

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 31, 2019

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)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange on Which Registered</u>
Class A Common Stock	STZ	New York Stock Exchange
Class B Common Stock	STZ.B	New York Stock Exchange

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	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

There were 167,498,276 shares of Class A Common Stock, 23,314,407 shares of Class B Common Stock, and 823,377 shares of Class 1 Common Stock outstanding as of September 30, 2019.

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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 2019” refer to our fiscal year ended February 28, 2019. All references to “Fiscal 2020” refer to our fiscal year ending February 29, 2020. All references to “\$” are to U.S. dollars, all references to “C\$” are to Canadian dollars, all references to MXN\$ are to Mexican pesos, and all references to “A\$” are to Australian dollars.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions, except share and per share data)
(unaudited)

	August 31, 2019	February 28, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 81.3	\$ 93.6
Accounts receivable	953.7	846.9
Inventories	1,311.4	2,130.4
Prepaid expenses and other	525.1	613.1
Assets held for sale - current	666.0	—
Total current assets	3,537.5	3,684.0
Property, plant, and equipment	5,141.6	5,267.3
Goodwill	7,696.7	8,088.8
Intangible assets	2,787.0	3,198.1
Equity method investments	3,003.8	3,465.6
Securities measured at fair value	1,572.2	3,234.7
Deferred income taxes	2,146.8	2,183.3
Assets held for sale	1,019.1	—
Other assets	650.4	109.7
Total assets	\$ 27,555.1	\$ 29,231.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	\$ 150.9	\$ 791.5
Current maturities of long-term debt	636.1	1,065.2
Accounts payable	608.6	616.7
Other accrued expenses and liabilities	800.3	690.4
Total current liabilities	2,195.9	3,163.8
Long-term debt, less current maturities	12,159.8	11,759.8
Deferred income taxes and other liabilities	1,508.4	1,470.7
Total liabilities	15,864.1	16,394.3
Commitments and contingencies		
CBI stockholders' equity:		
Class A Common Stock, \$.01 par value – Authorized, 322,000,000 shares; Issued, 185,880,112 shares and 185,740,178 shares, respectively	1.9	1.9
Class B Convertible Common Stock, \$.01 par value – Authorized, 30,000,000 shares; Issued, 28,321,821 shares and 28,322,419 shares, respectively	0.3	0.3
Additional paid-in capital	1,452.1	1,410.8
Retained earnings	13,221.4	14,276.2
Accumulated other comprehensive income (loss)	(476.6)	(353.9)
	14,199.1	15,335.3
Less: Treasury stock –		
Class A Common Stock, at cost, 18,604,964 shares and 18,927,966 shares, respectively	(2,819.4)	(2,782.1)
Class B Convertible Common Stock, at cost, 5,005,800 shares	(2.2)	(2.2)
	(2,821.6)	(2,784.3)
Total CBI stockholders' equity	11,377.5	12,551.0
Noncontrolling interests	313.5	286.2
Total stockholders' equity	11,691.0	12,837.2
Total liabilities and stockholders' equity	\$ 27,555.1	\$ 29,231.5

The accompanying notes are an integral part of these statements.

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

(in millions, except per share data)
(unaudited)

	For the Six Months Ended August 31,		For the Three Months Ended August 31,	
	2019	2018	2019	2018
Sales	\$ 4,855.9	\$ 4,755.7	\$ 2,573.4	\$ 2,525.7
Excise taxes	(414.7)	(409.5)	(229.4)	(226.6)
Net sales	4,441.2	4,346.2	2,344.0	2,299.1
Cost of product sold	(2,226.6)	(2,129.4)	(1,158.1)	(1,130.9)
Gross profit	2,214.6	2,216.8	1,185.9	1,168.2
Selling, general, and administrative expenses	(872.4)	(826.4)	(466.4)	(403.2)
Operating income (loss)	1,342.2	1,390.4	719.5	765.0
Income (loss) from unconsolidated investments	(2,255.3)	1,052.8	(1,324.7)	688.4
Interest expense	(226.2)	(175.8)	(111.6)	(88.0)
Loss on extinguishment of debt	(2.4)	—	(2.4)	—
Income (loss) before income taxes	(1,141.7)	2,267.4	(719.2)	1,365.4
(Provision for) benefit from income taxes	387.6	(369.8)	202.2	(214.1)
Net income (loss)	(754.1)	1,897.6	(517.0)	1,151.3
Net income (loss) attributable to noncontrolling interests	(16.5)	(4.3)	(8.2)	(1.8)
Net income (loss) attributable to CBI	\$ (770.6)	\$ 1,893.3	\$ (525.2)	\$ 1,149.5
Comprehensive income (loss)	\$ (886.2)	\$ 1,793.5	\$ (646.4)	\$ 1,232.6
Comprehensive (income) loss attributable to noncontrolling interests	(7.1)	(1.9)	0.1	(9.1)
Comprehensive income (loss) attributable to CBI	\$ (893.3)	\$ 1,791.6	\$ (646.3)	\$ 1,223.5
Net income (loss) per common share attributable to CBI:				
Basic – Class A Common Stock	\$ (4.08)	\$ 10.03	\$ (2.77)	\$ 6.11
Basic – Class B Convertible Common Stock	\$ (3.71)	\$ 9.11	\$ (2.52)	\$ 5.55
Diluted – Class A Common Stock	\$ (4.08)	\$ 9.64	\$ (2.77)	\$ 5.87
Diluted – Class B Convertible Common Stock	\$ (3.71)	\$ 8.89	\$ (2.52)	\$ 5.41
Weighted average common shares outstanding:				
Basic – Class A Common Stock	168.215	167.617	168.310	167.172
Basic – Class B Convertible Common Stock	23.316	23.325	23.316	23.323
Diluted – Class A Common Stock	168.215	196.468	168.310	195.907
Diluted – Class B Convertible Common Stock	23.316	23.325	23.316	23.323
Cash dividends declared per common share:				
Class A Common Stock	\$ 1.50	\$ 1.48	\$ 0.75	\$ 0.74
Class B Convertible Common Stock	\$ 1.36	\$ 1.34	\$ 0.68	\$ 0.67

The accompanying notes are an integral part of these statements.

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in millions)
(unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non- controlling Interests	Total
	Class A	Class B						
Balance at February 28, 2019	\$ 1.9	\$ 0.3	\$ 1,410.8	\$ 14,276.2	\$ (353.9)	\$ (2,784.3)	\$ 286.2	\$ 12,837.2
Comprehensive income (loss):								
Net income (loss)	—	—	—	(245.4)	—	—	8.3	(237.1)
Other comprehensive income (loss), net of income tax effect	—	—	—	—	(1.6)	—	(1.1)	(2.7)
Comprehensive income (loss)								(239.8)
Dividends declared	—	—	—	(141.9)	—	—	—	(141.9)
Initial recognition of non-controlling interest	—	—	—	—	—	—	20.2	20.2
Shares issued under equity compensation plans	—	—	(9.3)	—	—	6.3	—	(3.0)
Stock-based compensation	—	—	15.5	—	—	—	—	15.5
Balance at May 31, 2019	\$ 1.9	\$ 0.3	\$ 1,417.0	\$ 13,888.9	\$ (355.5)	\$ (2,778.0)	\$ 313.6	\$ 12,488.2
Comprehensive income (loss):								
Net income (loss)	—	—	—	(525.2)	—	—	8.2	(517.0)
Other comprehensive income (loss), net of income tax effect	—	—	—	—	(121.1)	—	(8.3)	(129.4)
Comprehensive income (loss)								(646.4)
Repurchase of shares	—	—	—	—	—	(50.0)	—	(50.0)
Dividends declared	—	—	—	(142.3)	—	—	—	(142.3)
Shares issued under equity compensation plans	—	—	17.4	—	—	6.4	—	23.8
Stock-based compensation	—	—	17.7	—	—	—	—	17.7
Balance at August 31, 2019	\$ 1.9	\$ 0.3	\$ 1,452.1	\$ 13,221.4	\$ (476.6)	\$ (2,821.6)	\$ 313.5	\$ 11,691.0
Balance at February 28, 2018	\$ 2.6	\$ 0.3	\$ 2,825.3	\$ 9,157.2	\$ (202.9)	\$ (3,807.4)	\$ 16.6	\$ 7,991.7
Cumulative effect of change in accounting principle	—	—	—	2,242.0	—	—	—	2,242.0
Comprehensive income (loss):								
Net income (loss)	—	—	—	743.8	—	—	2.5	746.3
Other comprehensive income (loss), net of income tax effect	—	—	—	—	(175.7)	—	(9.7)	(185.4)
Comprehensive income (loss)								560.9
Repurchase of shares	—	—	—	—	—	(100.0)	—	(100.0)
Dividends declared	—	—	—	(140.6)	—	—	—	(140.6)
Shares issued under equity compensation plans	—	—	(7.7)	—	—	2.3	—	(5.4)
Stock-based compensation	—	—	17.2	—	—	—	—	17.2
Balance at May 31, 2018	\$ 2.6	\$ 0.3	\$ 2,834.8	\$ 12,002.4	\$ (378.6)	\$ (3,905.1)	\$ 9.4	\$ 10,565.8
Comprehensive income (loss):								
Net income (loss)	—	—	—	1,149.5	—	—	1.8	1,151.3
Other comprehensive income (loss), net of income tax effect	—	—	—	—	74.0	—	7.3	81.3
Comprehensive income (loss)								1,232.6
Repurchase of shares	—	—	—	—	—	(404.3)	—	(404.3)
Dividends declared	—	—	—	(139.0)	—	—	—	(139.0)
Conversion of long-term debt to noncontrolling equity interest	—	—	—	—	—	—	248.4	248.4
Shares issued under equity compensation plans	—	—	12.3	—	—	1.2	—	13.5
Stock-based compensation	—	—	18.2	—	—	—	—	18.2
Balance at August 31, 2018	\$ 2.6	\$ 0.3	\$ 2,865.3	\$ 13,012.9	\$ (304.6)	\$ (4,308.2)	\$ 266.9	\$ 11,535.2

