	881.3
Selling, general and administrative expenses	(427.2)	(328.6)
Operating income	568.1	552.7
Equity in earnings of equity method investees	0.4	0.7
Interest expense	(82.4)	(84.6)
Loss on write-off of debt issuance costs	(6.7)	—
Income before income taxes	479.4	468.8
Provision for income taxes	(74.1)	(149.7)
Net income	405.3	319.1
Net income attributable to noncontrolling interests	(2.5)	(0.8)
Net income attributable to CBI	<u>\$ 402.8</u>	<u>\$ 318.3</u>
Comprehensive income	\$ 604.8	\$ 313.2
Comprehensive (income) loss attributable to noncontrolling interests	(14.5)	1.1
Comprehensive income attributable to CBI	<u>\$ 590.3</u>	<u>\$ 314.3</u>
Net income per common share attributable to CBI:		
Basic – Class A Common Stock	\$ 2.09	\$ 1.61
Basic – Class B Convertible Common Stock	\$ 1.90	\$ 1.46
Diluted – Class A Common Stock	\$ 2.00	\$ 1.55
Diluted – Class B Convertible Common Stock	\$ 1.85	\$ 1.43
Weighted average common shares outstanding:		
Basic – Class A Common Stock	171.555	176.542
Basic – Class B Convertible Common Stock	23.344	23.353
Diluted – Class A Common Stock	201.030	205.367
Diluted – Class B Convertible Common Stock	23.344	23.353
Cash dividends declared per common share:		
Class A Common Stock	\$ 0.52	\$ 0.40
Class B Convertible Common Stock	\$ 0.47	\$ 0.36

The accompanying notes are an integral part of these statements.

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in millions)  
(unaudited)

	For the Three Months Ended May 31,	
	2017	2016
<b>Cash flows from operating activities:</b>		
Net income	\$ 405.3	\$ 319.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment and amortization of intangible assets	88.2	4.2
Depreciation	70.1	55.8
Stock-based compensation	15.1	16.0
Amortization and loss on write-off of debt issuance costs	9.8	3.2
Deferred tax provision (benefit)	(8.5)	56.0
Change in operating assets and liabilities, net of effects from purchase of business:		
Accounts receivable	(96.8)	(39.0)
Inventories	18.4	(19.0)
Prepaid expenses and other current assets	(36.0)	(31.6)
Accounts payable	(13.6)	55.9
Deferred revenue	42.4	26.8
Other accrued expenses and liabilities	(130.7)	(69.4)
Other	17.9	(32.1)
Total adjustments	(23.7)	26.8
Net cash provided by operating activities	381.6	345.9
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(217.1)	(169.4)
Payments related to sale of business	(5.0)	—
Purchase of business	—	(284.9)
Other investing activities	0.8	0.4
Net cash used in investing activities	(221.3)	(453.9)
<b>Cash flows from financing activities:</b>		
Principal payments of long-term debt	(1,913.4)	(94.2)
Dividends paid	(100.5)	(79.3)
Payments of minimum tax withholdings on stock-based payment awards	(22.3)	(45.5)
Payments of debt issuance costs	(11.8)	(3.2)
Proceeds from issuance of long-term debt	1,508.5	709.5
Net proceeds from (repayments of) notes payable	381.3	(379.1)
Proceeds from shares issued under equity compensation plans	16.6	15.9
Excess tax benefits from stock-based payment awards	—	68.8
Purchases of treasury stock	—	(1.0)
Net cash provided by (used in) financing activities	(141.6)	191.9
Effect of exchange rate changes on cash and cash equivalents	3.0	0.3
Net increase in cash and cash equivalents	21.7	84.2
Cash and cash equivalents, beginning of period	177.4	83.1
Cash and cash equivalents, end of period	\$ 199.1	\$ 167.3
<b>Supplemental disclosures of noncash investing and financing activities:</b>		
Additions to property, plant and equipment	\$ 174.0	\$ 88.0

The accompanying notes are an integral part of these statements.

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MAY 31, 2017  
(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 28, 2017 (the “2017 Annual Report”). Results of operations for interim periods are not necessarily indicative of annual results. For the three months ended May 31, 2016, we reclassified \$9.5 million on the Consolidated Statements of Cash Flows from proceeds from noncontrolling interests to proceeds from issuance of long-term debt in connection with an immaterial adjustment recorded during the three months ended August 31, 2016, for the conversion of noncontrolling equity interest to long-term debt related to a prior period.

2. RECENTLY ADOPTED ACCOUNTING GUIDANCE:

*Stock-based employee compensation –*

Effective March 1, 2017, we adopted the FASB amended guidance for, among other items, the accounting for income taxes related to share-based compensation and the related classification in the statement of cash flows. This guidance requires the recognition of excess tax benefits and deficiencies (resulting from an increase or decrease in the fair value of an award from grant date to the vesting or settlement date) in the provision for income taxes as a discrete item in the quarterly period in which they occur. Through February 28, 2017, these amounts were recognized in additional paid-in capital at the time of vesting or settlement. In addition, these amounts are classified as an operating activity in the statement of cash flows instead of as a financing activity where they were previously presented. We adopted this guidance on a prospective basis and, accordingly, prior periods have not been adjusted. Adoption of this guidance resulted in the recognition of excess tax benefits in our provision for income taxes rather than additional paid-in capital of \$32.5 million for the three months ended May 31, 2017.

The adoption of this amended guidance also impacted our calculation of diluted earnings per share under the treasury stock method, as excess tax benefits and deficiencies resulting from share-based compensation are no longer included in the assumed proceeds calculation. This change resulted in a decrease in diluted earnings per share of \$0.02 for the three months ended May 31, 2017.

We have elected to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period. The remaining provisions of this amended guidance did not have a material impact on our consolidated financial statements.

## 3. INVENTORIES:

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

<i>(in millions)</i>	May 31, 2017	February 28, 2017
Raw materials and supplies	\$ 169.5	\$ 149.7
In-process inventories	1,189.8	1,260.1
Finished case goods	577.6	545.3
	\$ 1,936.9	\$ 1,955.1

## 4. DERIVATIVE INSTRUMENTS:

*Overview –*

Our risk management and derivative accounting policies are presented in Notes 1 and 6 of our consolidated financial statements included in our 2017 Annual Report and have not changed significantly for the three months ended May 31, 2017.

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

<i>(in millions)</i>	May 31, 2017	February 28, 2017
<u>Derivative instruments designated as hedging instruments</u>		
Foreign currency contracts	\$ 998.7	\$ 981.7
Interest rate swap contracts	\$ 250.0	\$ 250.0
<u>Derivative instruments not designated as hedging instruments</u>		
Foreign currency contracts	\$ 288.5	\$ 389.9
Commodity derivative contracts	\$ 165.8	\$ 153.2

*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 May 31, 2017, the estimated fair value of derivative instruments in a net liability position due to counterparties was \$16.2 million. If we were required to settle the net liability position under these derivative instruments on May 31, 2017, we would have had sufficient 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 5):

	Assets		Liabilities	
	May 31, 2017	February 28, 2017	May 31, 2017	February 28, 2017
<i>(in millions)</i>				
<u>Derivative instruments designated as hedging instruments</u>				
Foreign currency contracts:				
Prepaid expenses and other	\$ 15.4	\$ 5.2	Other accrued expenses and liabilities	\$ 11.7 \$ 30.4
Other assets	\$ 14.2	\$ 6.0	Other liabilities	\$ 15.7 \$ 37.4
Interest rate swap contracts:				
Prepaid expenses and other	\$ 0.5	\$ 0.3	Other accrued expenses and liabilities	\$ 0.1 \$ 0.3
Other assets	\$ 3.3	\$ 4.4		
<u>Derivative instruments not designated as hedging instruments</u>				
Foreign currency contracts:				
Prepaid expenses and other	\$ 1.7	\$ 2.0	Other accrued expenses and liabilities	\$ 1.0 \$ 2.6
Commodity derivative contracts:				
Prepaid expenses and other	\$ 3.3	\$ 4.3	Other accrued expenses and liabilities	\$ 6.0 \$ 6.9
Other assets	\$ 1.2	\$ 1.5	Other liabilities	\$ 5.3 \$ 4.7

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)
<i>(in millions)</i>			
<u>For the Three Months Ended May 31, 2017</u>			
Foreign currency contracts	\$ 38.6	Sales	\$ 0.3
		Cost of product sold	(2.7)
Interest rate swap contracts	(2.0)	Interest expense	(0.1)
	<u>\$ 36.6</u>		<u>\$ (2.5)</u>
<u>For the Three Months Ended May 31, 2016</u>			
Foreign currency contracts	\$ (2.3)	Sales	\$ 0.1
		Cost of product sold	(5.0)
Interest rate swap contracts	0.9	Interest expense	(1.9)
	<u>\$ (1.4)</u>		<u>\$ (6.8)</u>

We expect \$3.2 million of net gains, net of income tax effect, to be reclassified from accumulated other comprehensive income (loss) (“AOCI”) to our results of operations within the next 12 months.



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

Derivative Instruments Not Designated as Hedging Instruments	Location of Net Gain (Loss) Recognized in Income	Net Gain (Loss) Recognized in Income
<i>(in millions)</i>		
<u>For the Three Months Ended May 31, 2017</u>		
Commodity derivative contracts	Cost of product sold	\$ (3.1)
Foreign currency contracts	Selling, general and administrative expenses	4.7
		<u>\$ 1.6</u>
<u>For the Three Months Ended May 31, 2016</u>		
Commodity derivative contracts	Cost of product sold	\$ 13.1
Foreign currency contracts	Selling, general and administrative expenses	(10.5)
		<u>\$ 2.6</u>

#### 5. 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 2017 Annual Report and have not changed significantly for the three months ended May 31, 2017. 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 May 31, 2017, and February 28, 2017, due to the relatively short maturity of these instruments. As of May 31, 2017, the carrying amount of long-term debt, including the current portion, was \$8,223.4 million, compared with an estimated fair value of \$8,534.5 million. As of February 28, 2017, the carrying amount of long-term debt, including the current portion, was \$8,631.6 million, compared with an estimated fair value of \$8,845.5 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			Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<i>(in millions)</i>				
<u>May 31, 2017</u>				
Assets:				
Foreign currency contracts	\$ —	\$ 31.3	\$ —	\$ 31.3
Commodity derivative contracts	\$ —	\$ 4.5	\$ —	\$ 4.5
Interest rate swap contracts	\$ —	\$ 3.8	\$ —	\$ 3.8
Available-for-sale (“AFS”) debt securities	\$ —	\$ —	\$ 9.2	\$ 9.2
Liabilities:				
Foreign currency contracts	\$ —	\$ 28.4	\$ —	\$ 28.4
Commodity derivative contracts	\$ —	\$ 11.3	\$ —	\$ 11.3
Interest rate swap contracts	\$ —	\$ 0.1	\$ —	\$ 0.1
<u>February 28, 2017</u>				
Assets:				
Foreign currency contracts	\$ —	\$ 13.2	\$ —	\$ 13.2
Commodity derivative contracts	\$ —	\$ 5.8	\$ —	\$ 5.8
Interest rate swap contracts	\$ —	\$ 4.7	\$ —	\$ 4.7
AFS debt securities	\$ —	\$ —	\$ 9.5	\$ 9.5
Liabilities:				
Foreign currency contracts	\$ —	\$ 70.4	\$ —	\$ 70.4
Commodity derivative contracts	\$ —	\$ 11.6	\$ —	\$ 11.6
Interest rate swap contracts	\$ —	\$ 0.3	\$ —	\$ 0.3

*Nonrecurring basis measurements –*

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

	Fair Value Measurements Using			Total Losses
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<i>(in millions)</i>				
<u>For the Three Months Ended May 31, 2017</u>				
Trademarks	\$ —	\$ —	\$ 136.0	\$ 86.8

*Trademarks:*

For the first quarter of fiscal 2018, we identified certain negative trends within our Beer segment’s Ballast Point craft beer portfolio which, when combined with the recent negative craft beer industry trends, including slower growth rates and increased competition, indicated that it was more likely than not that the fair value of our indefinite lived intangible asset associated with the craft beer trademarks might be below its carrying value. These negative trends were the result of (i) a disruption in our distribution network transition plan, (ii) an unexpected decrease in sales from product innovations and (iii) a significant shift in market conditions for our craft beer

portfolio, all of which resulted in a decline in net sales and depletion trends, which represent distributor shipments of our branded products to retail customers, for the first quarter of fiscal 2018 as compared to the first quarter of fiscal 2017, following consecutive quarters of significant net sales and depletion volume growth for our craft beer portfolio. Additionally, net sales for the first quarter of fiscal 2018 were below our forecasted net sales for the first quarter of fiscal 2018. Accordingly, we performed a quantitative assessment for impairment of the craft beer trademark asset. As a result of this assessment, the craft beer trademark asset with a carrying value of \$222.8 million was written down to its estimated fair value of \$136.0 million, resulting in an impairment of \$86.8 million. This impairment is included in selling, general and administrative expenses.

We measured the amount of impairment by calculating the amount by which the carrying value of the trademark asset exceeded its estimated fair value. The estimated fair value was determined based on an income approach using the relief from royalty method, which assumes that, in lieu of ownership, a third party would be willing to pay a royalty in order to exploit the related benefits of the trademark asset. The cash flow projections we use to estimate the fair values of our trademarks involve several assumptions, including (i) projected revenue growth rates, (ii) estimated royalty rates, (iii) after-tax royalty savings expected from ownership of the trademarks and (iv) discount rates used to derive the estimated fair value of the trademarks.

## 6. GOODWILL:

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

<i>(in millions)</i>	Beer	Wine and Spirits	Consolidated
Balance, February 29, 2016	\$ 4,530.1	\$ 2,608.5	\$ 7,138.6
Purchase accounting allocations <sup>(1)</sup>	510.8	373.7	884.5
Canadian Divestiture <sup>(2)</sup>	—	(126.1)	(126.1)
Foreign currency translation adjustments	12.1	11.4	23.5
Balance, February 28, 2017	5,053.0	2,867.5	7,920.5
Purchase accounting allocations <sup>(3)</sup>	7.8	(0.2)	7.6
Foreign currency translation adjustments	45.6	(1.4)	44.2
Balance, May 31, 2017	\$ 5,106.4	\$ 2,865.9	\$ 7,972.3

<sup>(1)</sup> Preliminary purchase accounting allocations associated with the acquisitions of the Obregon Brewery (Beer), and High West and Charles Smith (Wine and Spirits), and purchase accounting allocations primarily associated with the acquisition of Prisoner (Wine and Spirits). See defined acquisition terms below.

<sup>(2)</sup> Includes accumulated impairment losses of C\$289.1 million, or \$216.8 million.

<sup>(3)</sup> Preliminary purchase accounting allocations associated primarily with the acquisition of the Obregon Brewery.

### *Acquisitions – Obregon Brewery:*

In December 2016, we acquired a brewery operation business in Obregon, Sonora, Mexico from Grupo Modelo, S. de R.L. de C.V., formerly known as Grupo Modelo, S.A.B. de C.V., (“Modelo”), a subsidiary of Anheuser-Busch InBev SA/NV for cash paid of \$568.7 million, net of cash acquired, subject to estimated working capital adjustments due to seller of \$1.0 million (the “Obregon Brewery”). The transaction primarily included the acquisition of operations; goodwill; property, plant and equipment; and inventories. The purchase accounting has not yet been finalized due primarily to an incomplete valuation of property, plant and equipment. Further changes to the preliminary purchase price allocation will be recognized as valuations are finalized. This acquisition provided us with immediate functioning brewery capacity to support our fast-growing, high-end Mexican beer portfolio and flexibility for future innovation initiatives. It also enabled us to become fully independent from an interim supply agreement with Modelo, which was terminated at the time of this acquisition. The results of operations of the Obregon Brewery are reported in the Beer segment and have been included in our consolidated results of operations from the date of acquisition.

*High West:*

In October 2016, we acquired all of the issued and outstanding common and preferred membership interests of High West Holdings, LLC for \$136.6 million, net of cash acquired (“High West”). This transaction primarily included the acquisition of operations, goodwill, trademarks, inventories and property, plant and equipment. This acquisition included a portfolio of craft whiskeys and other select spirits. The results of operations of High West are reported in the Wine and Spirits segment and have been included in our consolidated results of operations from the date of acquisition.

*Charles Smith:*

In October 2016, we acquired the Charles Smith Wines, LLC business, a collection of five super and ultra-premium wine brands, for \$120.8 million (“Charles Smith”). This transaction primarily included the acquisition of goodwill, trademarks, inventories and certain grape supply contracts, plus an earn-out over three years based on the performance of the brands. The results of operations of Charles Smith are reported in the Wine and Spirits segment and have been included in our consolidated results of operations from the date of acquisition.

*Prisoner:*

In April 2016, we acquired The Prisoner Wine Company business, including a portfolio of five super-luxury wine brands, for \$284.9 million (“Prisoner”). This transaction primarily included the acquisition of goodwill, inventories, trademarks and certain grape supply contracts. 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.

*Divestiture –*

*Canadian Divestiture:*

In December 2016, we sold the Wine and Spirits’ Canadian wine business, which included Canadian wine brands such as Jackson-Triggs and Inniskillin, wineries, vineyards, offices, facilities and Wine Rack retail stores, at a transaction value of C\$1.03 billion, or \$775.1 million, (the “Canadian Divestiture”). We received cash proceeds of \$570.3 million, net of outstanding debt and direct costs to sell of \$194.9 million and \$9.9 million, respectively. The following table summarizes the net gain recognized in connection with this divestiture:

*(in millions)*

Cash received from buyer	\$	580.2
Net assets sold		(175.3)
AOCI reclassification adjustments, primarily foreign currency translation		(122.5)
Direct costs to sell		(9.9)
Other		(10.1)
Gain on sale of business	\$	<u>262.4</u>

Additionally, our Wine and Spirits’ U.S. business recognized an impairment of \$8.4 million in the fourth quarter of fiscal 2017 for trademarks associated with certain U.S. brands sold exclusively through the Canadian wine business for which we expect future sales of these brands to be minimal subsequent to the Canadian Divestiture. We have also recognized \$15.2 million of other costs associated with the Canadian Divestiture, with \$12.0 million recognized for the year ended February 28, 2017, primarily in connection with the evaluation of the merits of executing an initial public offering for a portion of our then-owned Canadian wine business, and \$3.2 million recognized for the three months ended May 31, 2017, in connection with the sale of the Canadian wine business. These amounts are included in selling, general and administrative expenses. In total, we have recognized \$238.8 million of net gains associated with the Canadian Divestiture, with \$242.0 million of net gains recognized for the year ended February 28, 2017, and \$3.2 million of net losses recognized for the three months ended May 31, 2017, as follows:

*(in millions)*

Gain on sale of business	\$	262.4
Impairment of trademarks		(8.4)
Other net costs		(15.2)
Net gain associated with the Canadian Divestiture and related activities	\$	<u>238.8</u>

7. INTANGIBLE ASSETS:

The major components of intangible assets are as follows:

	May 31, 2017		February 28, 2017	
	Gross Carrying Amount	Net Carrying Amount	Gross Carrying Amount	Net Carrying Amount
<i>(in millions)</i>				
<u>Amortizable intangible assets</u>				
Customer relationships	\$ 89.1	\$ 47.3	\$ 89.1	\$ 48.6
Other	19.9	1.6	19.9	1.7
Total	<u>\$ 109.0</u>	<u>48.9</u>	<u>\$ 109.0</u>	<u>50.3</u>
<u>Nonamortizable intangible assets</u>				
Trademarks		3,240.8		3,327.4
Total intangible assets		<u>\$ 3,289.7</u>		<u>\$ 3,377.7</u>

We did not incur costs to renew or extend the term of acquired intangible assets for the three months ended May 31, 2017, and May 31, 2016. Net carrying amount represents the gross carrying value net of accumulated amortization. Amortization expense for intangible assets was \$1.4 million and \$4.2 million for the three months ended May 31, 2017, and May 31, 2016, respectively. Estimated amortization expense for the remaining nine months of fiscal 2018 and for each of the five succeeding fiscal years and thereafter is as follows:

<i>(in millions)</i>	
2018	\$ 4.3
2019	\$ 5.7
2020	\$ 5.5
2021	\$ 5.2
2022	\$ 4.9
2023	\$ 3.2
Thereafter	\$ 20.1

8. BORROWINGS:

Borrowings consist of the following:

	May 31, 2017			February 28, 2017
	Current	Long-term	Total	Total
<i>(in millions)</i>				
<u>Notes payable to banks</u>				
Senior Credit Facility – Revolving Credit Loans	\$ 505.0	\$ —	\$ 505.0	\$ 231.0
Other	483.1	—	483.1	375.5
	<u>\$ 988.1</u>	<u>\$ —</u>	<u>\$ 988.1</u>	<u>\$ 606.5</u>
<u>Long-term debt</u>				
Senior Credit Facility – Term Loans	\$ 129.0	\$ 2,458.1	\$ 2,587.1	\$ 3,787.5
Senior Notes	—	5,401.2	5,401.2	4,617.0
Other	17.2	217.9	235.1	227.1
	<u>\$ 146.2</u>	<u>\$ 8,077.2</u>	<u>\$ 8,223.4</u>	<u>\$ 8,631.6</u>

*Senior credit facility –*

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”), CB International Finance S.à r.l., a wholly-owned indirect subsidiary of ours (“CB International” and together with CIH and CIHH, the “European Borrowers”), Bank of America, N.A., as administrative agent (the “Administrative Agent”), and certain other lenders are parties to a credit agreement, as amended and restated (the “2016 Credit Agreement”).

In May 2017, we repaid the outstanding obligations under the U.S. Term A loan facility under the 2016 Credit Agreement primarily with a portion of the proceeds from the May 2017 Senior Notes (as defined below) and revolver borrowings under the 2016 Credit Agreement. Accordingly, as of May 31, 2017, information with respect to borrowings under the 2016 Credit Agreement is as follows:

	Revolving Credit Facility	U.S. Term A-1 Facility <sup>(1)</sup>	European Term A Facility <sup>(1)</sup>	European Term A-1 Facility <sup>(1)</sup>	European Term A-2 Facility <sup>(1)</sup>
<i>(in millions)</i>					
Outstanding borrowings	\$ 505.0	\$ 237.4	\$ 1,299.4	\$ 662.4	\$ 387.9
Interest rate	2.5%	2.7%	2.5%	2.5%	2.5%
LIBOR margin	1.5%	1.75%	1.5%	1.5%	1.5%
Outstanding letters of credit	\$ 17.5				
Remaining borrowing capacity	\$ 627.5				

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

As of May 31, 2017, the required principal repayments of the term loans under the 2016 Credit Agreement (excluding unamortized debt issuance costs of \$10.6 million) for the remaining nine months of fiscal 2018 and for each of the remaining succeeding fiscal years are as follows:

	U.S. Term A-1 Facility	European Term A Facility	European Term A-1 Facility	European Term A-2 Facility	Total
<i>(in millions)</i>					
2018	\$ 1.8	\$ 53.7	\$ 26.2	\$ 15.0	\$ 96.7
2019	2.4	71.5	35.0	20.0	128.9
2020	2.4	71.5	35.0	20.0	128.9
2021	2.4	1,108.3	35.0	20.0	1,165.7
2022	228.7	—	533.8	315.0	1,077.5
	<u>\$ 237.7</u>	<u>\$ 1,305.0</u>	<u>\$ 665.0</u>	<u>\$ 390.0</u>	<u>\$ 2,597.7</u>

*Interest rate swap contracts –*

We have entered into interest rate swap agreements, which are designated as cash flow hedges for \$250.0 million of our floating LIBOR rate debt. 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) from September 1, 2016, through July 1, 2020.

*Senior notes –*

In May 2017, we issued \$1,500.0 million aggregate principal amount of Senior Notes (the “May 2017 Senior Notes”). Proceeds from this offering, net of discount and debt issuance costs, were \$1,483.8 million. The May 2017 Senior Notes consist of:

	Date of			
	Maturity	Interest Payments		
<i>(in millions)</i>				
2.70% Senior Notes <sup>(1) (2)</sup>	May 2022	May/Nov	\$	500.0
3.50% Senior Notes <sup>(1) (3)</sup>	May 2027	May/Nov	\$	500.0
4.50% Senior Notes <sup>(1) (4)</sup>	May 2047	May/Nov	\$	500.0

- (1) Senior unsecured obligations which rank equally in right of payment to all of our existing and future senior unsecured indebtedness. Guaranteed by certain of our U.S. subsidiaries on a senior unsecured basis.
- (2) Redeemable, in whole or in part, at our option at any time prior to April 9, 2022, at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest and a make-whole payment based on the present value of the future payments at the adjusted Treasury Rate plus 15 basis points. On or after April 9, 2022, redeemable, in whole or in part, at our option at any time at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest.
- (3) Redeemable, in whole or in part, at our option at any time prior to February 9, 2027, at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest and a make-whole payment based on the present value of the future payments at the adjusted Treasury Rate plus 20 basis points. On or after February 9, 2027, redeemable, in whole or in part, at our option at any time at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest.
- (4) Redeemable, in whole or in part, at our option at any time prior to November 9, 2046, at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest and a make-whole payment based on the present value of the future payments at the adjusted Treasury Rate plus 25 basis points. On or after November 9, 2046, redeemable, in whole or in part, at our option at any time at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest.

In January 2008, we issued \$700.0 million aggregate principal amount of 7.25% Senior Notes due May 2017 (the “January 2008 Senior Notes”) in exchange for notes originally issued in May 2007. In May 2017, we repaid the January 2008 Senior Notes with a portion of the proceeds from the May 2017 Senior Notes.

*Accounts receivable securitization facilities:*

On September 27, 2016, 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 \$340.0 million structured to account for the seasonality of our business, subject to further limitations based upon various pre-agreed formulas.

Also, on September 27, 2016, 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 \$120.0 million up to \$210.0 million structured to account for the seasonality of Crown Imports’ business.

As of May 31, 2017, our accounts receivable securitization facilities are as follows:

<i>(in millions)</i>	Outstanding Borrowings	Weighted Average Interest Rate	Remaining Borrowing Capacity
CBI Facility	\$ 198.2	1.9%	\$ 101.8
Crown Facility	\$ 206.0	1.9%	\$ 4.0

9. INCOME TAXES:

Our effective tax rate for the three months ended May 31, 2017, and May 31, 2016, was 15.5% and 31.9%, respectively. For the three months ended May 31, 2017, our effective tax rate was lower than the federal statutory rate of 35% primarily due to (i) lower effective tax rates applicable to our foreign businesses, including our assertion regarding indefinitely reinvesting earnings of certain foreign subsidiaries, which was asserted in the third quarter of fiscal 2017, and (ii) the recognition of the income tax effect of stock-based compensation awards in the income statement when the awards vest or are settled in connection with our March 1, 2017, adoption of the FASB's amended share-based compensation guidance. For the three months ended May 31, 2016, our effective tax rate was lower than the federal statutory rate primarily due to lower effective tax rates applicable to our foreign businesses.