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 Six Months Ended August 31,

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (754.1)	\$ 1,897.6
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Unrealized net (gain) loss on securities measured at fair value	1,666.6	(950.4)
Equity in (earnings) losses of equity method investees and related activities, net of distributed (earnings) losses	580.3	2.1
Depreciation	169.1	168.8
Loss on inventory and related contracts	61.0	—
(Gain) loss on sale of business and assets held for sale	36.0	(6.2)
Stock-based compensation	33.6	35.9
Impairment and amortization of intangible assets	13.9	3.0
Amortization of debt issuance costs and loss on extinguishment of debt	9.7	8.9
Net (gain) loss on sale of unconsolidated investment	0.1	(99.8)
Deferred tax provision (benefit)	(452.7)	202.3
Change in operating assets and liabilities, net of effects from purchases of businesses:		
Accounts receivable	(106.2)	(173.8)
Inventories	92.7	123.8
Prepaid expenses and other current assets	32.2	(49.0)
Accounts payable	3.9	111.0
Deferred revenue	34.0	35.6
Other accrued expenses and liabilities	(61.0)	15.6
Other	60.3	13.1
Total adjustments	2,173.5	(559.1)
Net cash provided by (used in) operating activities	1,419.4	1,338.5
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant, and equipment	(355.2)	(370.6)
Purchases of businesses, net of cash acquired	(36.2)	(20.2)
Investments in equity method investees and securities	(33.0)	(152.1)
Proceeds from sale of unconsolidated investment	—	110.2
Proceeds from sales of assets	—	44.7
Other investing activities	(1.3)	(0.8)
Net cash provided by (used in) investing activities	(425.7)	(388.8)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments of long-term debt	(1,331.5)	(23.5)
Net proceeds from (repayments of) short-term borrowings	(640.5)	(32.4)
Dividends paid	(285.0)	(279.1)
Purchases of treasury stock	(50.0)	(504.3)
Payments of minimum tax withholdings on stock-based payment awards	(14.2)	(13.5)
Payments of debt issuance costs	(8.0)	(13.6)
Proceeds from issuance of long-term debt	1,291.3	12.0
Proceeds from shares issued under equity compensation plans	32.9	21.5
Net cash provided by (used in) financing activities	(1,005.0)	(832.9)
Effect of exchange rate changes on cash and cash equivalents	(1.0)	(1.0)
Net increase (decrease) in cash and cash equivalents	(12.3)	115.8
Cash and cash equivalents, beginning of period	93.6	90.3
Cash and cash equivalents, end of period	\$ 81.3	\$ 206.1

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

	For the Six Months Ended August 31,	
	2019	2018
Supplemental disclosures of noncash investing and financing activities		
Additions to property, plant, and equipment	\$ 74.4	\$ 147.2
Conversion of long-term debt to noncontrolling equity interest	\$ —	\$ 248.4

The accompanying notes are an integral part of these statements.

CONSTELLATION BRANDS, INC. AND SUBSIDIARIES
AUGUST 31, 2019
(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, 2019 (the “2019 Annual Report”), and include the recently adopted accounting guidance described in Note 2 and Note 14 herein. Results of operations for interim periods are not necessarily indicative of annual results.

2. ACCOUNTING GUIDANCE

Recently adopted accounting guidance

In February 2016, the FASB issued guidance for the accounting for leases. Under this guidance, a lessee recognizes assets and liabilities on its balance sheet for most leases. Lease expense continues to be consistent with previous guidance. Additionally, this guidance requires enhanced disclosures regarding the amount, timing, and uncertainty of cash flows arising from leasing arrangements.

We adopted the guidance on March 1, 2019, using the modified retrospective approach, accordingly, prior period balances and disclosures have not been restated. We elected the package of transition practical expedients for expired or existing contracts, which retains prior conclusions reached on lease identification, classification, and initial direct costs incurred.

We finalized the implementation of changes to our accounting policies, systems and controls, including a new leasing software to capture the required data for accounting and disclosure. The adoption of this guidance resulted in the recognition of operating lease right-of-use assets of \$585.4 million and operating lease liabilities of \$619.7 million as of March 1, 2019, and did not have a material impact on our results of operations or liquidity.

For additional information on leases, refer to Note 14.

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:

	August 31, 2019 (1)	February 28, 2019
(in millions)		
Raw materials and supplies	\$ 147.0	\$ 182.6
In-process inventories	792.2	1,480.5
Finished case goods	372.2	467.3
	\$ 1,311.4	\$ 2,130.4

(1) The inventory balance at August 31, 2019, excludes amounts reclassified to assets held for sale (see Note 4).

Related party transactions and arrangements

We have an equally-owned glass production plant joint venture with Owens-Illinois. We have entered into various contractual arrangements with affiliates of Owens-Illinois primarily for the purchase of glass bottles used largely in our imported and craft beer portfolios. Amounts purchased under these arrangements were \$126.4 million and \$123.7 million for the six months ended August 31, 2019, and August 31, 2018, respectively, and \$37.9 million and \$54.7 million for the three months ended August 31, 2019, and August 31, 2018, respectively.

4. WINE AND SPIRITS TRANSFORMATION

Wine and Spirits Transaction

In April 2019, we entered into a definitive agreement to sell a portion of our wine and spirits business, including approximately 30 lower-margin, lower-growth wine and spirits brands, wineries, vineyards, offices, and facilities, for approximately \$1.7 billion, subject to certain adjustments (the "Wine and Spirits Transaction"). The Wine and Spirits Transaction is subject to the satisfaction of certain closing conditions, including receipt of required regulatory approval, and is expected to close by the end of Fiscal 2020. We expect to use the net cash proceeds from the Wine and Spirits Transaction primarily to reduce outstanding borrowings.

Subsequent event

We now believe it is likely that a portion of the Wine and Spirits Transaction purchase price may be revised to take the form of contingent consideration, receivable based on future brand performance. We record contingent consideration when it is determined to be realizable. Therefore, we now expect to recognize an additional loss of approximately \$300 million on the write-down of assets held for sale during the three months ended November 30, 2019.

Black Velvet Transaction

In August 2019, we entered into a definitive agreement to sell Black Velvet Canadian Whisky and the brand's associated production facility, along with a subset of Canadian whisky brands produced at that facility, for approximately \$266 million, subject to certain adjustments (the "Black Velvet Transaction"). We expect to recognize a gain of approximately \$70 million to \$80 million upon closing. The Black Velvet Transaction is subject to the satisfaction of certain closing conditions, including receipt of required regulatory approvals, and is expected to close in the fourth quarter of calendar 2019. We expect to use the net cash proceeds from the Black Velvet Transaction primarily to reduce outstanding borrowings.

Assets Held for Sale

In connection with the Wine and Spirits Transaction and Black Velvet Transaction, certain Wine and Spirits segment net assets have met the held for sale criteria as of August 31, 2019. For the six months and three months ended August 31, 2019, a long-lived asset impairment of \$27.0 million was recognized. For additional information refer to Note 6.

The carrying value of assets held for sale consists of the following:

	August 31, 2019		
	Wine and Spirits Transaction	Black Velvet Transaction	Total
(in millions)			
Assets			
Inventories	\$ 593.7	\$ 63.3	\$ 657.0
Prepaid expenses and other	9.0	—	9.0
Assets held for sale - current	602.7	63.3	666.0
Property, plant, and equipment	175.8	18.2	194.0
Goodwill	353.2	62.6	415.8
Intangible assets	347.2	59.8	407.0
Equity method investments	1.1	—	1.1
Other assets	0.3	0.9	1.2
Assets held for sale	877.6	141.5	1,019.1
Liabilities			
Accounts payable	4.7	—	4.7
Other accrued expenses and liabilities	31.1	1.6	32.7
Deferred income taxes and other liabilities	0.1	2.1	2.2
Liabilities held for sale (1)	35.9	3.7	39.6
Net assets held for sale	\$ 1,444.4	\$ 201.1	\$ 1,645.5

(1) Liabilities held for sale are included in the Consolidated Balance Sheet as of August 31, 2019, within the respective liability line items noted above.

Wine and Spirits Optimization

We recognized charges in connection with our ongoing efforts to gain efficiencies and reduce our cost structure within the Wine and Spirits segment as follows:

		Results of Operations Location	
		For the Six Months Ended August 31, 2019	For the Three Months Ended August 31, 2019
(in millions)			
Loss on inventory write-downs	Cost of product sold	\$ 40.9	\$ 13.7
Contract termination costs	Cost of product sold	20.1	4.3
Employee termination costs	Selling, general, and administrative expenses	12.1	0.2
Impairment of long-lived assets	Selling, general, and administrative expenses	27.0	27.0
Other costs	Selling, general, and administrative expenses	6.3	—
		\$ 106.4	\$ 45.2

5. 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 2019 Annual Report and have not changed significantly for the six months and three months ended August 31, 2019.

We have investments in certain equity securities and other rights which provide us with the option to purchase an additional ownership interest in the equity securities of Canopy (see Note 9). These investments are included in securities measured at fair value and are accounted for at fair value, with the net gain (loss) from the changes in fair value of these investments recognized in income (loss) from unconsolidated investments (see Note 6).

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

	August 31, 2019	February 28, 2019
(in millions)		
<u>Derivative instruments designated as hedging instruments</u>		
Foreign currency contracts	\$ 1,959.9	\$ 1,579.3
Interest rate swap contracts	\$ 375.0	\$ —
<u>Derivative instruments not designated as hedging instruments</u>		
Foreign currency contracts	\$ 781.2	\$ 460.3
Commodity derivative contracts	\$ 265.1	\$ 284.7

Credit risk

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

In addition, our derivative instruments are not subject to credit rating contingencies or collateral requirements. As of August 31, 2019, the estimated fair value of derivative instruments in a net liability position due to counterparties was \$53.4 million. If we were required to settle the net liability position under these derivative instruments on August 31, 2019, 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 6):

	Assets		Liabilities	
	August 31, 2019	February 28, 2019	August 31, 2019	February 28, 2019
(in millions)				
<u>Derivative instruments designated as hedging instruments</u>				
Foreign currency contracts:				
Prepaid expenses and other	\$ 9.6	\$ 14.1	Other accrued expenses and liabilities	\$ 24.0 \$ 8.8
Other assets	\$ 11.6	\$ 22.1	Deferred income taxes and other liabilities	\$ 18.6 \$ 6.3
Interest rate swap contracts:				
Prepaid expenses and other	\$ 0.1	\$ —	Other accrued expenses and liabilities	\$ 0.8 \$ —
<u>Derivative instruments not designated as hedging instruments</u>				
Foreign currency contracts:				
Prepaid expenses and other	\$ 4.5	\$ 2.0	Other accrued expenses and liabilities	\$ 11.0 \$ 0.6
Commodity derivative contracts:				
Prepaid expenses and other	\$ 1.2	\$ 6.1	Other accrued expenses and liabilities	\$ 15.6 \$ 6.1
Other assets	\$ 0.3	\$ 2.6	Deferred income taxes and other liabilities	\$ 10.7 \$ 5.5

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

Derivative Instruments in Designated Cash Flow Hedging Relationships	Net Gain (Loss) Recognized in OCI	Location of Net Gain (Loss) Reclassified from AOCI to Income (Loss)	Net Gain (Loss) Reclassified from AOCI to Income (Loss)
(in millions)			
<u>For the Six Months Ended August 31, 2019</u>			
Foreign currency contracts	\$ (35.6)	Sales	\$ —
		Cost of product sold	7.8
Interest rate swap contracts	(0.6)	Interest expense	—
	<u>\$ (36.2)</u>		<u>\$ 7.8</u>
<u>For the Six Months Ended August 31, 2018</u>			
Foreign currency contracts	\$ (7.0)	Sales	\$ 0.1
		Cost of product sold	4.7
	<u>\$ (7.0)</u>		<u>\$ 4.8</u>

Derivative Instruments in Designated Cash Flow Hedging Relationships	Net Gain (Loss) Recognized in OCI	Location of Net Gain (Loss) Reclassified from AOCI to Income (Loss)	Net Gain (Loss) Reclassified from AOCI to Income (Loss)
(in millions)			
<u>For the Three Months Ended August 31, 2019</u>			
Foreign currency contracts	\$ (33.2)	Sales	\$ —
		Cost of product sold	4.2
Interest rate swap contracts	(0.6)	Interest expense	—
	<u>\$ (33.8)</u>		<u>\$ 4.2</u>
<u>For the Three Months Ended August 31, 2018</u>			
Foreign currency contracts	\$ 37.9	Sales	\$ —
		Cost of product sold	0.6
	<u>\$ 37.9</u>		<u>\$ 0.6</u>

We expect \$6.8 million of net losses, net of income tax effect, to be reclassified from accumulated other comprehensive income (loss) ("AOCI") to our results of operations within the next 12 months.

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 (Loss)	Net Gain (Loss) Recognized in Income (Loss)
(in millions)		
<u>For the Six Months Ended August 31, 2019</u>		
Commodity derivative contracts	Cost of product sold	\$ (26.8)
Foreign currency contracts	Selling, general, and administrative expenses	(8.9)
		<u>\$ (35.7)</u>
<u>For the Six Months Ended August 31, 2018</u>		
Commodity derivative contracts	Cost of product sold	\$ 9.6
Foreign currency contracts	Selling, general, and administrative expenses	(28.1)
Interest rate swap contracts	Interest expense	2.7
		<u>\$ (15.8)</u>
<u>For the Three Months Ended August 31, 2019</u>		
Commodity derivative contracts	Cost of product sold	\$ (10.9)
Foreign currency contracts	Selling, general and administrative expenses	(5.1)
		<u>\$ (16.0)</u>
<u>For the Three Months Ended August 31, 2018</u>		
Commodity derivative contracts	Cost of product sold	\$ (5.8)
Foreign currency contracts	Selling, general and administrative expenses	(26.2)
Interest rate swap contracts	Interest expense	2.7
		<u>\$ (29.3)</u>

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities;
- Level 2 inputs include data points that are observable such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) such as volatility, 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

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

Foreign currency and commodity derivative contracts

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

Interest rate swap contracts

The fair value is estimated based on quoted market prices from respective counterparties. Quotes are corroborated by using discounted cash flow calculations based upon forward interest-rate yield curves, which are obtained from independent pricing services (Level 2 fair value measurement).

Canopy investments

Equity securities, Warrants – The terms of the November 2018 Canopy Warrants were modified in June 2019 and now consist of three tranches of warrants: New Tranche A Warrants, New Tranche B Warrants, and New Tranche C Warrants. The exercise price for the New Tranche C Warrants is based on the volume-weighted average of the closing market price of Canopy’s common shares on the TSX for the five trading days immediately preceding the exercise date (“VWAP Exercise Price”), accordingly, no fair value is assigned. For additional information on the November 2018 Canopy Warrants and the related modification, refer to Note 9.

The inputs used to estimate the fair value of the Canopy warrants (all as defined in Note 9) are as follows:

	August 31, 2019 (1)			February 28, 2019	
	New Tranche A Warrants (2)	New Tranche B Warrants (3)	November 2017 Canopy Warrants (2)	November 2018 Canopy Warrants (2)	November 2017 Canopy Warrants (2)
Exercise price (4)	C\$ 50.40	C\$ 76.68	C\$ 12.98	C\$ 50.40	C\$ 12.98
Valuation date stock price (5)	C\$ 31.46	C\$ 31.46	C\$ 31.46	C\$ 62.38	C\$ 62.38
Expected life (6)	4.2 years	7.2 years	0.7 years	2.7 years	1.2 years
Expected volatility (7)	65.0%	65.0%	69.6%	79.3%	87.8%
Risk-free interest rate (8)	1.2%	1.2%	1.6%	1.8%	1.8%
Expected dividend yield (9)	0.0%	0.0%	0.0%	0.0%	0.0%

(1) New Tranche C Warrants are not included in the table as there is no fair value assigned.

(2) The fair value is estimated using the Black-Scholes option-pricing model (Level 2 fair value measurement).

(3) The fair value is estimated using Monte Carlo simulations (Level 2 fair value measurement).

(4) Based on the exercise price from the applicable underlying agreements.

(5) Based on the closing market price for Canopy common stock on the Toronto Stock Exchange (“TSX”) as of the applicable date.