10. NET INCOME PER COMMON SHARE ATTRIBUTABLE TO CBI:

For the three months ended May 31, 2017, and May 31, 2016, 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 three months ended May 31, 2017, and May 31, 2016, 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 Three Months Ended			
	May 31, 2017		May 31, 2016	
	Common Stock		Common Stock	
	Class A	Class B	Class A	Class B
<i>(in millions, except per share data)</i>				
Net income attributable to CBI allocated – basic	\$ 358.6	\$ 44.2	\$ 284.2	\$ 34.1
Conversion of Class B common shares into Class A common shares	44.2	—	34.1	—
Effect of stock-based awards on allocated net income	—	(1.0)	—	(0.7)
Net income attributable to CBI allocated – diluted	<u>\$ 402.8</u>	<u>\$ 43.2</u>	<u>\$ 318.3</u>	<u>\$ 33.4</u>
Weighted average common shares outstanding – basic	171.555	23.344	176.542	23.353
Conversion of Class B common shares into Class A common shares	23.344	—	23.353	—
Stock-based awards, primarily stock options	6.131	—	5.472	—
Weighted average common shares outstanding – diluted	<u>201.030</u>	<u>23.344</u>	<u>205.367</u>	<u>23.353</u>
Net income per common share attributable to CBI – basic	\$ 2.09	\$ 1.90	\$ 1.61	\$ 1.46
Net income per common share attributable to CBI – diluted	\$ 2.00	\$ 1.85	\$ 1.55	\$ 1.43



## 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:

<i>(in millions)</i>	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
<u>For the Three Months Ended May 31, 2017</u>			
Net income attributable to CBI			\$ 402.8
Other comprehensive income (loss) attributable to CBI:			
Foreign currency translation adjustments:			
Net gains	\$ 148.7	\$ (0.2)	148.5
Reclassification adjustments	—	—	—
Net gain recognized in other comprehensive income	148.7	(0.2)	148.5
Unrealized gain on cash flow hedges:			
Net derivative gains	51.9	(15.3)	36.6
Reclassification adjustments	3.8	(1.2)	2.6
Net gain recognized in other comprehensive income	55.7	(16.5)	39.2
Unrealized loss on AFS debt securities:			
Net AFS debt securities losses	(0.3)	—	(0.3)
Reclassification adjustments	—	—	—
Net loss recognized in other comprehensive income	(0.3)	—	(0.3)
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	\$ 204.2	\$ (16.7)	187.5
Comprehensive income attributable to CBI			\$ 590.3

	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
<i>(in millions)</i>			
<b>For the Three Months Ended May 31, 2016</b>			
Net income attributable to CBI			\$ 318.3
Other comprehensive income (loss) attributable to CBI:			
Foreign currency translation adjustments:			
Net losses	\$ (7.4)	\$ (1.8)	(9.2)
Reclassification adjustments	—	—	—
Net loss recognized in other comprehensive loss	(7.4)	(1.8)	(9.2)
Unrealized loss on cash flow hedges:			
Net derivative losses	(3.2)	1.8	(1.4)
Reclassification adjustments	10.1	(3.4)	6.7
Net gain recognized in other comprehensive loss	6.9	(1.6)	5.3
Unrealized gain on AFS debt securities:			
Net AFS debt securities gains	0.1	—	0.1
Reclassification adjustments	—	—	—
Net gain recognized in other comprehensive loss	0.1	—	0.1
Pension/postretirement adjustments:			
Net actuarial losses	(0.6)	0.2	(0.4)
Reclassification adjustments	0.2	—	0.2
Net loss recognized in other comprehensive loss	(0.4)	0.2	(0.2)
Other comprehensive loss attributable to CBI	\$ (0.8)	\$ (3.2)	(4.0)
Comprehensive income attributable to CBI			\$ 314.3

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

	Foreign Currency Translation Adjustments	Net Unrealized Gains (Losses) on Derivative Instruments	Net Unrealized Losses on AFS Debt Securities	Pension/ Postretirement Adjustments	Accumulated Other Comprehensive Income (Loss)
<i>(in millions)</i>					
Balance, February 28, 2017	\$ (358.0)	\$ (38.0)	\$ (2.3)	\$ (1.5)	\$ (399.8)
Other comprehensive income (loss):					
Other comprehensive income (loss) before reclassification adjustments	148.5	36.6	(0.3)	—	184.8
Amounts reclassified from accumulated other comprehensive income (loss)	—	2.6	—	0.1	2.7
Other comprehensive income (loss)	148.5	39.2	(0.3)	0.1	187.5
Balance, May 31, 2017	\$ (209.5)	\$ 1.2	\$ (2.6)	\$ (1.4)	\$ (212.3)

## 12. CONDENSED CONSOLIDATING FINANCIAL INFORMATION:

The following information sets forth the condensed consolidating balance sheets as of May 31, 2017, and February 28, 2017, the condensed consolidating statements of comprehensive income for the three months ended May 31, 2017, and May 31, 2016, and the condensed consolidating statements of cash flows for the three months ended May 31, 2017, and May 31, 2016, for the parent company, our combined subsidiaries which guarantee our senior notes (“Subsidiary Guarantors”), our combined subsidiaries which are not Subsidiary Guarantors (primarily foreign subsidiaries) (“Subsidiary Nonguarantors”) and the Company. The Subsidiary Guarantors are 100% owned, directly or indirectly, by the parent company and the guarantees are joint and several obligations of each of the Subsidiary

Guarantors. The guarantees are full and unconditional, as those terms are used in Rule 3-10 of Regulation S-X, except that a Subsidiary Guarantor can be automatically released and relieved of its obligations under certain customary circumstances contained in the indentures governing our senior notes. These customary circumstances include, so long as other applicable provisions of the indentures are adhered to, the termination or release of a Subsidiary Guarantor's guarantee of other indebtedness or upon the legal defeasance or covenant defeasance or satisfaction and discharge of our senior notes. Separate financial information for our Subsidiary Guarantors is not presented because we have determined that such financial information would not be material to investors. The accounting policies of the parent company, the Subsidiary Guarantors and the Subsidiary Nonguarantors are the same as those described for the Company in Note 1 of our consolidated financial statements included in our 2017 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 Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
<i>(in millions)</i>					
<b>Consolidating Balance Sheet at May 31, 2017</b>					
Current assets:					
Cash and cash equivalents	\$ 32.6	\$ 6.9	\$ 159.6	\$ —	\$ 199.1
Accounts receivable	1.7	10.1	820.2	—	832.0
Inventories	170.8	1,578.4	371.2	(183.5)	1,936.9
Intercompany receivable	22,818.1	29,965.6	13,180.2	(65,963.9)	—
Prepaid expenses and other	90.6	66.8	247.7	(12.6)	392.5
Total current assets	23,113.8	31,627.8	14,778.9	(66,160.0)	3,360.5
Property, plant and equipment	70.1	942.8	3,174.0	—	4,186.9
Investments in subsidiaries	14,483.5	126.2	—	(14,609.7)	—
Goodwill	—	6,587.8	1,384.5	—	7,972.3
Intangible assets	—	866.9	2,422.8	—	3,289.7
Intercompany notes receivable	5,129.9	—	101.1	(5,231.0)	—
Other assets	17.8	77.2	55.0	—	150.0
Total assets	<u>\$ 42,815.1</u>	<u>\$ 40,228.7</u>	<u>\$ 21,916.3</u>	<u>\$ (86,000.7)</u>	<u>\$ 18,959.4</u>
Current liabilities:					
Notes payable to banks	\$ 485.0	\$ —	\$ 503.1	\$ —	\$ 988.1
Current maturities of long-term debt	4.5	15.1	126.6	—	146.2
Accounts payable	35.7	157.7	365.4	—	558.8
Intercompany payable	29,013.0	23,973.0	12,977.9	(65,963.9)	—
Other accrued expenses and liabilities	201.8	219.4	109.1	(41.0)	489.3
Total current liabilities	29,740.0	24,365.2	14,082.1	(66,004.9)	2,182.4
Long-term debt, less current maturities	5,638.1	19.3	2,419.8	—	8,077.2
Deferred income taxes	13.6	814.1	307.8	—	1,135.5
Intercompany notes payable	—	5,201.3	29.7	(5,231.0)	—
Other liabilities	33.7	21.2	111.6	—	166.5
Total liabilities	35,425.4	30,421.1	16,951.0	(71,235.9)	11,561.6
Total CBI stockholders' equity	7,389.7	9,807.6	4,957.2	(14,764.8)	7,389.7
Noncontrolling interests	—	—	8.1	—	8.1
Total stockholders' equity	7,389.7	9,807.6	4,965.3	(14,764.8)	7,397.8
Total liabilities and stockholders' equity	<u>\$ 42,815.1</u>	<u>\$ 40,228.7</u>	<u>\$ 21,916.3</u>	<u>\$ (86,000.7)</u>	<u>\$ 18,959.4</u>

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
<i>(in millions)</i>					
<b>Condensed Consolidating Balance Sheet at February 28, 2017</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 9.6	\$ 5.8	\$ 162.0	\$ —	\$ 177.4
Accounts receivable	2.4	18.5	716.1	—	737.0
Inventories	162.3	1,628.5	330.9	(166.6)	1,955.1
Intercompany receivable	21,927.8	28,384.7	12,410.6	(62,723.1)	—
Prepaid expenses and other	40.4	74.8	169.0	76.3	360.5
<b>Total current assets</b>	<b>22,142.5</b>	<b>30,112.3</b>	<b>13,788.6</b>	<b>(62,813.4)</b>	<b>3,230.0</b>
Property, plant and equipment	69.5	951.1	2,912.2	—	3,932.8
Investments in subsidiaries	13,884.2	125.0	—	(14,009.2)	—
Goodwill	—	6,589.9	1,330.6	—	7,920.5
Intangible assets	—	955.1	2,422.6	—	3,377.7
Intercompany notes receivable	5,074.5	188.3	100.6	(5,363.4)	—
Other assets	17.9	77.2	46.3	—	141.4
<b>Total assets</b>	<b>\$ 41,188.6</b>	<b>\$ 38,998.9</b>	<b>\$ 20,600.9</b>	<b>\$ (82,186.0)</b>	<b>\$ 18,602.4</b>
<b>Current liabilities:</b>					
Notes payable to banks	\$ 231.0	\$ —	\$ 375.5	\$ —	\$ 606.5
Current maturities of long-term debt	767.9	16.3	126.7	—	910.9
Accounts payable	47.6	146.2	366.0	—	559.8
Intercompany payable	27,675.4	22,786.3	12,261.4	(62,723.1)	—
Other accrued expenses and liabilities	270.2	164.8	153.8	31.6	620.4
<b>Total current liabilities</b>	<b>28,992.1</b>	<b>23,113.6</b>	<b>13,283.4</b>	<b>(62,691.5)</b>	<b>2,697.6</b>
Long-term debt, less current maturities	5,260.2	23.0	2,437.5	—	7,720.7
Deferred income taxes	13.3	823.2	297.1	—	1,133.6
Intercompany notes payable	—	5,334.0	29.4	(5,363.4)	—
Other liabilities	31.8	18.9	115.0	—	165.7
<b>Total liabilities</b>	<b>34,297.4</b>	<b>29,312.7</b>	<b>16,162.4</b>	<b>(68,054.9)</b>	<b>11,717.6</b>
<b>Total CBI stockholders' equity</b>	<b>6,891.2</b>	<b>9,686.2</b>	<b>4,444.9</b>	<b>(14,131.1)</b>	<b>6,891.2</b>
<b>Noncontrolling interests</b>	<b>—</b>	<b>—</b>	<b>(6.4)</b>	<b>—</b>	<b>(6.4)</b>
<b>Total stockholders' equity</b>	<b>6,891.2</b>	<b>9,686.2</b>	<b>4,438.5</b>	<b>(14,131.1)</b>	<b>6,884.8</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 41,188.6</b>	<b>\$ 38,998.9</b>	<b>\$ 20,600.9</b>	<b>\$ (82,186.0)</b>	<b>\$ 18,602.4</b>

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
<i>(in millions)</i>					
<b>Condensed Consolidating Statement of Comprehensive Income for the Three Months Ended May 31, 2017</b>					
Sales	\$ 698.8	\$ 1,794.2	\$ 868.5	\$ (1,246.2)	\$ 2,115.3
Less – excise taxes	(83.7)	(93.4)	(2.7)	—	(179.8)
Net sales	615.1	1,700.8	865.8	(1,246.2)	1,935.5
Cost of product sold	(477.2)	(1,232.0)	(452.9)	1,221.9	(940.2)
Gross profit	137.9	468.8	412.9	(24.3)	995.3
Selling, general and administrative expenses	(104.9)	(303.3)	(27.9)	8.9	(427.2)
Operating income	33.0	165.5	385.0	(15.4)	568.1
Equity in earnings of equity method investees and subsidiaries	433.5	1.1	0.5	(434.7)	0.4
Interest income	—	—	0.1	—	0.1
Intercompany interest income	57.9	93.3	0.8	(152.0)	—
Interest expense	(65.2)	(0.3)	(17.0)	—	(82.5)
Intercompany interest expense	(93.3)	(58.1)	(0.6)	152.0	—
Loss on write-off of debt issuance costs	(6.7)	—	—	—	(6.7)
Income before income taxes	359.2	201.5	368.8	(450.1)	479.4
(Provision for) benefit from income taxes	43.6	(65.5)	(36.0)	(16.2)	(74.1)
Net income	402.8	136.0	332.8	(466.3)	405.3
Net income attributable to noncontrolling interests	—	—	(2.5)	—	(2.5)
Net income attributable to CBI	\$ 402.8	\$ 136.0	\$ 330.3	\$ (466.3)	\$ 402.8
Comprehensive income attributable to CBI	\$ 590.3	\$ 135.3	\$ 520.2	\$ (655.5)	\$ 590.3
<b>Condensed Consolidating Statement of Comprehensive Income for the Three Months Ended May 31, 2016</b>					
Sales	\$ 623.7	\$ 1,686.8	\$ 966.1	\$ (1,223.6)	\$ 2,053.0
Less – excise taxes	(78.0)	(86.9)	(16.3)	—	(181.2)
Net sales	545.7	1,599.9	949.8	(1,223.6)	1,871.8
Cost of product sold	(451.4)	(1,151.5)	(564.8)	1,177.2	(990.5)
Gross profit	94.3	448.4	385.0	(46.4)	881.3
Selling, general and administrative expenses	(91.3)	(193.1)	(55.2)	11.0	(328.6)
Operating income	3.0	255.3	329.8	(35.4)	552.7
Equity in earnings of equity method investees and subsidiaries	368.9	2.3	—	(370.5)	0.7
Interest income	0.1	—	0.3	—	0.4
Intercompany interest income	57.4	73.3	—	(130.7)	—
Interest expense	(74.3)	(0.4)	(10.3)	—	(85.0)
Intercompany interest expense	(73.1)	(57.4)	(0.2)	130.7	—
Income before income taxes	282.0	273.1	319.6	(405.9)	468.8
(Provision for) benefit from income taxes	36.3	(105.9)	(91.5)	11.4	(149.7)
Net income	318.3	167.2	228.1	(394.5)	319.1
Net income attributable to noncontrolling interests	—	—	(0.8)	—	(0.8)
Net income attributable to CBI	\$ 318.3	\$ 167.2	\$ 227.3	\$ (394.5)	\$ 318.3
Comprehensive income attributable to CBI	\$ 314.3	\$ 168.7	\$ 221.5	\$ (390.2)	\$ 314.3

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
<i>(in millions)</i>					
<b>Condensed Consolidating Statement of Cash Flows for the Three Months Ended May 31, 2017</b>					
Net cash provided by (used in) operating activities	\$ (161.0)	\$ 451.6	\$ 91.0	\$ —	\$ 381.6
Cash flows from investing activities:					
Purchases of property, plant and equipment	(4.8)	(25.6)	(186.7)	—	(217.1)
Payments related to sale of business	—	—	(5.0)	—	(5.0)
Net proceeds from intercompany notes	419.3	0.9	—	(420.2)	—
Net investments in equity affiliates	(5.8)	—	—	5.8	—
Other investing activities	—	—	0.8	—	0.8
Net cash provided by (used in) investing activities	408.7	(24.7)	(190.9)	(414.4)	(221.3)
Cash flows from financing activities:					
Dividends paid to parent company	—	—	(8.0)	8.0	—
Net contributions from equity affiliates	—	13.6	0.2	(13.8)	—
Net repayments of intercompany notes	(1.7)	(413.1)	(5.4)	420.2	—
Principal payments of long-term debt	(1,876.8)	(4.9)	(31.7)	—	(1,913.4)
Dividends paid	(100.5)	—	—	—	(100.5)
Payments of minimum tax withholdings on stock-based payment awards	—	(21.4)	(0.9)	—	(22.3)
Payments of debt issuance costs	(11.8)	—	—	—	(11.8)
Proceeds from issuance of long-term debt	1,495.5	—	13.0	—	1,508.5
Net proceeds from notes payable	254.0	—	127.3	—	381.3
Proceeds from shares issued under equity compensation plans	16.6	—	—	—	16.6
Net cash provided by (used in) financing activities	(224.7)	(425.8)	94.5	414.4	(141.6)
Effect of exchange rate changes on cash and cash equivalents	—	—	3.0	—	3.0
Net increase (decrease) in cash and cash equivalents	23.0	1.1	(2.4)	—	21.7
Cash and cash equivalents, beginning of period	9.6	5.8	162.0	—	177.4
Cash and cash equivalents, end of period	\$ 32.6	\$ 6.9	\$ 159.6	\$ —	\$ 199.1