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

(7) Based on consideration of historical and/or implied volatility levels of the underlying equity security and limited consideration of historical peer group volatility levels.

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

(9) Based on historical dividend levels.

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

The inputs used to estimate the fair value of the Canopy Debt Securities are as follows:

	August 31, 2019		February 28, 2019	
Conversion price (1)	C\$	48.17	C\$	48.17
Valuation date stock price (2)	C\$	31.46	C\$	62.38
Remaining term (3)		3.9 years		4.4 years
Expected volatility (4)		49.0%		45.9%
Risk-free interest rate (5)		1.3%		1.8%
Expected dividend yield (6)		0.0%		0.0%

- (1) Based on the rate which the Canopy Debt Securities may be converted into equity shares, or the equivalent amount of cash, at the option of the issuer.
- (2) Based on the closing market price for Canopy common stock on the TSX as of the applicable date.
- (3) Based on the contractual maturity date of the notes.
- (4) Based on historical volatility levels of the underlying equity security reduced to account for certain risks not incorporated into the option-pricing model.
- (5) Based on the implied yield currently available on Canadian Treasury zero coupon issues with a term equal to the remaining contractual term of the debt securities.
- (6) Based on historical dividend levels.

Short-term borrowings

The revolving credit facility under our senior credit facility is a variable interest rate bearing note which includes a fixed margin which is adjustable based upon our debt rating (as defined in our senior credit facility). Its fair value is estimated by discounting cash flows using LIBOR plus a margin reflecting current market conditions obtained from participating member financial institutions (Level 2 fair value measurement). The remaining instruments, including our commercial paper, are variable interest rate bearing notes for which the carrying value approximates the fair value.

Long-term debt

The term loans under our Term Credit Agreement and 2019 Term Credit Agreement (both as defined in Note 11) are variable interest rate bearing notes which include a fixed margin which is adjustable based upon our debt rating. The senior floating rate notes are variable interest rate bearing notes which include a fixed margin. The fair value of the term loans and the senior floating rate notes are estimated by discounting cash flows using LIBOR plus a margin reflecting current market conditions obtained from participating member financial institutions (Level 2 fair value measurement). The fair value of the remaining long-term debt, which is primarily fixed interest rate, is estimated by discounting cash flows using interest rates currently available for debt with similar terms and maturities (Level 2 fair value measurement).

The carrying amounts of certain of our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and short-term borrowings, approximate fair value as of August 31, 2019, and February 28, 2019, due to the relatively short maturity of these instruments. As of August 31, 2019, the carrying amount of long-term debt, including the current portion, was \$12,795.9 million, compared with an estimated fair value of \$13,677.2 million. As of February 28, 2019, the carrying amount of long-term debt, including the current portion, was \$12,825.0 million, compared with an estimated fair value of \$12,768.5 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)		
(in millions)					
<u>August 31, 2019</u>					
Assets:					
Foreign currency contracts	\$ —	\$ 25.7	\$ —	\$ —	\$ 25.7
Commodity derivative contracts	\$ —	\$ 1.5	\$ —	\$ —	\$ 1.5
Interest rate swap contracts	\$ —	\$ 0.1	\$ —	\$ —	\$ 0.1
Equity securities (1)	\$ —	\$ 1,438.0	\$ —	\$ —	\$ 1,438.0
Canopy Debt Securities (1)	\$ —	\$ 134.2	\$ —	\$ —	\$ 134.2
Liabilities:					
Foreign currency contracts	\$ —	\$ 53.6	\$ —	\$ —	\$ 53.6
Commodity derivative contracts	\$ —	\$ 26.3	\$ —	\$ —	\$ 26.3
Interest rate swap contracts	\$ —	\$ 0.8	\$ —	\$ —	\$ 0.8
<u>February 28, 2019</u>					
Assets:					
Foreign currency contracts	\$ —	\$ 38.2	\$ —	\$ —	\$ 38.2
Commodity derivative contracts	\$ —	\$ 8.7	\$ —	\$ —	\$ 8.7
Equity securities (1)	\$ —	\$ 3,023.2	\$ —	\$ —	\$ 3,023.2
Canopy Debt Securities (1)	\$ —	\$ 211.5	\$ —	\$ —	\$ 211.5
Liabilities:					
Foreign currency contracts	\$ —	\$ 15.7	\$ —	\$ —	\$ 15.7
Commodity derivative contracts	\$ —	\$ 11.6	\$ —	\$ —	\$ 11.6

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

	For the Six Months Ended		For the Three Months Ended	
	August 31, 2019	August 31, 2018	August 31, 2019	August 31, 2018
(in millions)				
November 2017 Canopy Investment (i)	\$ —	\$ 461.0	\$ —	\$ 328.1
November 2017 Canopy Warrants	(450.8)	435.9	(316.7)	310.5
November 2018 Canopy Warrants (ii)	(1,134.4)	—	(473.6)	—
Canopy Debt Securities	(81.4)	53.5	(48.8)	53.5
	<u>\$ (1,666.6)</u>	<u>\$ 950.4</u>	<u>\$ (839.1)</u>	<u>\$ 692.1</u>

- (i) Accounted for at fair value from the date of investment in November 2017 through October 31, 2018. Accounted for under the equity method from November 1, 2018. For additional information on the November 2017 Canopy Investment, refer to Note 9.
- (ii) The terms of the November 2018 Canopy Warrants were modified in June 2019. For additional information on the November 2018 Canopy Warrants and the related modification, refer to Note 9. The amounts are net of a \$1,176.0 million unrealized gain resulting from the June 2019 Warrant Modification for the six months and three months ended August 31, 2019.

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 Six Months Ended August 31, 2019</u>				
Long-lived assets held for sale	\$ —	\$ —	\$ 1,444.4	\$ 27.0
Trademarks	\$ —	\$ —	\$ 17.0	\$ 11.0
Total	\$ —	\$ —	\$ 1,461.4	\$ 38.0

Long-lived assets held for sale

For the six months and three months ended August 31, 2019, in connection with the Wine and Spirits Transaction (as defined in Note 4), long-lived assets held for sale with a carrying value of \$1,471.4 million were written down to their estimated fair value of \$1,444.4 million, less cost to sell, resulting in a loss of \$27.0 million. These losses are included in selling, general, and administrative expenses. These assets consisted primarily of goodwill, intangible assets, and certain winery and vineyard assets which had satisfied the conditions necessary to be classified as held for sale. As such, these assets were written down to a value based on our estimate of fair value less cost to sell. Our estimate of fair value was determined based on the expected proceeds from the Wine and Spirits Transaction as of August 31, 2019.

Trademarks

For the six months and three months ended August 31, 2019, certain continuing negative trends within our Beer segment's Ballast Point craft beer portfolio, including increased rate of revenue decline and increased competition, indicated that it was more likely than not that the fair value of our indefinite-lived intangible asset associated with the Ballast Point craft beer trademark might be below its carrying value. Accordingly, we performed a quantitative assessment for impairment. As a result of this assessment, the Ballast Point craft beer trademark asset with a carrying value of \$28.0 million was written down to its estimated fair value of \$17.0 million, resulting in an impairment of \$11.0 million. This impairment is included in selling, general, and administrative expenses.

7. GOODWILL

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

	Beer	Wine and Spirits	Consolidated
<i>(in millions)</i>			
Balance, February 28, 2018	\$ 5,157.6	\$ 2,925.5	\$ 8,083.1
Purchase accounting allocations (1)	22.3	2.7	25.0
Foreign currency translation adjustments	(12.0)	(7.3)	(19.3)
Balance, February 28, 2019	5,167.9	2,920.9	8,088.8
Purchase accounting allocations (2)	—	58.8	58.8
Foreign currency translation adjustments	(26.0)	(9.1)	(35.1)
Reclassified to assets held for sale (3)	—	(415.8)	(415.8)
Balance, August 31, 2019	\$ 5,141.9	\$ 2,554.8	\$ 7,696.7

- (1) Purchase accounting allocations associated primarily with the acquisition of Four Corners (Beer). See defined acquisition term below.
- (2) Preliminary purchase accounting allocations associated primarily with the acquisition of Nelson's Green Brier (Wine and Spirits). See defined acquisition term below.
- (3) In connection with the Wine and Spirits Transaction and the Black Velvet Transaction, goodwill associated with the businesses being sold were reclassified to assets held for sale based on the relative fair values of the portion of the business being sold and the remaining wine and spirits portfolio. The relative fair values were determined using the income approach based on assumptions, including projected revenue growth rates, terminal growth rate, and discount rate and other projected financial information.

Acquisitions

Nelson's Green Brier

In May 2019, we increased our ownership interest in Nelson's Green Brier Distillery, LLC ("Nelson's Green Brier") to 75%, resulting in consolidation of the business and recognition of a noncontrolling interest. This acquisition included a portfolio of award-winning, Tennessee-based craft bourbon and whiskey products. The preliminary fair value of the business combination was allocated primarily to goodwill, trademarks, inventory, and property, plant, and equipment. The results of operations of Nelson's Green Brier are reported in the Wine and Spirits segment and have been included in our consolidated results of operations from the date of acquisition.

We recognized a gain of \$11.8 million for the six months ended August 31, 2019, related to the remeasurement of our previously held 20% equity interest in Nelson's Green Brier to the acquisition-date fair value. This gain is included in selling, general, and administrative expenses within our consolidated results of operations.

Four Corners

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

8. INTANGIBLE ASSETS

The major components of intangible assets are as follows:

	August 31, 2019		February 28, 2019	
	Gross Carrying Amount	Net Carrying Amount	Gross Carrying Amount	Net Carrying Amount
(in millions)				
<u>Amortizable intangible assets</u>				
Customer relationships	\$ 89.9	\$ 36.4	\$ 89.9	\$ 39.1
Other	20.4	0.6	20.5	0.9
Total	<u>\$ 110.3</u>	<u>37.0</u>	<u>\$ 110.4</u>	<u>40.0</u>
<u>Nonamortizable intangible assets</u>				
Trademarks (1)		2,750.0		3,158.1
Total intangible assets		<u>\$ 2,787.0</u>		<u>\$ 3,198.1</u>

- (1) The intangible assets balance at August 31, 2019, excludes trademarks reclassified to assets held for sale (see Note 4).

We did not incur costs to renew or extend the term of acquired intangible assets for these six months and three months ended August 31, 2019, and August 31, 2018. Net carrying amount represents the gross carrying value net of accumulated amortization.

9. EQUITY METHOD INVESTMENTS

Our equity method investments are as follows:

	August 31, 2019		February 28, 2019	
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
(in millions)				
Canopy Equity Method Investment	\$ 2,846.0	35.6%	\$ 3,332.1	36.0%
Other equity method investments	157.8	20%-50%	133.5	20%-50%
	<u>\$ 3,003.8</u>		<u>\$ 3,465.6</u>	

In November 2017, we acquired 18.9 million common shares, which represented a 9.9% ownership interest in Ontario, Canada-based Canopy Growth Corporation (the "November 2017 Canopy Investment"), a public company and leading provider of medicinal and recreational cannabis products ("Canopy"), plus warrants which give us the option to purchase an additional 18.9 million common shares of Canopy (the "November 2017 Canopy Warrants") for C\$245.0 million, or \$191.3 million. The November 2017 Canopy Warrants were issued with an exercise price of C\$12.98 per warrant share and are exercisable as of August 31, 2019. These warrants expire in May 2020.

The November 2017 Canopy Investment was accounted for at fair value from the date of investment through October 31, 2018. From November 1, 2018, the November 2017 Canopy Investment has been accounted for under the equity method (see "Canopy Equity Method Investment" below). The November 2017 Canopy Warrants have been accounted for at fair value from the date of investment.

On November 1, 2018, we increased our ownership interest in Canopy by acquiring an additional 104.5 million common shares (the "November 2018 Canopy Investment") (see Canopy Equity Method Investment below), plus warrants which give us the option to purchase an additional 139.7 million common shares of Canopy (the "November 2018 Canopy Warrants", and together with the November 2018 Canopy Investment, the "November 2018 Canopy Transaction") for C\$5,078.7 million, or \$3,869.9 million.

On November 1, 2018, our ownership interest in Canopy increased to 36.6% which allows us to exercise significant influence, but not control, over Canopy. Therefore, we account for the November 2017 Canopy Investment and the November 2018 Canopy Investment, each of which represents an investment in common shares of Canopy, collectively, under the equity method (the "Canopy Equity Method Investment"). We recognize equity in earnings (losses) and related activities for this investment on a two-month lag. Accordingly, we recognized equity in earnings (losses) and related activities of \$(590.4) million for the period January 1, 2019, through June 30, 2019, in our consolidated financial statements for the six months ended August 31, 2019, and \$(484.4) million for the period April 1, 2019, through June 30, 2019, in our consolidated financial statements for the three months ended August 31, 2019. Equity in earnings (losses) from the Canopy Equity Method Investment and related activities include, among other items, our share of the additional loss resulting from the June 2019 Warrant Modification (as defined below) of \$(409.0) million (the "June 2019 Warrant Modification Loss"), the amortization of the fair value adjustments associated with the definite-lived intangible assets over their estimated useful lives, the flow through of inventory step-up, and unrealized gains (losses) associated with changes in our Canopy ownership percentage resulting from periodic equity issuances made by Canopy.

The November 2018 Canopy Warrants originally consisted of 88.5 million warrants (the "Tranche A Warrants") and 51.2 million warrants (the "Tranche B Warrants"). The Tranche A Warrants were

immediately exercisable at an exercise price of C\$50.40 per warrant share. The Tranche B Warrants were exercisable upon the exercise, in full, of the Tranche A Warrants and at an exercise price based on the volume-weighted average of the closing market price of Canopy's common shares on the TSX for the five trading days immediately preceding the exercise date. The November 2018 Canopy Warrants originally expired in November 2021 and have been accounted for at fair value from the date of investment.

In June 2019, the Canopy shareholders approved the modification of the terms of the November 2018 Canopy Warrants and certain other rights (the "June 2019 Warrant Modification"), and the other required approvals necessary for the modifications to be effective were granted. These changes are the result of Canopy's intention to acquire Acreage Holdings, Inc. ("Acreage") upon U.S. Federal cannabis legalization, subject to certain conditions (the "Acreage Transaction"). As a result of the modifications, we continue to have the option to purchase an additional 139.7 million common shares of Canopy upon exercise of the warrants originally received in November 2018; however, this option now consists of three tranches of warrants, including 88.5 million warrants (the "New Tranche A Warrants"), 38.4 million warrants (the "New Tranche B Warrants"), and 12.8 million warrants (the "New Tranche C Warrants", and collectively with the New Tranche A Warrants and the New Tranche B Warrants, the "New November 2018 Canopy Warrants"). The New Tranche A Warrants have an exercise price of C\$50.40 per warrant share and are currently exercisable, but now expire November 1, 2023. The New Tranche B Warrants now have an exercise price of C\$76.68 per warrant share and the New Tranche C Warrants have a VWAP Exercise Price. The New Tranche B Warrants and the New Tranche C Warrants now have an expiration date of November 1, 2026.

The other rights obtained in June 2019 in connection with the Acreage Transaction include a share repurchase credit and the ability to purchase Canopy common shares on the open market or in private agreement transactions. If for any reason Canopy has not purchased the lesser of 27,378,866 Canopy common shares or C\$1,583.0 million worth of Canopy common shares for cancellation by the end of the two-year period beginning upon full exercise of the New Tranche A Warrants, we will be credited an amount that will reduce the aggregate exercise price otherwise payable upon each exercise of the New Tranche B Warrants and New Tranche C Warrants. The credit will be an amount equal to the difference between C\$1,583.0 million and the actual price paid by Canopy in purchasing its common shares for cancellation. If we choose to purchase Canopy common shares on the open market or in private agreement with existing holders, the number of New Tranche B Warrants or New Tranche C Warrants shall be decreased by one for each Canopy common share acquired, up to an aggregate maximum reduction of 20 million warrants. The likelihood of receiving the share repurchase credit if we were to fully exercise the New Tranche A Warrants is remote, therefore, no fair value has been assigned.

The inputs used to estimate the fair value of the New November 2018 Canopy Warrants as of the June 27, 2019 modification date, are as follows:

	New Tranche A Warrants (1)		New Tranche B Warrants (1)	
Exercise price	C\$	50.40	C\$	76.68
Valuation date stock price	C\$	53.36	C\$	53.36
Expected life		4.3 years		7.3 years
Expected volatility		66.7 %		66.7 %
Risk-free interest rate		1.4 %		1.4 %
Expected dividend yield		0.0 %		0.0 %

(1) Refer to Note 6 for input descriptions.

Accordingly, we have recognized a \$1,176.0 million unrealized gain from unconsolidated investments in the second quarter of fiscal 2020 from the June 2019 Warrant Modification. Approximately \$322.5 million of the unrealized gain was associated with the New Tranche A Warrants and \$853.5 million was associated with the New Tranche B Warrants. No value was associated with the New Tranche C Warrants

as they have a VWAP Exercise Price. As the expiration dates of the New Tranche A Warrants and New Tranche B Warrants were extended, we now utilize a blend of Canopy's historical volatility, implied volatility, and limited consideration of historical peer group volatility in our valuations to supplement the limited trading history.