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
<i>(in millions)</i>					
<b>Condensed Consolidating Statement of Cash Flows for the Three Months Ended May 31, 2016</b>					
Net cash provided by (used in) operating activities	\$ (221.8)	\$ 1.0	\$ 566.7	\$ —	\$ 345.9
Cash flows from investing activities:					
Purchases of property, plant and equipment	(4.1)	(27.5)	(137.8)	—	(169.4)
Purchase of business	—	(284.9)	—	—	(284.9)
Net repayments of intercompany notes	(377.2)	(0.1)	—	377.3	—
Net returns of capital from equity affiliates	354.8	—	—	(354.8)	—
Other investing activities	0.1	—	0.3	—	0.4
Net cash used in investing activities	(26.4)	(312.5)	(137.5)	22.5	(453.9)
Cash flows from financing activities:					
Dividends paid to parent company	—	—	(357.0)	357.0	—
Net contributions from equity affiliates	—	0.1	2.1	(2.2)	—
Net proceeds from (repayments of) intercompany notes	275.5	362.6	(260.8)	(377.3)	—
Principal payments of long-term debt	(16.5)	(6.0)	(71.7)	—	(94.2)
Dividends paid	(79.3)	—	—	—	(79.3)
Payments of minimum tax withholdings on stock-based payment awards	—	(42.5)	(3.0)	—	(45.5)
Payments of debt issuance costs	—	—	(3.2)	—	(3.2)
Proceeds from issuance of long-term debt	—	—	709.5	—	709.5
Net repayments of notes payable	—	—	(379.1)	—	(379.1)
Proceeds from shares issued under equity compensation plans	15.9	—	—	—	15.9
Excess tax benefits from stock-based payment awards	68.8	—	—	—	68.8
Purchases of treasury stock	(1.0)	—	—	—	(1.0)
Net cash provided by (used in) financing activities	263.4	314.2	(363.2)	(22.5)	191.9
Effect of exchange rate changes on cash and cash equivalents	—	—	0.3	—	0.3
Net increase in cash and cash equivalents	15.2	2.7	66.3	—	84.2
Cash and cash equivalents, beginning of period	6.0	4.2	72.9	—	83.1
Cash and cash equivalents, end of period	\$ 21.2	\$ 6.9	\$ 139.2	\$ —	\$ 167.3

### 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 reported within the Corporate Operations and Other segment are not included in our chief operating decision maker's evaluation of the operating income performance of the other reportable segments. The business segments reflect how our operations are managed, how resources are allocated, how operating performance is evaluated by senior management and the structure of our internal financial reporting.

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

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

	For the Three Months Ended May 31,	
	2017	2016
<i>(in millions)</i>		
<u>Cost of product sold</u>		
Flow through of inventory step-up	\$ (7.0)	\$ (8.1)
Net gain (loss) on undesignated commodity derivative contracts	(3.1)	13.1
Settlements of undesignated commodity derivative contracts	2.4	8.3
Amortization of favorable interim supply agreement	—	(2.2)
Total cost of product sold	(7.7)	11.1
<u>Selling, general and administrative expenses</u>		
Impairment of intangible assets	(86.8)	—
Costs associated with the Canadian Divestiture and related activities	(3.2)	(3.7)
Transaction, integration and other acquisition-related costs	(1.6)	(2.3)
Other losses	(1.4)	(1.1)
Total selling, general and administrative expenses	(93.0)	(7.1)
Comparable Adjustments, Operating income (loss)	\$ (100.7)	\$ 4.0

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 2017 Annual Report. Segment information is as follows:

	For the Three Months Ended May 31,	
	2017	2016
<i>(in millions)</i>		
<u>Beer</u>		
Net sales	\$ 1,242.3	\$ 1,151.0
Segment operating income	\$ 500.6	\$ 409.3
Long-lived tangible assets	\$ 3,081.1	\$ 2,362.3
Total assets	\$ 11,679.1	\$ 10,276.3
Capital expenditures	\$ 191.2	\$ 145.0
Depreciation and amortization	\$ 39.8	\$ 25.9



	For the Three Months Ended May 31,	
	2017	2016
<i>(in millions)</i>		
<b><u>Wine and Spirits</u></b>		
Net sales:		
Wine	\$ 605.0	\$ 643.1
Spirits	88.2	77.7
Net sales	\$ 693.2	\$ 720.8
Segment operating income	\$ 205.6	\$ 168.0
Equity in earnings of equity method investees	\$ 0.2	\$ 0.8
Long-lived tangible assets	\$ 982.2	\$ 1,035.3
Investments in equity method investees	\$ 77.3	\$ 76.5
Total assets	\$ 6,888.3	\$ 6,984.8
Capital expenditures	\$ 21.6	\$ 12.5
Depreciation and amortization	\$ 22.6	\$ 24.9
<b><u>Corporate Operations and Other</u></b>		
Segment operating loss	\$ (37.4)	\$ (28.6)
Equity in earnings (losses) of equity method investees	\$ 0.2	\$ (0.1)
Long-lived tangible assets	\$ 123.6	\$ 109.6
Investments in equity method investees	\$ 21.3	\$ 5.9
Total assets	\$ 392.0	\$ 368.9
Capital expenditures	\$ 4.3	\$ 11.9
Depreciation and amortization	\$ 9.1	\$ 7.0
<b><u>Comparable Adjustments</u></b>		
Operating income (loss)	\$ (100.7)	\$ 4.0
Depreciation and amortization	\$ —	\$ 2.2
<b><u>Consolidated</u></b>		
Net sales	\$ 1,935.5	\$ 1,871.8
Operating income	\$ 568.1	\$ 552.7
Equity in earnings of equity method investees	\$ 0.4	\$ 0.7
Long-lived tangible assets	\$ 4,186.9	\$ 3,507.2
Investments in equity method investees	\$ 98.6	\$ 82.4
Total assets	\$ 18,959.4	\$ 17,630.0
Capital expenditures	\$ 217.1	\$ 169.4
Depreciation and amortization	\$ 71.5	\$ 60.0

#### 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,

utilizing one of two methods: retrospective restatement for each reporting period presented at time of adoption, or a modified retrospective approach with the cumulative effect of initially applying this guidance recognized at the date of initial application.

We intend to implement this guidance under the retrospective approach. Based on our preliminary review, we expect that the broad definition of variable consideration under this guidance will require us to estimate and record certain variable payments resulting from various sales incentives earlier than we currently record them. We do not expect this change to have a material impact on our consolidated financial statements. We are currently preparing to implement changes to our accounting policies, systems and controls to support the new revenue recognition and disclosure requirements.

*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.

## **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 2017 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 and a discussion of acquisitions and divestitures.
- *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.

### **Overview**

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

Our internal management financial reporting consists of two business divisions: (i) Beer and (ii) Wine and Spirits, and we report our operating results in three segments: (i) Beer, (ii) Wine and Spirits, and (iii) Corporate Operations and Other. In the Beer segment, our portfolio consists of high-end imported and craft beer brands. We have an exclusive perpetual brand license to import, market and sell in the U.S. our Mexican beer portfolio. In the

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

## **Strategy**

Our overall strategy is to sustain profitable growth and build shareholder value. We position our portfolio to benefit from industry premiumization trends, which we believe will continue to result in faster growth rates in the high-end of the beer, wine and spirits categories. We focus on developing our expertise in consumer insights and category management as well as our strong distributor network, which provides an effective route-to-market. Additionally, we leverage our scale across the total beverage alcohol market and our level of diversification hedges our portfolio risk. In addition to growing our existing business, we seek targeted acquisitions of businesses that are premium, growing, high-margin, consumer-led, have a low integration risk and/or fill a gap in our portfolio.

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

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

Our business strategy in the Beer segment focuses on leading the high-end of the U.S. beer market and includes continued focus on growing our beer portfolio in the U.S. through expanding distribution for key brands, as well as new product development and innovation within the existing portfolio of brands, and continued construction, expansion and optimization activities for our Mexico beer operations.

In connection with this strategy, we have more than doubled the production capacity of our brewery located in Nava, Coahuila, Mexico (the “Nava Brewery”) since its June 2013 acquisition and we acquired our Obregon Brewery in Obregon, Sonora, Mexico. Expansion, construction and optimization efforts continue under our previously-announced Mexico beer expansion projects to align with our anticipated future growth expectations.

Our business strategy in the Wine and Spirits segment is to be the leader in the premium wine category and build a portfolio of premium spirits brands. We are investing to meet the evolving needs of consumers and building brands through consumer insights, sensory expertise, innovation and refreshing existing brands. In this segment, we continue to focus on the premiumization of our branded wine and spirits portfolio. We dedicate a large share of our sales and marketing resources to some of our well-known wine and spirits brands sold in the U.S., which comprise our U.S. Focus Brands (“Focus Brands”), as they represent a majority of our U.S. wine and spirits revenue and profitability, and generally have strong positions in their respective price categories. These brands include: 7

Moons, Black Box, Casa Noble, Clos du Bois, Estancia, Franciscan, High West, Kim Crawford, Kung Fu Girl, Mark West, Meiomi, Mount Veeder, Nobilo, Ravage, Robert Mondavi, Ruffino, Simi, SVEDKA Vodka, The Dreaming Tree, The Prisoner and The Velvet Devil. 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.

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 (i) our beer portfolio and (ii) our wine and spirits portfolio. The environment for our products is competitive in each of our markets.

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

## **Acquisitions and Divestitures**

### ***Beer Segment***

#### ***Obregon Brewery Acquisition***

In December 2016, we acquired the Obregon Brewery, which primarily included the acquisition of operations; goodwill; property, plant and equipment; and inventories. This acquisition provided us with immediate functioning brewery capacity to support our fast-growing, high-end Mexican beer portfolio and flexibility for future innovation initiatives. It also enabled us to become fully independent from an interim supply agreement with Modelo, which was terminated at the time of this acquisition. The results of operations of the Obregon Brewery are reported in the Beer segment and have been included in our consolidated results of operations from the date of acquisition.

### ***Wine and Spirits Segment***

#### ***Canadian Divestiture***

In December 2016, we sold our Canadian wine business, which included Canadian wine brands such as Jackson-Triggs and Inniskillin, wineries, vineyards, offices, facilities and Wine Rack retail stores, at a transaction value of C\$1.03 billion, or \$775.1 million. Accordingly, our consolidated results of operations include the results of operations of our Canadian wine business through the date of divestiture. We received cash proceeds of \$570.3 million, net of outstanding debt and direct costs to sell. We will continue to export certain of our brands into the Canadian market, which remains our largest export market. This transaction is consistent with our strategic focus on premium, high-margin and high-growth brands. We recognized a net gain on the sale of the business in the fourth quarter of fiscal 2017 of \$262.4 million.

The following table presents selected financial information included in our historical consolidated financial statements for the prior year comparable period that are no longer part of our consolidated results after the Canadian Divestiture.

		First Quarter 2017
<i>(in millions)</i>		
Net sales	\$	89.6
Gross profit	\$	35.5
Depreciation and amortization	\$	2.8
Operating income	\$	9.5
Income before income taxes	\$	9.3
Cash flow from operating activities	\$	12.3

Additionally, the impact on our historical wine and spirits segment results is the same as the impact on the historical consolidated results for the prior year comparable period for net sales, gross profit, depreciation and amortization, and operating income.

#### High West Acquisition

In October 2016, we acquired High West, which primarily included the acquisition of operations, goodwill, trademarks, inventories and property, plant and equipment. This acquisition included a portfolio of distinctive, award-winning, fast-growing and high-end craft whiskeys and other select spirits. The results of operations of High West are reported in the Wine and Spirits segment and have been included in our consolidated results of operations from the date of acquisition.

#### Charles Smith Acquisition

In October 2016, we acquired Charles Smith, which primarily included the acquisition of goodwill, trademarks, inventories and certain grape supply contracts. This acquisition included a collection of five super and ultra-premium wine brands and solidified our position as the second leading supplier of Washington State wines with this collection of fast-growing, high quality wines that have strong consumer affinity and demand. The results of operations of Charles Smith are reported in the Wine and Spirits segment and have been included in our consolidated results of operations from the date of acquisition.

#### Prisoner Acquisition

In April 2016, we acquired Prisoner, which primarily included the acquisition of goodwill, inventories, trademarks and certain grape supply contracts. This acquisition, which included a portfolio of five fast-growing, higher-margin, super-luxury wine brands, aligned with our portfolio premiumization strategy and strengthened 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.

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

## 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, High West and Charles Smith (wine and spirits), and divested brand activity in connection with the Canadian Divestiture, as appropriate.

For the three months ended May 31, 2017 (“First Quarter 2018”), and May 31, 2016 (“First Quarter 2017”):

- Our results of operations benefited from improvements in both the Beer and Wine and Spirits segments.
- Net sales increased 3% primarily due to an increase in Beer’s net sales driven predominantly by volume growth within our Mexican beer portfolio, partially offset by a decrease in Wine and Spirits’ net sales due largely to the Canadian Divestiture.
- Operating income increased 3% largely due to benefits from lower cost of product sold and the net sales volume growth for the Mexican beer portfolio, and benefits from the acquired brands and a favorable product mix shift within the Wine and Spirits segment, partially offset by an unfavorable change in Comparable Adjustments.
- Net income attributable to CBI and diluted net income per common share attributable to CBI increased 27% and 29%, respectively, primarily due to the items discussed above and an income tax benefit driven largely by a change in our assertion regarding the indefinite reinvestment of certain foreign earnings in the third quarter of fiscal 2017 and our March 1, 2017 adoption of the FASB’s amended share-based compensation guidance.