Canopy has various convertible equity securities outstanding, including primarily equity awards granted to its employees, and options and warrants issued to various third parties, including our November 2017 Canopy Warrants and New November 2018 Canopy Warrants. As of August 31, 2019, the conversion of Canopy equity securities held by its employees and/or held by other third parties would not have a significant effect on our share of Canopy's reported earnings or losses. Additionally, under an amended and restated investor rights agreement, we have the option to purchase additional common shares of Canopy at the then-current price of the underlying equity security to allow us to maintain our relative ownership interest. If Canopy exercises its right to acquire the shares of Acreage and we were to exercise all of our outstanding November 2017 Canopy Warrants and the New November 2018 Canopy Warrants, our ownership interest in Canopy would not be expected to be greater than 50 percent. As of August 31, 2019, the exercise of all Canopy warrants held by us would have required a cash outflow of approximately \$6.1 billion based on the terms of the November 2017 Canopy Warrants and the New November 2018 Canopy Warrants. Additionally, as of August 31, 2019, the fair value of the Canopy Equity Method Investment was \$2,916.0 million based on the closing price of the underlying equity security as of that date.

The following table presents summarized financial information for Canopy presented in accordance with U.S. GAAP. We recognize our equity in earnings (losses) for Canopy on a two-month lag. Accordingly, we recognized our share of Canopy's fourth quarter fiscal 2019 and first quarter fiscal 2020 earnings (losses) for the period January through June 2019 in our six months ended August 31, 2019. We recognized our share of Canopy's first quarter fiscal 2020 earnings (losses) for the period April through June 2019, in our three months ended August 31, 2019 results. The amounts shown represent 100% of Canopy's results of operations for the respective periods. However, they exclude the impact the June 2019 Warrant Modification Loss because it was recorded within equity.

	For the Six Months Ended August 31,		For the Three Months Ended August 31,	
	2019	2018	2019	2018
(in millions)				
Net sales	\$ 138.4	NA	\$ 67.7	NA
Gross profit	\$ 21.1	NA	\$ 9.8	NA
Net gain (loss)	\$ (418.6)	NA	\$ (149.7)	NA
Net gain (loss) attributable to Canopy	\$ (430.4)	NA	\$ (146.3)	NA

NA = Not Applicable

10. OTHER ASSETS

The major components of other assets are as follows:

	August 31, 2019	February 28, 2019
(in millions)		
Operating lease right-of-use asset	\$ 552.8	\$ —
Other	97.6	109.7
	<u>\$ 650.4</u>	<u>\$ 109.7</u>

11. BORROWINGS

Borrowings consist of the following:

	August 31, 2019			February 28, 2019
	Current	Long-term	Total	Total
(in millions)				
<u>Short-term borrowings</u>				
Senior credit facility, Revolving credit loan	\$ —			\$ 59.0
Commercial paper	150.9			732.5
	<u>\$ 150.9</u>			<u>\$ 791.5</u>
<u>Long-term debt</u>				
Senior credit facility, Term loan	\$ —	\$ —	\$ —	\$ 492.8
Term loan credit facilities	24.6	1,528.3	1,552.9	1,486.4
Senior notes	599.6	10,618.2	11,217.8	10,816.9
Other	11.9	13.3	25.2	28.9
	<u>\$ 636.1</u>	<u>\$ 12,159.8</u>	<u>\$ 12,795.9</u>	<u>\$ 12,825.0</u>

Senior credit facility

The Company, CB International Finance S.à r.l., a wholly-owned subsidiary of ours (“CB International”), certain of the Company’s subsidiaries as guarantors, 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 “2018 Credit Agreement”). The 2018 Credit Agreement provides for aggregate credit facilities of \$2.0 billion.

Term Credit Agreement

The Company, the Administrative Agent, and certain other lenders are parties to a term loan credit agreement (the “Term Credit Agreement”). The Term Credit Agreement provides for aggregate credit facilities of \$1.5 billion, consisting of a \$500.0 million three-year term loan facility (the “Three-Year Term Facility”) and a \$1.0 billion five-year term loan facility (the “Five-Year Term Facility”).

2019 Term Credit Agreement

In June 2019, the Company and Bank of America, N.A., as Administrative Agent and lender (the “Lender”) entered into a term loan credit agreement (the “2019 Term Credit Agreement”). The 2019 Term Credit Agreement provides for the creation of a \$491.3 million five-year term loan facility (the “2019 Five-Year Term Facility”). The 2019 Five-Year Term Facility will be repaid in quarterly payments of principal equal to 1.25% of the original aggregate principal amount of the 2019 Five-Year Term Facility, with the balance due and payable at maturity. The proceeds from borrowings under the 2019 Term Credit Agreement were used to repay in full the U.S. Term A-1 Facility under the 2018 Credit Agreement.

The obligations under the 2019 Term Credit Agreement are guaranteed by certain subsidiaries of the Company. The guarantors under the 2019 Term Credit Agreement are the same subsidiary guarantors as under the 2018 Credit Agreement and the Term Credit Agreement. We and our subsidiaries are subject to covenants that are contained in the 2019 Term Credit Agreement, including those restricting the incurrence of additional indebtedness (including guarantees of indebtedness), additional liens, mergers and consolidations, transactions with affiliates, and sale and leaseback transactions, in each case subject to numerous conditions, exceptions and thresholds. The financial covenants are limited to a minimum interest coverage ratio and a maximum net leverage ratio.

As of August 31, 2019, aggregate credit facilities under the 2018 Credit Agreement, the Term Credit Agreement, and the 2019 Term Credit Agreement consist of the following:

	Amount	Maturity
(in millions)		
<u>2018 Credit Agreement</u>		
Revolving Credit Facility (1) (2)	\$ 2,000.0	Sept 14, 2023
<u>Term Credit Agreement</u>		
Three-Year Term Facility (1) (3)	\$ 500.0	Nov 1, 2021
Five-Year Term Facility (1) (3)	\$ 1,000.0	Nov 1, 2023
	<u>\$ 1,500.0</u>	
<u>2019 Term Credit Agreement</u>		
2019 Five-Year Term Facility (1) (3)	\$ 491.3	Jun 28, 2024

- (1) Contractual interest rate varies based on our debt rating (as defined in the respective agreement) and is a function of LIBOR plus a margin, or the base rate plus a margin, or, in certain circumstances where LIBOR cannot be adequately ascertained or available, an alternative benchmark rate plus a margin.
- (2) We and/or CB International are the borrower under the \$2,000.0 million Revolving Credit Facility. Includes a sub-facility for letters of credit of up to \$200.0 million.
- (3) We are the borrower under the Three-Year Term Facility, the Five-Year Term Facility, and the 2019 Five-Year Term Facility.

As of August 31, 2019, information with respect to borrowings under the 2018 Credit Agreement, the Term Credit Agreement, and the 2019 Term Credit Agreement is as follows:

	2018 Credit Agreement		Term Credit Agreement		2019 Term Credit Agreement
	Revolving Credit Facility		Three-Year Term Facility (1)	Five-Year Term Facility (1) (2)	2019 Five-Year Term Facility (1)
(in millions)					
Outstanding borrowings	\$	—	\$ 499.6	\$ 562.0	\$ 491.3
Interest rate		—%	3.4%	3.5%	3.1%
LIBOR margin		1.13%	1.13%	1.25%	0.88%
Outstanding letters of credit	\$	12.2			
Remaining borrowing capacity (3)	\$	1,836.8			

- (1) Outstanding term loan facilities borrowings are net of unamortized debt issuance costs.
- (2) Outstanding borrowings reflect a \$400.0 million partial repayment of the Five-Year Term Facility under our Term Credit Agreement.
- (3) Net of outstanding revolving credit facility borrowings and outstanding letters of credit under the 2018 Credit Agreement and outstanding borrowings under our commercial paper program of \$151.0 million (excluding unamortized discount) (see "Commercial paper program").

Commercial paper program

We have a commercial paper program which provides for the issuance of up to an aggregate principal amount of \$2.0 billion of commercial paper. Our commercial paper program is backed by unused commitments under our revolving credit facility under our 2018 Credit Agreement. Accordingly, outstanding borrowings under our commercial paper program reduce the amount available under our revolving credit facility under our 2018 Credit Agreement. As of August 31, 2019, we had \$150.9 million of

outstanding borrowings, net of unamortized discount, under our commercial paper program with a weighted average annual interest rate of 2.4% and a weighted average remaining term of 9 days.

Interest rate swap contracts

In June 2019, we entered into interest rate swap agreements, which are designated as cash flow hedges for \$375.0 million of our floating LIBOR rate debt. As a result of these hedges, we have fixed our interest rates on \$375.0 million of our floating LIBOR rate debt at an average rate of 1.9% (exclusive of borrowing margins) from July 1, 2019, through July 1, 2020.