### Comparable Adjustments

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

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

<i>(in millions)</i>	First Quarter 2018	First Quarter 2017
<b>Cost of product sold</b>		
Flow through of inventory step-up	\$ (7.0)	\$ (8.1)
Net gain (loss) on undesignated commodity derivative contracts	(3.1)	13.1
Settlements of undesignated commodity derivative contracts	2.4	8.3
Amortization of favorable interim supply agreement	—	(2.2)
Total cost of product sold	(7.7)	11.1

<i>(in millions)</i>	First Quarter 2018	First Quarter 2017
<b>Selling, general and administrative expenses</b>		
Impairment of intangible assets	(86.8)	—
Costs associated with the Canadian Divestiture and related activities	(3.2)	(3.7)
Transaction, integration and other acquisition-related costs	(1.6)	(2.3)
Other losses	(1.4)	(1.1)
Total selling, general and administrative expenses	(93.0)	(7.1)
Loss on write-off of debt issuance costs	(6.7)	—
Comparable Adjustments	\$ (107.4)	\$ 4.0

***Cost of Product Sold***

***Inventory Step-Up***

In connection with acquisitions, the allocation of purchase price in excess of book value for certain inventories 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 business prior to acquisition. Flow through of inventory step-up was associated primarily with the acquisitions of Prisoner (First Quarter 2018) and Meiomi (First Quarter 2017).

***Undesignated Commodity Derivative Contracts***

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

***Selling, General and Administrative Expenses***

***Impairment of Intangible Assets***

For First Quarter 2018, we identified certain negative trends within our Beer segment's Ballast Point craft beer portfolio which, when combined with the recent negative craft beer industry trends, including slower growth rates and increased competition, indicated that it was more likely than not that the fair value of our indefinite lived intangible asset associated with the craft beer trademarks might be below its carrying value. These negative trends were the result of (i) a disruption in our distribution network transition plan, (ii) an unexpected decrease in sales from product innovations and (iii) a significant shift in market conditions for our craft beer portfolio, all of which resulted in a decline in net sales and depletion trends, which represent distributor shipments of our branded products to retail customers, for the first quarter of fiscal 2018 as compared to the first quarter of fiscal 2017, following consecutive quarters of significant net sales and depletion volume growth for our craft beer portfolio. Additionally, First Quarter 2018 net sales were below our Fiscal 2018 forecasted net sales for the quarter. In the fourth quarter of fiscal 2017, pursuant to our accounting policy, we had performed our annual impairment analysis for intangible assets with indefinite lives. No indication of impairment was noted for any of our indefinite lived intangible assets for the fourth quarter of fiscal 2017 as the estimated fair value of each of our indefinite lived intangible assets exceeded their carrying value.

In connection with the First Quarter 2018 change in trends for our craft beer portfolio, we performed a quantitative assessment for impairment of the craft beer trademark asset by comparing the carrying value of the trademark asset to its estimated fair value. The estimated fair value of the trademark asset was calculated based on an income approach using the relief from royalty method. In estimating the fair value of the trademark asset, management made assumptions and projections regarding future cash flows based upon future revenues and other factors. The assumptions used in the estimate of fair value are consistent with the projections and assumptions used in our recently revised strategic operating plans for our craft beer portfolio. As a result of this assessment, the craft beer trademark asset with a carrying value of \$222.8 million was written down to its estimated fair value of \$136.0 million, resulting in an impairment of \$86.8 million. This impairment is included in selling, general and administrative expenses.

The most significant assumptions used in the relief from royalty method to determine the estimated fair value of trademark intangible assets with indefinite lives in connection with impairment testing are: (i) the discount rate, (ii) the estimated royalty rate, (iii) the expected long-term growth rate and (iv) the annual revenue projections. As the discount rate is based upon market rates of return, which are generally subject to more volatility, if we used a discount rate that was 50 basis points higher in our impairment testing of the craft beer trademark asset as of May 31, 2017, this change would have resulted in an additional impairment charge of \$10.0 million. For all other assumptions, if we used a royalty rate that was 50 basis points lower or used an expected long-term growth rate that was 50 basis points lower or used annual revenue projections that were 100 basis points lower in our impairment testing of the craft beer trademark asset as of May 31, 2017, these changes would have resulted in an additional impairment charge of \$1.0 million to \$12.0 million.

Costs Associated With The Canadian Divestiture And Related Activities

Costs associated with the Canadian Divestiture and related activities represent costs incurred in connection with the evaluation of the merits of executing an initial public offering for a portion of our Canadian wine business and net other costs incurred in connection with the sale of the Canadian wine business.

Loss On Write-Off Of Debt Issuance Costs

Represents a write-off of debt issuance costs in connection with the May 2017 repayment of the outstanding obligations under the U.S. Term A loan facility under our 2016 Credit Agreement. See “Debt – Senior Notes” below for additional discussion.

**First Quarter 2018 Compared to First Quarter 2017**

*Net Sales*

<i>(in millions)</i>	First Quarter 2018	First Quarter 2017	Dollar Change	Percent Change
Beer	\$ 1,242.3	\$ 1,151.0	\$ 91.3	8 %
Wine and Spirits:				
Wine	605.0	643.1	(38.1)	(6 %)
Spirits	88.2	77.7	10.5	14 %
Total Wine and Spirits	693.2	720.8	(27.6)	(4 %)
Consolidated net sales	\$ 1,935.5	\$ 1,871.8	\$ 63.7	3 %



### Beer Segment

	First Quarter 2018	First Quarter 2017	Dollar Change	Percent Change
<i>(in millions, branded product, 24-pack, 12-ounce case equivalents)</i>				
Net sales	\$ 1,242.3	\$ 1,151.0	\$ 91.3	8%
Shipment volume <sup>(1)</sup>	71.7	67.0		7.0%
Depletion volume <sup>(1)(2)</sup>				11.6%

<sup>(1)</sup> Previously reported Beer shipment and depletion volumes were restated in the fourth quarter of fiscal 2017 for an immaterial error associated with the conversion of 7-ounce Coronita case equivalents to 12-ounce case equivalents.

<sup>(2)</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 Beer's net sales is primarily due to (i) volume growth within our Mexican beer portfolio of \$79.5 million, which benefited from continued consumer demand and increased marketing spend, and (ii) a favorable impact from pricing in select markets within our Mexican beer portfolio of \$21.8 million. For First Quarter 2018, the shipment volume growth trend lagged the depletion volume growth trend due primarily to strong depletion volume toward the end of the quarter. For Fiscal 2018, we expect shipment volume growth to be more generally aligned with depletion volume growth.

### Wine and Spirits Segment

	First Quarter 2018	First Quarter 2017	Dollar Change	Percent Change
<i>(in millions, branded product, 9-liter case equivalents)</i>				
Net sales	\$ 693.2	\$ 720.8	\$ (27.6)	(4%)
<b>Shipment volume</b>				
Total	13.9	16.4		(15.2%)
Organic	13.7	13.6		0.7%
<b>U.S. Domestic</b>				
Organic U.S. Domestic	12.8	12.4		3.2%
<b>U.S. Domestic Focus Brands</b>				
Organic U.S. Domestic Focus Brands	7.7	7.1		8.5%
<b>Depletion volume <sup>(2)</sup></b>				
U.S. Domestic				(1.1%)
U.S. Domestic Focus Brands				3.6%

The decrease in Wine and Spirits' net sales is primarily due to the Canadian Divestiture of \$89.6 million, partially offset by organic wine and spirits net sales growth of \$35.3 million and net sales from acquired brands of \$26.9 million. The organic growth is due largely to favorable product mix shift of \$15.1 million and branded wine and spirits volume growth of \$12.5 million. In addition, First Quarter 2018 net sales growth benefited from pricing due largely to lower promotional spend. These pricing benefits are expected to moderate for the remainder of fiscal 2018 as promotional spend is expected to increase for the branded wine and spirits portfolio for the remainder of fiscal 2018. For First Quarter 2018, the U.S. shipment volume growth trend exceeded the U.S. depletion volume growth trend due largely to timing of shipments in First Quarter 2018. Accordingly, shipment volume growth is expected to lag depletion volume growth during the remainder of fiscal 2018 as we expect U.S. shipment volume growth to be generally aligned with depletion volume growth for Fiscal 2018.

### Gross Profit

	First Quarter 2018	First Quarter 2017	Dollar Change	Percent Change
<i>(in millions)</i>				
Beer	\$ 683.6	\$ 572.2	\$ 111.4	19%
Wine and Spirits	319.4	298.0	21.4	7%
Comparable Adjustments	(7.7)	11.1	(18.8)	NM
Consolidated gross profit	<u>\$ 995.3</u>	<u>\$ 881.3</u>	<u>\$ 114.0</u>	13%

NM = Not meaningful

The increase in Beer's gross profit is primarily due to (i) lower cost of product sold for our Mexican beer business of \$58.8 million and (ii) the volume growth and the favorable impact from pricing in select markets within our Mexican beer portfolio of \$38.1 million and \$20.4 million, respectively. The lower cost of product sold is primarily due to operational and foreign currency transactional benefits within our Mexican beer portfolio of \$35.5 million and \$14.2 million, respectively. These benefits from lower cost of product sold for our Mexican beer business are expected to lessen for the remainder of fiscal 2018 due primarily to increasing depreciation and brewery compensation and benefits, both supporting the continued growth of the Mexican beer portfolio.

The increase in Wine and Spirits' gross profit is primarily due to organic wine and spirits growth of \$42.1 million and gross profit from the acquired brands of \$14.6 million, partially offset by a decrease due to the Canadian Divestiture of \$35.5 million. The organic growth is due largely to favorable product mix shift of \$13.6 million, favorable impact from U.S. branded wine and spirits pricing of \$11.0 million and volume growth of \$8.5 million.

Gross profit as a percent of net sales increased to 51.4% for First Quarter 2018 compared with 47.1% for First Quarter 2017 primarily due to (i) lower cost of product sold for the Beer segment which contributed approximately 330 basis points, (ii) the favorable impact from Beer pricing in select markets which contributed approximately 60 basis points, (iii) the favorable impact from the acquired higher-margin wine and spirits brands and divestiture of the lower-margin Canadian wine business which contributed approximately 50 basis points, and (iv) the favorable product mix shift for the Wine and Spirits segment which contributed approximately 40 basis points; partially offset by a negative impact from the change in Comparable Adjustments of approximately 100 basis points.

### Selling, General and Administrative Expenses

	First Quarter 2018	First Quarter 2017	Dollar Change	Percent Change
<i>(in millions)</i>				
Beer	\$ 183.0	\$ 162.9	\$ 20.1	12%
Wine and Spirits	113.8	130.0	(16.2)	(12%)
Corporate Operations and Other	37.4	28.6	8.8	31%
Comparable Adjustments	93.0	7.1	85.9	NM
Consolidated selling, general and administrative expenses	<u>\$ 427.2</u>	<u>\$ 328.6</u>	<u>\$ 98.6</u>	30%

The increase in Beer is primarily due to increases in marketing spend of \$14.2 million and general and administrative expenses of \$5.9 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 higher expenses supporting the growth of the business.

The decrease in Wine and Spirits is primarily due to a decrease in general and administrative expenses of \$18.9 million, partially offset by an increase in marketing spend of \$1.3 million. The decrease in general and administrative expenses is predominantly driven by the Canadian Divestiture of \$21.5 million, partially offset by higher compensation and benefits supporting our organic growth and acquired businesses. The increase in marketing spend is primarily due to planned investment to support the organic growth of our branded wine and spirits portfolio of \$5.8 million, partially offset by a decrease due to the Canadian Divestiture.

The increase in Corporate Operations and Other is due to higher general and administrative expenses primarily attributable to increases in compensation and benefits and consulting, both largely attributable to supporting the growth of the business.

Selling, general and administrative expenses as a percent of net sales increased to 22.1% for First Quarter 2018 as compared with 17.6% for First Quarter 2017. The increase is primarily attributable to the growth in Comparable Adjustments and Corporate Operations and Other selling, general and administrative expenses, which resulted in approximately 480 basis points of rate growth, partially offset by a benefit of approximately 50 basis points from the divestiture of the Canadian wine business, which had a higher rate of selling, general and administrative expenses as a percent of net sales as compared with the rest of the Wine and Spirits' business.

***Operating Income***

	First Quarter 2018	First Quarter 2017	Dollar Change	Percent Change
<i>(in millions)</i>				
Beer	\$ 500.6	\$ 409.3	\$ 91.3	22 %
Wine and Spirits	205.6	168.0	37.6	22 %
Corporate Operations and Other	(37.4)	(28.6)	(8.8)	(31 %)
Comparable Adjustments	(100.7)	4.0	(104.7)	NM
Consolidated operating income	<u>\$ 568.1</u>	<u>\$ 552.7</u>	<u>\$ 15.4</u>	3 %

Operating income increased primarily due to the growth in our Beer and Wine and Spirits segments driven predominantly by the factors discussed above, partially offset by the negative impact from the change in Comparable Adjustments.

***Interest Expense***

Interest expense decreased slightly to \$82.4 million for First Quarter 2018 from \$84.6 million for First Quarter 2017, a decrease of \$2.2 million, or (3%). This decrease is primarily due to a lower average interest rate of approximately 35 basis points and higher average borrowings of approximately \$700 million. The lower average interest rate is predominantly due to the issuance of the lower rate December 2016 senior notes and May 2017 Senior Notes and the repayment of the higher rate August 2006 senior notes and January 2008 Senior Notes. The higher average borrowings are primarily attributable to the purchases of businesses and treasury stock during Fiscal 2017.

***Provision for Income Taxes***

Our effective tax rate for First Quarter 2018 and First Quarter 2017 was 15.5% and 31.9%, respectively. For First Quarter 2018, our effective tax rate benefited primarily from (i) lower effective tax rates applicable to our foreign businesses, including our assertion regarding indefinitely reinvesting earnings of certain foreign subsidiaries, which was asserted in the third quarter of fiscal 2017, and (ii) the recognition of the income tax effect of stock-based compensation awards in the income statement when the awards vest or are settled in connection with our March 1, 2017, adoption of the FASB's amended share-based compensation guidance.

**Net Income Attributable to CBI**

Net income attributable to CBI increased to \$402.8 million for First Quarter 2018 from \$318.3 million for First Quarter 2017, an increase of \$84.5 million, or 27%, driven largely by the factors discussed above, including (i) the growth in operating income for our Beer segment of \$91.3 million and organic operating income growth for our Wine and Spirit segment of \$32.5 million, and (ii) the benefit from the lower effective tax rate of approximately \$80 million, partially offset by the unfavorable change in Comparable Adjustments of \$111.4 million.

**Financial Liquidity and Capital Resources****General**

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

**Cash Flows**

	First Quarter 2018	First Quarter 2017
<i>(in millions)</i>		
Net cash provided by operating activities	\$ 381.6	\$ 345.9
Net cash used in investing activities	(221.3)	(453.9)
Net cash provided by (used in) financing activities	(141.6)	191.9
Effect of exchange rate changes on cash and cash equivalents	3.0	0.3
Net increase in cash and cash equivalents	<u>\$ 21.7</u>	<u>\$ 84.2</u>

**Operating Activities**

Net cash provided by operating activities increased \$35.7 million for First Quarter 2018 driven largely by strong cash flow from the Beer segment. The increase in Beer was primarily due to (i) the net sales volume growth and favorable pricing in the Mexican beer portfolio and (ii) favorable cash inflows associated with an earlier build of inventory in late Fiscal 2017 to support the Fiscal 2018 summer selling season.

**Investing Activities**

Net cash used in investing activities decreased \$232.6 million for First Quarter 2018 primarily due to the April 2016 acquisition of Prisoner of \$284.9 million, partially offset by higher capital expenditures of \$47.7 million for First Quarter 2018.

**Financing Activities**

Net cash used in financing activities increased \$333.5 million for First Quarter 2018 primarily from the following:

- First Quarter 2018 principal payments of long-term debt driven largely by the repayment of term loan borrowings under our senior credit facility of \$1,176.2 million and the January 2008 Senior Notes of \$700.0 million; and
- First Quarter 2018 decrease in excess tax benefits from stock-based payment awards of \$68.8 million in connection with our March 1, 2017, adoption of the FASB's amended guidance for, among other items, the accounting for income taxes related to share-based compensation and the related classification in the statement of cash flows. Refer to Note 2 of the Financial Statements for additional information;

partially offset by:

- First Quarter 2018 proceeds from issuance of long-term debt of \$1,500.0 million (used to repay the January 2008 Senior Notes, and a portion of our outstanding term loan borrowings under our senior credit facility; compared with
- First Quarter 2017 proceeds from issuance of long-term debt of \$700.0 million from term loan borrowings under our senior credit facility (used to refinance borrowings under our prior senior credit facility and accounts receivable securitization facilities, and for other general corporate purposes); and
- First Quarter 2018 net proceeds from notes payable of \$381.3 million compared with First Quarter 2017 net repayments of notes payable of \$379.1 million.

**Debt**

Total debt outstanding as of May 31, 2017, amounted to \$9,211.5 million, a decrease of \$26.6 million from February 28, 2017.

**Senior Notes**

In May 2017, we issued the May 2017 Senior Notes. Proceeds from this offering, net of discount and debt issuance costs, of \$1,483.8 million were used for the repayment of our January 2008 Senior Notes and a portion of the outstanding obligations under the U.S. Term A loan facility under our 2016 Credit Agreement. The remaining outstanding obligations under the U.S. Term A loan facility were repaid in May 2017 primarily with revolver borrowings under our 2016 Credit Agreement.

**General**

The majority of our outstanding borrowings as of May 31, 2017, consisted of fixed-rate senior unsecured notes, with maturities ranging from calendar 2019 to calendar 2047, and variable-rate senior unsecured 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	
	May 31, 2017	June 23, 2017
<i>(in millions)</i>		
Revolving Credit Facility	\$ 627.5	\$ 607.5
CBI Facility	\$ 101.8	\$ 39.0
Crown Facility	\$ 4.0	\$ 54.0

The financial institutions participating in our 2016 Credit Agreement and our accounts receivable securitization facilities have complied with prior funding requests and we believe such financial institutions will comply with any future funding requests. However, there can be no assurances that any particular financial institution will continue to do so.

As of May 31, 2017, we also have additional credit arrangements totaling \$459.6 million, with \$314.0 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 unsecured 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 May 31, 2017, the minimum interest coverage ratio was 2.5x and the maximum net debt coverage ratio was 4.0x.

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 May 31, 2017, 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 2017 Annual Report and Note 8 of the Financial Statements included herein.

#### **Common Stock Dividends**

On June 28, 2017, our Board of Directors declared a quarterly cash dividend of \$0.52 per share of Class A Common Stock, \$0.47 per share of Class B Convertible Common Stock and \$0.47 per share of Class 1 Common Stock payable on August 23, 2017, to stockholders of record of each class on August 9, 2017.

We currently expect to continue to pay a regular quarterly cash dividend to stockholders of our common stock in the future, but such payments are subject to approval of our Board of Directors and are dependent upon our financial condition, results of operations, capital requirements and other factors, including those set forth under Item 1A “Risk Factors” of our 2017 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 2017 Authorization. Shares repurchased under this authorization have become treasury shares.

As of May 31, 2017, total shares repurchased under this authorization are as follows:

	Repurchase Authorization	Class A Common Shares	
		Dollar Value of Shares Repurchased	Number of Shares Repurchased
<i>(in millions, except share data)</i>			
2017 Authorization	\$ 1,000.0	\$ 453.1	3,006,547

Share repurchases under the 2017 Authorization may be accomplished at management's discretion from time to time based on market conditions, our cash and debt position, and other factors as determined by management. Shares may be repurchased through open market or privately negotiated transactions. We may fund future share repurchases with cash generated from operations and/or proceeds from borrowings. Any repurchased shares will become treasury shares.

For additional information, refer to Note 14 of our consolidated financial statements included in our 2017 Annual Report.

### **Accounting Guidance Not Yet Adopted**

Refer to Note 2 of the Financial Statements for information on accounting guidance adopted on March 1, 2017. For 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 operations, future financial position, expected effective tax rates and anticipated tax liabilities, prospects, plans and objectives of management, including the duration of reinvestment of earnings of certain foreign subsidiaries, (ii) information concerning expected or potential actions of third parties, including potential changes to international trade agreements, tariffs, taxes and other governmental rules and regulations, (iii) information concerning the future expected demand for our products, (iv) timing and source of funds for operating activities, (v) the manner, timing and duration of the share repurchase program and source of funds for share repurchases, and (vi) the amount and timing of future dividends and (II) the statements regarding our beer operations expansion activities, including Mexicali Brewery construction, Obregon Brewery optimization, and the expansions of our Nava Brewery and glass plant, including anticipated costs and timeframes for completion 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, manner and timing of and source of funds for any share repurchases may vary due to market conditions, our cash and debt position, the impact of the beer operations expansion activities, and other factors as determined by management from time to time,

(iii) the amount and timing of future dividends may differ from our current expectations if our ability to use cash flow to fund dividends is affected by unanticipated increases in total net debt, we are unable to generate cash flow at anticipated levels, or we fail to generate expected earnings, and (iv) the timeframe and actual costs associated with the beer operations expansion activities 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. For additional information about risks and uncertainties that could adversely affect our forward-looking statements, please refer to Item 1A “Risk Factors” of our 2017 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, divestitures or joint venture investments outside the U.S. As of May 31, 2017, we had exposures to foreign currency risk primarily related to the Mexican peso, Canadian dollar, euro and New Zealand dollar. Approximately 71% of our balance sheet exposures and forecasted transactional exposures for the remaining nine months of fiscal 2018 were hedged as of May 31, 2017.

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 May 31, 2017, exposures to commodity price risk which we are currently hedging primarily include heating oil, aluminum, diesel fuel, corn and wheat prices. Approximately 64% of our forecasted transactional exposures for the remaining nine months of fiscal 2018 were hedged as of May 31, 2017.

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

	Aggregate Notional Value		Fair Value, Net Asset (Liability)		Increase (Decrease) in Fair Value – Hypothetical 10% Adverse Change	
	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016
<i>(in millions)</i>						
Foreign currency contracts	\$ 1,287.2	\$ 3,193.5	\$ 2.9	\$ (54.8)	\$ (72.4)	\$ 19.5
Commodity derivative contracts	\$ 165.8	\$ 186.9	\$ (6.8)	\$ (23.7)	\$ 14.0	\$ 14.5



**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 May 31, 2017, and May 31, 2016, we had outstanding cash flow designated interest rate swap agreements which fixed LIBOR interest rates (to minimize interest rate volatility) on \$250.0 million and \$700.0 million, respectively, of our floating LIBOR rate debt. In addition, as of May 31, 2016, we had outstanding offsetting undesignated interest rate swap agreements. We had no offsetting undesignated interest rate swap agreements outstanding as of May 31, 2017.

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 Notional Value		Fair Value, Net Asset (Liability)		Increase (Decrease) in Fair Value – Hypothetical 1% Rate Increase	
	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016
<i>(in millions)</i>						
Fixed interest rate debt	\$ 5,488.6	\$ 4,790.0	\$ (5,760.4)	\$ (5,001.2)	\$ (360.9)	\$ (203.7)
Variable interest rate debt	\$ 3,782.3	\$ 3,570.3	\$ (3,764.4)	\$ (3,183.4)	\$ (93.4)	\$ (114.4)
Interest rate swap contracts	\$ 250.0	\$ 1,700.0	\$ 3.7	\$ (5.5)	\$ 6.9	\$ (7.6)

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

**Item 4. Controls and  
Procedures.**

**Disclosure Controls and Procedures**

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

**Internal Control Over Financial Reporting**

In connection with the foregoing evaluation by our Chief Executive Officer and our Chief Financial Officer, no changes were identified in the Company's "internal control over financial reporting" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(f) and 15d-15(f)) that occurred during our fiscal quarter ended May 31, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II – OTHER INFORMATION**

**Item 4. Mine Safety  
Disclosures.**

Not Applicable.

**Item 6. Exhibits.**

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

For the exhibits that are filed herewith or incorporated herein by reference, see the Index to Exhibits located on page 42 of this report. The Index to Exhibits is incorporated herein by reference.

**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.

Date:	June 29, 2017	<b>CONSTELLATION BRANDS, INC.</b>
		By: <u>/s/ Lisa M. Schnorr</u>
		Lisa M. Schnorr, Senior Vice President and Controller
Date:	June 29, 2017	By: <u>/s/ David Klein</u>
		David Klein, Executive Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)

**INDEX TO EXHIBITS**

<b>Exhibit No.</b>	
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, amended as of October 4, 2016 (filed as Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2016 and incorporated herein by reference).
4.1	Indenture, dated as of April 17, 2012, by and among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated April 17, 2012, filed April 23, 2012 and incorporated herein by reference). #
4.2	Supplemental Indenture No. 1, with respect to 6.0% Senior Notes due May 2022, dated as of April 17, 2012, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.1.1 to the Company's Current Report on Form 8-K dated April 17, 2012, filed April 23, 2012 and incorporated herein by reference). #
4.3	Supplemental Indenture No. 3, with respect to 3.75% Senior Notes due May 2021, dated as of May 14, 2013, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 14, 2013, filed May 16, 2013 and incorporated herein by reference).
4.4	Supplemental Indenture No. 4, with respect to 4.25% Senior Notes due May 2023, dated as of May 14, 2013, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated May 14, 2013, filed May 16, 2013 and incorporated herein by reference).
4.5	Supplemental Indenture No. 5, dated as of June 7, 2013, among the Company, Constellation Brands Beach Holdings, Inc., Crown Imports LLC, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.4 to the Company's Current Report on Form 8-K dated June 7, 2013, filed June 11, 2013 and incorporated herein by reference).
4.6	Supplemental Indenture No. 6, dated as of May 28, 2014, among the Company, Constellation Marketing Services, Inc., and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.21 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2014 and incorporated herein by reference).

- 4.7 Supplemental Indenture No. 7, with respect to 3.875% Senior Notes due 2019, dated as of November 3, 2014, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated November 3, 2014, filed November 7, 2014 and incorporated herein by reference).
- 4.8 Supplemental Indenture No. 8, with respect to 4.750% Senior Notes due 2024, dated as of November 3, 2014, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated November 3, 2014, filed November 7, 2014 and incorporated herein by reference).
- 4.9 Supplemental Indenture No. 9, with respect to 4.750% Senior Notes due 2025, dated December 4, 2015, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated December 4, 2015, filed December 8, 2015 and incorporated herein by reference).
- 4.10 Supplemental Indenture No. 10, dated as of January 15, 2016, among the Company, Home Brew Mart, Inc. and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.26 to the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2016 and incorporated herein by reference).
- 4.11 Supplemental Indenture No. 11 with respect to 3.700% Senior Notes due 2026, dated as of December 6, 2016, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee, (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated December 6, 2016, filed December 6, 2016 and incorporated herein by reference).
- 4.12 Supplemental Indenture No. 12 with respect to 2.700% Senior Notes due 2022, dated as of May 9, 2017, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 9, 2017, filed May 9, 2017 and incorporated herein by reference).
- 4.13 Supplemental Indenture No. 13 with respect to 3.500% Senior Notes due 2027, dated as of May 9, 2017, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated May 9, 2017, filed May 9, 2017 and incorporated herein by reference).
- 4.14 Supplemental Indenture No. 14 with respect to 4.500% Senior Notes due 2047, dated as of May 9, 2017, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K dated May 9, 2017, filed May 9, 2017 and incorporated herein by reference).
- 4.15 Restatement Agreement, dated as of October 13, 2016, by and among the Company, CIH International S.à r.l., CIH Holdings S.à r.l., CB International Finance S.à r.l., CI Cerveza S.à r.l., the Guarantors, Bank of America, N.A., as administrative agent, and the Lenders thereto, including the Fifth Amended and Restated Credit Agreement dated as of October 13, 2016, by and among the Company, CIH International S.à r.l., CIH Holdings S.à r.l., CB International Finance S.à r.l., Bank of America, N.A., as administrative agent, and the Lenders party thereto (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated October 13, 2016, filed October 18, 2016 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 Amended and Restated Cross-Guarantee Agreement, dated as of October 13, 2016, by and among CIH International S.à r.l., CIH Holdings S.à r.l., CB International Finance 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 October 13, 2016, filed October 18, 2016 and incorporated herein by reference).
- 10.3 Form of Executive Employment Agreement between Constellation Brands, Inc. and certain of its Other Executive Officers (including Christopher Stenzel) (filed herewith). \*
- 10.4 Executive Employment Agreement dated February 27, 2017 and effective March 1, 2017, among Crown Imports LLC, Constellation Brands, Inc. and William F. Hackett (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 25, 2017, filed February 28, 2017 and incorporated herein by reference). \*
- 10.5 Form of Terms and Conditions Memorandum for Employees with respect to grants of options to purchase Class 1 Stock pursuant to the Company's Long-Term Stock Incentive Plan (grants on or after April 21, 2017) (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 21, 2017, filed April 25, 2017 and incorporated herein by reference). \*
- 10.6 Form of Restricted Stock Unit Agreement with respect to the Company's Long-Term Stock Incentive Plan (awards on or after April 21, 2017) (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated April 21, 2017, filed April 25, 2017 and incorporated herein by reference). \*

- 10.7 Form of Performance Share Unit Agreement with respect to the Company's Long-Term Stock Incentive Plan (awards on or after April 21, 2017) (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K dated April 21, 2017, filed April 25, 2017 and incorporated herein by reference). \*
  - 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).
  - 101.1 The following materials from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of May 31, 2017 and February 28, 2017, (ii) Consolidated Statements of Comprehensive Income for the three months ended May 31, 2017 and 2016, (iii) Consolidated Statements of Cash Flows for the three months ended May 31, 2017 and 2016, 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.
- \* 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.