Senior Notes

In July 2019, we issued \$800.0 million aggregate principal amount of 3.15% Senior Notes due August 2029 (the "July 2019 Senior Notes"). Proceeds from this offering, net of discount and debt issuance costs, were \$793.0 million. Interest on the July 2019 Senior Notes is payable semiannually on February 1 and August 1 of each year, beginning February 1, 2020. The July 2019 Senior Notes are redeemable, in whole or in part, at our option at any time prior to May 1, 2029, 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 applicable Treasury Rate plus 20 basis points. On or after May 1, 2029, we may redeem the July 2019 Senior Notes, 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. The July 2019 Senior Notes are senior unsecured obligations which rank equally in right of payment to all of our existing and future senior unsecured indebtedness. Certain of our U.S. subsidiaries guarantee the July 2019 Senior Notes on a senior unsecured basis.

In November 2014, we issued \$400.0 million aggregate principal amount of 3.875% Senior Notes due November 2019 (the "3.875% November 2014 Senior Notes"). On August 28, 2019, we repaid the 3.875% November 2014 Senior Notes with proceeds from the July 2019 Senior Notes.

Debt payments

As of August 31, 2019, the required principal repayments under long-term debt obligations (excluding unamortized debt issuance costs and unamortized discounts of \$68.4 million and \$14.7 million, respectively) for the remaining six months of fiscal 2020 and for each of the five succeeding fiscal years and thereafter are as follows:

(in millions)

2020	\$	618.4
2021		734.6
2022		1,680.6
2023		1,827.2
2024		1,637.5
2025		780.7
Thereafter		5,600.0
	<u>\$</u>	<u>12,879.0</u>

12. INCOME TAXES

Our effective tax rate for the six months ended August 31, 2019 was 33.9% of tax benefit as compared with 16.3% of tax expense for the six months ended August 31, 2018. Our effective tax rate for the three months ended August 31, 2019 was 28.1% of tax benefit as compared with 15.7% of tax expense for the three months ended August 31, 2018.

For the six months and three months ended August 31, 2019, our effective tax rate was higher than the federal statutory rate of 21% primarily due to the net unrealized loss from the changes in fair value of our investments in Canopy, which have resulted in an overall net loss for the six months and three months ended August 31, 2019. Our effective tax rate benefited from the following:

- a higher effective rate of tax benefit from our foreign businesses including the tax benefits recorded on the net unrealized loss from the changes in fair value of our investments in Canopy and the tax benefits recorded on the Canopy equity in earnings (losses) and related activities;
- the recognition of a net income tax benefit from stock-based compensation award activity; and
- for the six months ended August 31, 2019, our effective tax rate also benefited from the reversal of valuation allowances for capital loss carryforwards in connection with the Wine and Spirits Transaction.

For the six months and three months ended August 31, 2018, our effective tax rate was lower than the federal statutory rate of 21% primarily due to:

- lower effective tax rates applicable to our foreign businesses;
- the recognition of a net income tax benefit from stock-based compensation award activity; and
- for the six months ended August 31, 2018, our effective tax rate also benefited from the reversal of valuation allowances in connection with the sale of our Accolade Wine Investment (see Note 19).

Subsequent Event

As a result of certain foreign tax reform that was enacted in September 2019, we are estimating a one-time benefit to our deferred tax assets of approximately \$500 million to \$550 million to be recognized during the three months ended November 30, 2019.

13. DEFERRED INCOME TAXES AND OTHER LIABILITIES

The major components of deferred income taxes and other liabilities are as follows:

	August 31, 2019	February 28, 2019
(in millions)		
Deferred income taxes	\$ 561.3	\$ 1,029.7
Operating lease liability	511.9	—
Unrecognized tax benefit liabilities	249.8	239.0
Long-term income tax payable	95.4	95.4
Other	90.0	106.6
	<u>\$ 1,508.4</u>	<u>\$ 1,470.7</u>

14. LEASES

General

We primarily lease certain vineyards, office and production facilities, warehouses, production equipment, and vehicles. We assess service arrangements to determine if an asset is explicitly or implicitly specified in the agreement and if we have the right to control the use of the identified asset. We have concluded that certain grape purchasing arrangements associated with the purchase of grape production yielded from a specified block of a vineyard and certain third-party logistics arrangements contain a lease.

The right-of-use asset is initially measured at cost, which is primarily comprised of the initial amount of the lease liability, plus initial direct costs and lease payments at or before the lease commencement date, less any lease incentives received, and is amortized on a straight-line basis over the remaining lease term. All right-of-use assets are reviewed periodically for impairment. The lease liability is initially measured at the present value of lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, our secured incremental borrowing rate. The incremental borrowing rates are determined using a portfolio approach based on publicly available information in connection with our unsecured borrowing rates adjusted for items including collateral, currency, and the timing in which lease payments are made. We elected to recognize expenses for leases with a term of 12 months or less on a straight-line basis over the lease term and not to recognize these short-term leases on the balance sheet.

Our leases have varying terms with remaining lease terms of up to approximately 30 years. Certain of our lease arrangements provide us with the option to extend or to terminate the lease early.

The right-of-use asset and lease liability are calculated including options to extend or to terminate the lease when we determine that it is reasonably certain that we will exercise those options. In making that determination, we consider various existing economic and market factors, business strategies as well as the nature, length, and terms of the agreement. Based on our evaluation using these factors, we concluded that the exercise of renewal options or early termination options would not be reasonably certain in determining the lease term at commencement for leases we currently have in place. Assumptions made at the commencement date are re-evaluated upon occurrence of certain events such as a lease modification.

Certain of our contractual arrangements may contain both lease and non-lease components. Non-lease components are distinct elements of a contract that are not related to securing the use of the leased asset, such as raw materials, common area maintenance and other management costs. We elected to measure the lease liability by combining the lease and non-lease components as a single lease component for all asset classes.

Certain of our leases include variable lease payments, including payments that depend on an index or rate, as well as variable payments for items such as raw materials, labor, property taxes, insurance, maintenance, and other operating expenses associated with leased assets. Certain grape purchasing arrangements include variable payments that will vary depending on certain factors, including weather, time of harvest, overall market conditions, and the agricultural practices and location of the vineyard. In addition, certain third-party logistics arrangements include variable payments that vary depending on throughput. Such variable lease payments are excluded from the calculation of the right-of-use asset and are recognized in the period in which the obligation is incurred.

Balance sheet location

A summary of lease right-of-use assets and liabilities are as follows:

Balance Sheet Classification		August 31, 2019
(in millions)		
<u>Assets</u>		
Operating lease	Other assets	\$ 552.8
Finance lease	Property, plant, and equipment	26.4
Total right-of-use assets		<u>\$ 579.2</u>
<u>Liabilities</u>		
Current:		
Operating lease	Other accrued expenses and liabilities	\$ 76.7
Finance lease	Current maturities of long-term debt	11.9
Non-Current:		
Operating lease	Deferred income taxes and other liabilities	511.9
Finance lease	Long-term debt, less current maturities	13.3
Total lease liabilities		<u>\$ 613.8</u>

Lease costs

The components of total lease cost are as follows:

	For the Six Months Ended August 31, 2019	For the Three Months Ended August 31, 2019
(in millions)		
Operating lease cost	\$ 46.5	\$ 23.1
Finance lease cost:		
Amortization of right-of-use assets	5.6	2.8
Interest on lease liabilities	0.3	0.1
Short-term lease cost	4.2	1.9
Variable lease cost	95.4	51.5
Total lease cost	<u>\$ 152.0</u>	<u>\$ 79.4</u>

Lease maturities (1)

As of August 31, 2019, minimum payments due for lease liabilities for the remaining six months of fiscal 2020 and for each of the five succeeding fiscal years and thereafter are as follows:

	Operating Leases	Finance Leases
(in millions)		
2020	\$ 51.8	\$ 6.4
2021	94.3	10.4
2022	81.6	6.2
2023	69.9	2.6
2024	63.5	0.5
2025	53.6	—
Thereafter	310.9	—
Total lease payments	<u>725.6</u>	<u>26.1</u>
Less: Interest	(137.0)	(0.9)
Total lease liabilities	<u>\$ 588.6</u>	<u>\$ 25.2</u>

As of February 28, 2019, future payments were expected to be as follows:

	Operating Leases
(in millions)	
2020	\$ 59.0
2021	58.2
2022	51.1
2023	47.9
2024	41.2
Thereafter	302.1
Total lease payments	<u>\$ 559.5</u>

(1) For leases with terms in excess of 12 months at inception.