**EXECUTIVE EMPLOYMENT AGREEMENT**

This Agreement is made as of \_\_\_\_\_ between Constellation Brands, Inc., a Delaware corporation (“Constellation”), and \_\_\_\_\_ (“Executive”).

Executive has contributed substantially to the growth and success of Constellation. Accordingly, Constellation desires to retain Executive’s services as set forth in the Agreement and to provide the necessary consideration to assure such services.

Constellation and Executive therefore agree as follows:

1. **Employment.** Constellation hereby employs Executive as its \_\_\_\_\_ or in such other senior executive position with Constellation or its affiliates as Constellation and Executive shall mutually agree upon. Executive hereby accepts the employment specified herein, agrees to perform, in good faith, the duties, consistent with his position, to abide by the terms and conditions described in this Agreement and to devote his full working time and best efforts to Constellation and its affiliates. These obligations shall not restrict Executive from engaging in customary activities as a director or trustee of other business or not-for-profit organizations so long as such activities, in the reasonable opinion of Constellation or its Board of Directors, do not materially interfere with the performance of Executive’s responsibilities under this Agreement or create a real or apparent conflict of interests.

2. **Term.** The term of this Agreement shall commence on the date set forth above and shall expire on February [28/29], 20\_\_\_\_, provided that on February [28/29], 20\_\_\_\_, and on each subsequent anniversary thereof, the term shall automatically be extended by the parties for an additional one-year period, until Constellation gives Executive notice, not less than 180 days prior to February [28/29], 20\_\_\_\_, or an anniversary thereof, of a decision not to extend the Agreement for an additional one-year period.

3. **Compensation.** During the term of Executive’s employment, Constellation shall pay him a base salary at the rate of \$ \_\_\_\_\_ per annum or such greater amount as the Human Resources Committee of the Board shall determine (“Base Salary”). Such Base Salary shall be payable in accordance with Constellation’s standard payroll practices for senior executives. Constellation may pay Executive a bonus in such amount and at such time or times as the Human Resources Committee of the Board shall determine.

4. **Reimbursement for Expenses/Benefits.** Executive shall be expected to incur various reasonable business expenses customarily incurred by persons holding like positions, including but not limited to traveling, entertainment and similar expenses incurred for the benefit of Constellation. Constellation shall reimburse Executive for such expenses from time to time, at Executive’s request, and Executive shall account to Constellation for such expenses. Executive shall participate in such benefit plans that are generally made available to all executives of Constellation.

5. Definitions.

“Board” or “Board of Directors” means the Board of Directors of Constellation Brands, Inc.

“COBRA” means the continuation of health care rules of Part 6 of Title I of the Employee Retirement Income Security Act of 1974, as amended.

“Code” means the Internal Revenue Code of 1986, as amended.

“For Cause Termination” means Constellation terminates Executive for (a) any intentional, non-incident misappropriation of funds or property of Constellation by Executive; (b) unreasonable (and persistent) neglect or refusal by Executive to perform his duties as provided in Section 1 hereof and which he does not remedy within thirty days after receipt of written notice from Constellation; (c) the material breach by Executive of any provision of Sections 8 or 10 which he does not remedy within thirty days after receipt of written notice from Constellation; or (d) conviction of Executive of a felony.

“Good Reason Termination” means Executive terminates his employment under this Agreement for “good reason” upon 30 days’ notice to Constellation given within 90 days following the occurrence of any of the following events without his consent, each of which shall constitute a “good reason” for such termination; provided that the following events shall not constitute “good reason” if the event is remedied by Constellation within 30 days after receipt of notice given by Executive to Constellation specifying the event:

- (a) Constellation acts to materially reduce Executive’s employment band or materially reduce Executive’s duties and responsibilities;
- (b) Constellation materially reduces the amount of Executive’s Base Salary; or
- (c) Constellation materially breaches this Agreement.

“Section 409A” means Section 409A of the Internal Revenue Code of 1986, as amended, and the Treasury Department regulations and other authoritative guidance issued thereunder.

“Termination Date” means the date of the Executive’s “separation from service” (within the meaning of Section 409A) from Constellation.

6. Consequence of Termination or Expiration of Agreement. If (i) Executive voluntarily ceases employment with Constellation and its affiliates, quits or terminates this Agreement for any reason other than a Good Reason Termination, or (ii) Constellation terminates the employment of Executive in a For Cause Termination, then Executive’s rights and Constellation’s obligations hereunder shall forthwith terminate except that Executive shall be



paid, as soon as administratively practicable after the Termination Date, all earned but unpaid base salary, accrued paid time off and accrued but unreimbursed expenses required to be reimbursed under this Agreement.

If Executive's employment with Constellation and its affiliates terminates on the date that this Agreement expires or if, during the term of this Agreement, Executive's employment with Constellation and its affiliates is terminated (i) by Executive for a Good Reason Termination or (ii) by Constellation for any reason other than a For Cause Termination, then Executive shall be entitled to the following (which shall be in full and complete satisfaction of all of Constellation's obligations under this Agreement):

(a) Constellation shall pay to Executive all earned but unpaid Base Salary, accrued paid time off and accrued but unreimbursed expenses required to be reimbursed under this Agreement; and

(b) Constellation shall pay to Executive a cash amount equal to two (2) times his Base Salary as in effect on the Termination Date plus two (2) times his Previous Bonus (as defined below). For purposes of this Agreement, "Previous Bonus" shall equal the average annual cash bonus paid to Executive over the three most recently completed fiscal years, whether under Constellation's Annual Management Incentive Plan or as part of another annual cash bonus program; and

(c) Commencing on the first business day of the month following the month in which the Termination Date occurs and for the 23 months following such date, Constellation shall pay Executive an amount equal to the monthly cost of Executive's medical and dental coverage as of the Termination Date taking into account both Constellation's and Executive's cost for such coverage; provided that the first payment shall not be made until the first business day occurring on or after the forty-fifth (45<sup>th</sup>) day following the Termination Date and the payment on that date shall include all payments that would otherwise have been paid absent this forty-five (45) day delay; and

(d) For the eighteen (18) month period commencing on the first business day occurring on or after the forty-fifth (45<sup>th</sup>) day after the Termination Date, Constellation shall provide Executive with reasonable outplacement services; and

(e) Constellation shall provide Executive with the opportunity to purchase continued health care coverage under Constellation's plans as required by COBRA; and

(f) Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor will any payments hereunder be subject to offset in respect of compensation earned as a result of Executive's employment with another employer subsequent to the Executive's termination with Constellation and its affiliates.

## 7. Timing of Payments

All payments under Section 6(a) shall be due and payable, as soon as administratively practicable after the Termination Date. All payments under Section 6(b) shall be due and payable in a single lump sum amount on the first business day occurring on or after the forty-fifth (45th) day after the Termination Date. Payments or benefits set forth in Sections 6(c)-(d) shall be paid or provided at such times set forth therein. Notwithstanding any provision in this Agreement to the contrary, no amounts or benefits under Sections 6(b)-(d) shall be paid to Executive hereunder unless Executive signs and executes a release substantially in the form attached hereto as Exhibit A and such release becomes effective and nonrevocable within forty-five (45) days after the Termination Date.

Notwithstanding any provision in this Agreement to the contrary, in the event that Executive is a "specified employee" (within the meaning of Section 409A) on the Termination Date and Constellation determines that delaying the payment of amounts under this Agreement is necessary to comply with the requirements of Section 409A, the payments under Sections 6(b) and 6(c) that would have otherwise been paid within the six month period after the Termination Date shall instead be paid on the first business day of the seventh month following the Termination Date. The timing of all payments and benefits under this Agreement shall be made consistent with the requirements of Section 409A to the extent a payment or benefit is subject to such requirements.

## 8. Restrictive Covenant

(a) Executive agrees that (i) during the period of his employment hereunder and (ii) provided that Executive is entitled to the payment under Section 6(b) or is terminated due to a For Cause Termination, for a period of two (2) years after he ceases employment, he will not, without the written consent of Constellation, seek or obtain a position with a Competitor (as defined below) in which Executive will use or is likely to use any confidential information or trade secrets of Constellation or any affiliate of Constellation, or in which Executive has duties for such Competitor that involve Competitive Services (as defined below) and that are the same or similar to those services actually performed by Executive for Constellation or any affiliate of Constellation. The parties agree that Executive may continue service on any boards of directors on which he is serving while employed by Constellation or its affiliates. If Executive's employment is terminated by Executive for a Good Reason Termination or by Constellation for any reason other than a For Cause Termination, then Constellation will not unreasonably withhold such consent provided Constellation receives information and assurances, satisfactory to Constellation, regarding Executive's new position.

(b) Executive understands and agrees that the relationship between Constellation and its affiliates and each of their respective employees constitutes a valuable asset of Constellation and its affiliates and may not be converted to Executive's own use. Accordingly, Executive hereby agrees that (i) during the period of his employment hereunder and (ii) for a period of twelve months (12) months after he ceases employment, Executive shall not directly or indirectly, on his own behalf or on behalf of

another person, solicit or induce any employee to terminate his or her employment relationship with Constellation or any affiliate of Constellation or to enter into employment with another person. The foregoing shall not apply to employees who respond to solicitations of employment directed to the general public or who seek employment at their own initiative.

(c) For the purposes of this Section 8, "Competitive Services" means the provision of goods or services that are competitive with any goods or services offered by Constellation or any affiliate of Constellation including, but not limited to manufacturing, importing, exporting, distributing or selling wine, beer, liquor or other alcoholic beverages in the United States, Canada, New Zealand, Italy and/or Mexico. The parties acknowledge that Constellation or its affiliates may from time to time during the term of this Agreement change or increase the line of goods or services it provides and its geographic markets, and Executive agrees that this Agreement shall be deemed to be amended from time to time to include such different or additional goods, services, and geographic markets to the definition of "Competitive Services" for purposes of this Section 8. "Competitor" means any individual or any entity or enterprise engaged, wholly or in part, in Competitive Services.

(d) Executive agrees that, due to his position of trust and confidence, the restrictions contained in this Section 8 are reasonable, and the benefits conferred on him in this Agreement, including his compensation, are adequate consideration, and, since the nature of Constellation's and its affiliates' collective business is international in scope, the geographic restriction herein is reasonable.

(e) Executive acknowledges that a breach of this Section 8 will cause irreparable injury and damage, which cannot be reasonably or adequately compensated by money damages. Accordingly, he acknowledges that the remedies of injunction and specific performance shall be available in the event of such a breach, and Constellation shall be entitled to money damages, costs and attorneys' fees, and other legal or equitable remedies, including an injunction pending trial, without the posting of bond or other security. Any period of restriction set forth in this Section 8 shall be extended for a period of time equal to the duration of any breach or violation thereof.

(f) In the event of Executive's breach of this Section 8, in addition to the injunctive relief described above, Constellation's remedy shall include (i) the right to require Executive to account for and pay over to Constellation all compensation, profits, monies, accruals, increments or other benefits derived or received by Executive as the result of any transactions constituting a breach of the restrictive covenants in this Section 8, and (ii) in the case of a breach during the term of Executive's employment hereunder, the termination of all compensation otherwise payable to Executive under Sections 3 and 4 with respect to the period of time after such breach, or (iii) in the case of a breach during the period described in Section 8(a)(ii) or 8(b)(ii) above, the forfeiture to Constellation of any payment made under Sections 6(b) herein.

(g) In the event that any provision of this Section 8 is held to be in any respect an unreasonable restriction, then the court so holding may modify the terms thereof, including the period of time during which it operates or the geographic area to which it applies, or effect any other change to the extent necessary to render this Section 8 enforceable, it being acknowledged by the parties that the representations and covenants set forth herein are of the essence of this Agreement.

9. Limitation on Payments. Notwithstanding anything contained in this Agreement or any other compensation plan to the contrary, if upon or following a change in the “ownership or effective control” of Constellation or in the “ownership of a substantial portion of the assets” of Constellation (each within the meaning of Section 280G of the Code), the tax imposed by Section 4999 of the Code (the “Excise Tax”) applies to any payments, benefits and/or amounts received by the Executive pursuant to this Agreement or otherwise, including, without limitation, any benefits received by the Executive as a result of any automatic vesting, lapse of restrictions and/or accelerated target or performance achievement provisions, or otherwise, applicable to outstanding grants or awards to the Executive under any of Constellation’s incentive plans, including without limitation, Constellation’s Long-Term Stock Incentive Plan (collectively, the “Total Payments”), then the Total Payments shall be reduced so that the maximum amount of the Total Payments (after reduction) shall be one dollar (\$1.00) less than the amount which would cause the Total Payments to be subject to the Excise Tax; provided that such reduction to the Total Payments shall be made only if the total after-tax benefit to the Executive is greater after giving effect to such reduction than if no such reduction had been made. If such a reduction is required, Constellation shall reduce or eliminate the Total Payments by eliminating or reducing the payment under Section 6(b) and then, if necessary eliminating or reducing the payment under Section 6(c). In the case of reductions under Section 6(c) the payments shall be reduced in reverse order beginning with the payments which are to be paid the farthest in time.

10. Trade Secrets and Confidential Information. Executive agrees that unless duly authorized in writing by Constellation, he will neither during his employment by Constellation or its affiliates nor at any time thereafter divulge or use in connection with any business activity other than that of Constellation or its affiliates any trade secrets or confidential information first acquired by him during and by virtue of his employment with Constellation or its affiliates. Executive acknowledges that this Agreement does not prohibit Executive from filing a charge with, communicating with, or participating in any investigation or proceeding conducted by any federal, state, or local governmental agency or entity, including the Equal Employment Opportunity Commission and the Securities and Exchange Commission.

11. Indemnification. Constellation and its successors and/or assigns will indemnify, hold harmless, and defend Executive to the fullest extent permitted by the law of the State of Delaware and the Certificate of Incorporation and By-Laws of Constellation as in effect on the date of this Agreement with respect to any claims that may be brought against Executive arising out of any action taken or not taken by Executive in his capacity as an employee, officer or director of Constellation. In addition, Constellation will advance to Executive reasonable legal fees and expenses, as such fees and expenses are incurred by Executive, to the fullest extent permitted by law, subject only to any requirements as are imposed by law. Executive shall not unreasonably withhold his consent to the settlement of any claim for monetary damages for

which Executive is entitled to full indemnification hereunder. Executive shall be covered, in respect of his activities as an officer or director of Constellation, by any Directors and Officers liability policy or other similar policies maintained or obtained by Constellation or any of its successors and/or assigns to the fullest extent permitted by such policies. Notwithstanding anything to the contrary contained in this Agreement, Executive's rights under this Section 11 shall survive the Termination Date and the expiration or termination of this Agreement and shall continue without limit for so long as Executive may be subject to any claims covered by this Section 11. No amendment to the Certificate of Incorporation or By-Laws of Constellation after the date of this Agreement will affect or impair Executive's rights under this Section 11 even with respect to any action taken or not taken by Executive after the effective date of any such amendment.

12. Notice. Any and all notices referred to herein shall be sufficient if furnished in writing and sent by registered mail to the parties.

13. Transferability. The rights, benefits and obligations of Constellation under this Agreement shall be transferable, and all covenants and agreements hereunder shall inure to the benefit of and be enforceable by or against, its successors and assigns. Whenever the term "Constellation" is used in this Agreement, such term shall mean and include Constellation Brands, Inc. and its successors and assigns. The rights and benefits of Executive under this Agreement shall not be transferable other than rights to property or compensation that may pass on his death to his estate or beneficiaries through his will or the laws of descent and distribution and the terms of any Constellation compensation or benefit plan.

14. Severability. If any provision of this Agreement or the application thereof is held invalid or unenforceable, the invalidity or unenforceability thereof shall not affect any other provisions of this Agreement which can be given effect without the invalid or unenforceable provision, and to this end the provisions of this Agreement are to be severable.

15. Amendment; Waiver. This Agreement contains the entire agreement of the parties with respect to the employment of Executive by Constellation and/or its affiliates and upon execution of this Agreement supersedes any previous agreement with Constellation and/or its affiliates. No amendment or modification of this Agreement shall be valid unless evidenced by a written instrument executed by the parties hereto. No waiver by either party of any breach by the other party of any provision or conditions of this Agreement shall be deemed a waiver of any similar or dissimilar provision or condition at the same or any prior or subsequent time.

16. Tax Withholding. Constellation may withhold from any payments due to Executive hereunder such amounts as Constellation may determine are required to be withheld under applicable federal, state and local tax laws. To the extent that there are no cash payments to withhold upon, Executive shall promptly remit to Constellation cash payments that are sufficient to cover all applicable withholdings.

17. Section 409A. The parties intend that benefits under this Agreement are to be either exempt from, or comply with, the requirements of Section 409A, and this Agreement shall be interpreted and administered in accordance with the intent that Executive not be subject to tax

under Section 409A. If any provision of the Agreement would otherwise conflict with or frustrate this intent, that provision will be interpreted and deemed amended so as to avoid the conflict. Any reference in this Agreement to “terminates employment”, “employment with Constellation and its affiliates terminates”, or similar phrase shall mean an event that constitutes a “separation from service” within the meaning of Section 409A. Constellation shall not be responsible for any tax, penalty, interest or similar assessment imposed on Executive as a consequence of Section 409A. Each payment hereunder shall be treated as a separate payment for purposes of Section 409A.

18. Governing Law. This Agreement shall be governed by and construed under and in accordance with the laws of the State of New York without regard to principles of conflicts of laws.

[signature page follows]

IN WITNESS WHEREOF, the parties have executed this Executive Employment Agreement as of the date first set forth above.

CONSTELLATION BRANDS, INC.

By: \_\_\_\_\_  
Name: [Name]  
Title: [Title]

\_\_\_\_\_  
[Name]

**Exhibit A**

**FULL AND FINAL RELEASE OF CLAIMS**

1. In consideration of the payments provided for in Sections 6(b)-(d) of the Executive Employment Agreement (hereinafter referred to as the "Employment Agreement") between **CONSTELLATION BRANDS, INC.** and \_\_\_\_\_ (hereinafter referred to as "Executive"), which is attached hereto and forms a part of this Full and Final Release of Claims, on behalf of himself, his heirs, administrators and assigns, Executive hereby releases and forever discharges Constellation Brands, Inc., its subsidiaries and affiliates and each of its and their respective officers, directors, employees, servants and agents, and their successors and assigns, (hereinafter collectively referred to as "Constellation Released Parties") jointly and severally from any and all actions, causes of action, contracts and covenants, whether express or implied, claims and demands for damages, indemnity, costs, attorneys' fees, interest, loss or injury of every nature and kind whatsoever arising under any federal, state, or local law, or the common law, which Executive may heretofore have had, may now have or may hereinafter have in any way relating to any matter, including but not limited to, any matter related to Executive's employment by Constellation Released Parties and the termination of that employment; provided, however, nothing in this Full and Final Release of Claims shall release (i) Executive's right to receive the payments or benefits provided for in Sections 6(b)-(d) of the Employment Agreement, (ii) Executive's vested benefits under Constellation Brands, Inc.'s pension plans or rights under any existing stock options held by Executive, or (iii) any right to indemnification or advancement of expenses pursuant to Section 11 of the Employment Agreement or the Certificate of Incorporation or By-laws of Constellation Brands, Inc. (the items in the foregoing clauses (i) through (iii) are hereinafter referred to as the "Preserved Rights").

a. This Full and Final Release of Claims covers, without limitation, any claims of discrimination, unlawful retaliation or harassment, or denial of rights, on the basis of any protected status, characteristic or activity, including, but not limited to, sex, disability, handicap, race, color, religion, creed, national origin, ancestry, citizenship, ethnic characteristics, sexual orientation, marital status, military status, or age (including, without limitation, any right or claim arising under the Age Discrimination in Employment Act), need for a leave of absence, or complaint about discrimination, harassment, or other matter, arising under any state, federal, or local law (whether statutory or common law), regulation or ordinance which may be applicable to his employment by Constellation Released Parties. This Full and Final Release of Claims also covers, without limitation, any claims of wrongful termination, breach of express or implied contract, breach of implied covenant of good faith and fair dealing, violation of public policy, intentional or negligent infliction of emotional distress, defamation, invasion of privacy, fraud or negligent misrepresentation, intentional or negligent interference with contractual relations, and any other common law tort. Except to the extent that they constitute Preserved Rights, this Full and Final Release of Claims also covers any claims for severance pay, bonus, life insurance, health and medical insurance, disability benefits, or any other fringe benefit, and claims related to any other transaction,



occurrence, act, or omission or any loss, damage or injury whatsoever, known or unknown, resulting from any act or omission by or on the part of Constellation Released Parties, or any of them, committed or omitted prior to the date of this Full and Final Release of Claims.

b. Executive understands and agrees that the giving of the aforementioned consideration is deemed to be no admission of liability on the part of the Constellation Released Parties.

c. In the event that Executive should hereafter make any claim or demand or commence or threaten to commence any action, claim or proceeding against the Constellation Released Parties for or by reason of any cause, matter or thing other than a Preserved Right, this document may be raised as a complete bar to any such claim, demand or action.

2. By signing this Full and Final Release of Claims, Executive acknowledges that:

a. He has been afforded a reasonable and sufficient period of time to review, and deliberate thereon, and has been specifically urged by Constellation Released Parties to consult with legal counsel or a representative of his choice before signing this Full and Final Release of Claims and that he has had a fair opportunity to do so; and

b. He has carefully read and understands the terms of this Full and Final Release of Claims; and

c. He has signed this Full and Final Release of Claims freely and voluntarily and without duress or coercion and with full knowledge of its significance and consequences, and of the rights and claims relinquished, surrendered, released and discharged hereunder; and

d. He acknowledges he is not entitled to the consideration described above in the absence of signing this Full and Final Release of Claims; and

e. The consideration which he is receiving in exchange for his release of claims is of value to him; and

f. The only consideration for signing this Full and Final Release of Claims are the terms stated herein, and no other promise, agreement or representation of any kind has been made to him by any person or entity whatsoever to cause him to sign this Full and Final Release of Claims; and

g. He was offered a minimum period of at least twenty-one (21) days after his receipt of this Full and Final Release of Claims to review and consider it and for deliberation thereon, and, to the extent he has elected to sign it prior to the expiration of the twenty-one (21) day period, he does so voluntarily on his own initiative without any inducement or encouragement on the part of the Constellation Released Parties to do so.

h. He understands that this Full and Final Release of Claims may be revoked in writing by him at any time during the period of seven (7) calendar days following the date of his execution of this Full and Final Release of Claims by delivering such written revocation to \_\_\_\_\_, at his office located at \_\_\_\_\_, New York \_\_\_\_\_. If such seven-day revocation period expires without his exercising his revocation right, the obligations of this Full and Final Release of Claims will then become fully effective as more fully set forth herein.

**IN WITNESS WHEREOF**, Executive has hereunto executed this Full and Final Release of Claims by affixing his hand this \_\_\_\_ day of \_\_\_\_\_, 20\_\_ in the presence of the witness whose signature is subscribed below.

\_\_\_\_\_  
[Name]

Sworn to before me this  
\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

\_\_\_\_\_  
Notary Public

**IN WITNESS WHEREOF**, \_\_\_\_\_ has hereunto executed this Full and Final Release of Claims on behalf of Constellation Brands, Inc., its subsidiaries, affiliates, by affixing [his/her] hand this \_\_\_\_ day of \_\_\_\_\_, 20\_\_ in the presence of the witness whose signature is subscribed below.

\_\_\_\_\_  
[Name]  
[Title]

Sworn to before me this  
\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

\_\_\_\_\_  
Notary Public

**CONSTELLATION BRANDS, INC. AND SUBSIDIARIES**  
**STATEMENT OF COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES** <sup>(a)</sup>  
(in millions of dollars)

	For the Three Months Ended		For the Fiscal Years Ended				
	May 31, 2017	May 31, 2016	February 28, 2017	February 29, 2016	February 28, 2015	February 28, 2014	February 28, 2013
<b>Earnings:</b>							
Income before income taxes	\$ 479.4	\$ 468.8	\$ 2,093.4	\$ 1,501.2	\$ 1,179.6	\$ 2,202.3	\$ 516.4
Plus fixed charges	87.4	88.8	356.7	332.3	352.3	337.5	239.4
Less interest capitalized	(3.7)	(2.5)	(16.6)	(12.7)	(8.2)	(0.9)	—
Earnings, as adjusted	<u>\$ 563.1</u>	<u>\$ 555.1</u>	<u>\$ 2,433.5</u>	<u>\$ 1,820.8</u>	<u>\$ 1,523.7</u>	<u>\$ 2,538.9</u>	<u>\$ 755.8</u>
<b>Fixed Charges:</b>							
Interest on debt and capitalized leases, amortization of debt issuance costs, and amortization of discount on debt <sup>(b)</sup>	\$ 86.3	\$ 87.6	\$ 352.0	\$ 327.8	\$ 347.7	\$ 332.2	\$ 234.3
Interest element of rentals	1.1	1.2	4.7	4.5	4.7	5.3	5.1
Total fixed charges	<u>\$ 87.4</u>	<u>\$ 88.8</u>	<u>\$ 356.7</u>	<u>\$ 332.3</u>	<u>\$ 352.4</u>	<u>\$ 337.5</u>	<u>\$ 239.4</u>
Ratio of Earnings to Fixed Charges	<u>6.4x</u>	<u>6.3x</u>	<u>6.8x</u>	<u>5.5x</u>	<u>4.3x</u>	<u>7.5x</u>	<u>3.2x</u>

<sup>(a)</sup> For the purpose of calculating the ratio of earnings to fixed charges, “earnings” represent income before income taxes (adjusted, as appropriate, for equity in earnings of equity method investees) plus fixed charges less interest capitalized. “Fixed charges” consist of interest expensed and capitalized, amortization of debt issuance costs, amortization of discount on debt, and the portion of rental expense which management believes is representative of the interest component of lease expense.

<sup>(b)</sup> The Company’s policy is to classify interest expense recognized on uncertain tax positions as income tax expense. The Company has excluded interest expense recognized on uncertain tax positions from the Ratio of Earnings to Fixed Charges.

**RULE 13a-14(a)/15d-14(a) CERTIFICATION  
OF CHIEF EXECUTIVE OFFICER**

**Constellation Brands, Inc.  
Form 10-Q for Fiscal Quarter Ended May 31, 2017**

I, Robert Sands, certify that:

1. I have reviewed this report on Form 10-Q of Constellation Brands, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 29, 2017

/s/ Robert Sands

Robert Sands  
President and Chief Executive Officer

**RULE 13a-14(a)/15d-14(a) CERTIFICATION  
OF CHIEF FINANCIAL OFFICER**

**Constellation Brands, Inc.  
Form 10-Q for Fiscal Quarter Ended May 31, 2017**

I, David Klein, certify that:

1. I have reviewed this report on Form 10-Q of Constellation Brands, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 29, 2017

/s/ David Klein

David Klein

Executive Vice President and Chief Financial Officer

**SECTION 1350 CERTIFICATION  
OF CHIEF EXECUTIVE OFFICER**

**Constellation Brands, Inc.  
Form 10-Q for Fiscal Quarter Ended May 31, 2017**

In connection with the Constellation Brands, Inc. Quarterly Report on Form 10-Q for the Fiscal Quarter Ended May 31, 2017, I, Robert Sands, certify pursuant to 18 U.S.C. Section 1350 that, to the best of my knowledge:

1. The Quarterly Report on Form 10-Q for the Fiscal Quarter Ended May 31, 2017 of Constellation Brands, Inc. fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the periodic report on Form 10-Q for the Fiscal Quarter Ended May 31, 2017 of Constellation Brands, Inc. fairly presents, in all material respects, the financial condition and results of operations of Constellation Brands, Inc.

Dated: June 29, 2017

/s/ Robert Sands

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Robert Sands,  
President and Chief Executive Officer

**SECTION 1350 CERTIFICATION  
OF CHIEF FINANCIAL OFFICER**

**Constellation Brands, Inc.  
Form 10-Q for Fiscal Quarter Ended May 31, 2017**

In connection with the Constellation Brands, Inc. Quarterly Report on Form 10-Q for the Fiscal Quarter Ended May 31, 2017, I, David Klein, certify pursuant to 18 U.S.C. Section 1350 that, to the best of my knowledge:

1. The Quarterly Report on Form 10-Q for the Fiscal Quarter Ended May 31, 2017 of Constellation Brands, Inc. fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the periodic report on Form 10-Q for the Fiscal Quarter Ended May 31, 2017 of Constellation Brands, Inc. fairly presents, in all material respects, the financial condition and results of operations of Constellation Brands, Inc.

Dated: June 29, 2017

/s/ David Klein

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David Klein,  
Executive Vice President and  
Chief Financial Officer