Supplemental information

For the Six Months
Ended August 31, 2019

(in millions)		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	46.6
Operating cash flows from finance leases	\$	0.3
Financing cash flows from finance leases	\$	7.3
Right-of-use assets obtained in exchange for new lease liabilities:		
Operating leases	\$	17.3
Finance leases	\$	4.0
Weighted-average remaining lease term:		
Operating leases		11.9 years
Finance leases		3.4 years
Weighted-average discount rate:		
Operating leases		3.7 %
Finance leases		2.7 %

15. STOCKHOLDERS' EQUITY*Common stock*

The number of shares of common stock issued and treasury stock, and associated share activity, are as follows:

	Common Stock			Treasury Stock	
	Class A	Class B	Class 1	Class A	Class B
Balance at February 28, 2019	185,740,178	28,322,419	1,149,624	18,927,966	5,005,800
Conversion of shares	133,667	(55)	(133,612)	—	—
Exercise of stock options (1)	—	—	2,107	(173,725)	—
Vesting of restricted stock units (2)	—	—	—	(88,683)	—
Vesting of performance share units (2)	—	—	—	(29,015)	—
Cancellation of restricted shares	—	—	—	444	—
Balance at May 31, 2019	185,873,845	28,322,364	1,018,119	18,636,987	5,005,800
Share repurchases	—	—	—	265,593	—
Conversion of shares	6,267	(543)	(5,724)	—	—
Exercise of stock options (1)	—	—	—	(258,628)	—
Employee stock purchases	—	—	—	(36,840)	—
Vesting of restricted stock units (2)	—	—	—	(2,148)	—
Balance at August 31, 2019	185,880,112	28,321,821	1,012,395	18,604,964	5,005,800
Balance at February 28, 2018	258,718,356	28,335,387	1,970	90,743,239	5,005,800
Share repurchases	—	—	—	450,508	—
Conversion of shares	5,144	(5,144)	—	—	—
Exercise of stock options	216,946	—	5,118	—	—
Vesting of restricted stock units (2)	—	—	—	(20,392)	—
Vesting of performance share units (2)	—	—	—	(62,352)	—
Balance at May 31, 2018	258,940,446	28,330,243	7,088	91,111,003	5,005,800
Share repurchases	—	—	—	1,901,637	—
Conversion of shares	2,500	(2,500)	—	—	—
Exercise of stock options	137,219	—	2,325	—	—
Employee stock purchases	—	—	—	(34,203)	—
Grant of restricted stock awards	—	—	—	(3,552)	—
Vesting of restricted stock units (2)	—	—	—	(3,074)	—
Balance at August 31, 2018	259,080,165	28,327,743	9,413	92,971,811	5,005,800

(1) Includes use of Class A Treasury Stock associated with stock option exercises beginning March 1, 2019.

(2) Net of the following shares withheld to satisfy tax withholding requirements:

	For the Three Months Ended May 31,	For the Three Months Ended August 31,	For the Six Months Ended August 31,
<u>2019</u>			
Restricted Stock Units	48,562	1,176	49,738
Performance Share Units	17,439	—	17,439
<u>2018</u>			
Restricted Stock Units	12,743	2,211	14,954
Performance Share Units	44,016	—	44,016

Stock repurchases

In January 2018, our Board of Directors authorized the repurchase of up to \$3.0 billion of our Class A Common Stock and Class B Convertible Common Stock (the "2018 Authorization"). The Board of

Directors did not specify a date upon which this authorization would expire. Shares repurchased under the 2018 Authorization have become treasury shares.

For the six months ended August 31, 2019, we repurchased 265,593 shares of Class A Common Stock pursuant to the 2018 Authorization at an aggregate cost of \$50.0 million through open market transactions.

As of August 31, 2019, total shares repurchased under the 2018 Authorizations are as follows:

	Repurchase Authorization	Class A Common Shares	
		Dollar Value of Shares Repurchased	Number of Shares Repurchased
(in millions, except share data)			
2018 Authorization	\$ 3,000.0	\$ 1,045.9	4,897,605

16. NET INCOME (LOSS) PER COMMON SHARE ATTRIBUTABLE TO CBI

For the six months and three months ended August 31, 2018, net income (loss) per common share – diluted for Class A Common Stock has been computed using the if-converted method and assumes the exercise of stock options using the treasury stock method and the conversion of Class B Convertible Common Stock as this method is more dilutive than the two-class method. For the six months and three months ended August 31, 2018, net income (loss) 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.

We have excluded 23,316,505 and 23,316,411 of Class B Convertible Common Stock and 3,367,943 and 3,304,955 of shares issuable under the assumed exercise of stock options using the treasury stock method from the calculation of diluted net income (loss) per share for the six months and three months ended August 31, 2019, respectively, as the effect of including these would have been anti-dilutive.

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

	For the Six Months Ended			
	August 31, 2019		August 31, 2018	
	Common Stock		Common Stock	
	Class A	Class B	Class A	Class B
(in millions, except per share data)				
Net income (loss) attributable to CBI allocated – basic	\$ (684.1)	\$ (86.5)	\$ 1,680.7	\$ 212.6
Conversion of Class B common shares into Class A common shares	—	—	212.6	—
Effect of stock-based awards on allocated net income (loss)	—	—	—	(5.2)
Net income (loss) attributable to CBI allocated – diluted	<u>\$ (684.1)</u>	<u>\$ (86.5)</u>	<u>\$ 1,893.3</u>	<u>\$ 207.4</u>
Weighted average common shares outstanding – basic	168.215	23.316	167.617	23.325
Conversion of Class B common shares into Class A common shares	—	—	23.325	—
Stock-based awards, primarily stock options	—	—	5.526	—
Weighted average common shares outstanding – diluted	<u>168.215</u>	<u>23.316</u>	<u>196.468</u>	<u>23.325</u>
Net income (loss) per common share attributable to CBI – basic	\$ (4.08)	\$ (3.71)	\$ 10.03	\$ 9.11
Net income (loss) per common share attributable to CBI – diluted	\$ (4.08)	\$ (3.71)	\$ 9.64	\$ 8.89

	For the Three Months Ended			
	August 31, 2019		August 31, 2018	
	Common Stock		Common Stock	
	Class A	Class B	Class A	Class B
<i>(in millions, except per share data)</i>				
Net income (loss) attributable to CBI allocated – basic	\$ (466.4)	\$ (58.8)	\$ 1,020.0	\$ 129.5
Conversion of Class B common shares into Class A common shares	—	—	129.5	—
Effect of stock-based awards on allocated net income (loss)	—	—	—	(3.2)
Net income (loss) attributable to CBI allocated – diluted	<u>\$ (466.4)</u>	<u>\$ (58.8)</u>	<u>\$ 1,149.5</u>	<u>\$ 126.3</u>
Weighted average common shares outstanding – basic	168.310	23.316	167.172	23.323
Conversion of Class B common shares into Class A common shares	—	—	23.323	—
Stock-based awards, primarily stock options	—	—	5.412	—
Weighted average common shares outstanding – diluted	<u>168.310</u>	<u>23.316</u>	<u>195.907</u>	<u>23.323</u>
Net income (loss) per common share attributable to CBI – basic	\$ (2.77)	\$ (2.52)	\$ 6.11	\$ 5.55
Net income (loss) per common share attributable to CBI – diluted	\$ (2.77)	\$ (2.52)	\$ 5.87	\$ 5.41

17. COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO CBI

Comprehensive income (loss) consists of net income (loss), foreign currency translation adjustments, net unrealized gain (loss) on derivative instruments, net unrealized gain (loss) on available-for-sale (“AFS”) debt securities, pension/postretirement adjustments, and our share of OCI of equity method investments. The reconciliation of net income (loss) attributable to CBI to comprehensive income (loss) attributable to CBI is as follows:

	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
(in millions)			
<u>For the Six Months Ended August 31, 2019</u>			
Net income (loss) attributable to CBI			\$ (770.6)
Other comprehensive income (loss) attributable to CBI:			
Foreign currency translation adjustments:			
Net gain (loss)	\$ (58.2)	\$ —	(58.2)
Reclassification adjustments	—	—	—
Net gain (loss) recognized in other comprehensive income (loss)	(58.2)	—	(58.2)
Unrealized gain (loss) on cash flow hedges:			
Net derivative gain (loss)	(38.4)	3.8	(34.6)
Reclassification adjustments	(6.0)	(0.6)	(6.6)
Net gain (loss) recognized in other comprehensive income (loss)	(44.4)	3.2	(41.2)
Pension/postretirement adjustments:			
Net actuarial gain (loss)	—	—	—
Reclassification adjustments	0.1	—	0.1
Net gain (loss) recognized in other comprehensive income (loss)	0.1	—	0.1
Share of OCI of equity method investments			
Net gain (loss)	(30.6)	7.2	(23.4)
Reclassification adjustments	—	—	—
Net gain (loss) recognized in other comprehensive income (loss)	(30.6)	7.2	(23.4)
Other comprehensive income (loss) attributable to CBI	\$ (133.1)	\$ 10.4	(122.7)
Comprehensive income (loss) attributable to CBI			\$ (893.3)
<u>For the Six Months Ended August 31, 2018</u>			
Net income (loss) attributable to CBI			\$ 1,893.3
Other comprehensive income (loss) attributable to CBI:			
Foreign currency translation adjustments:			
Net gain (loss)	\$ (92.5)	\$ —	(92.5)
Reclassification adjustments	—	—	—
Net gain (loss) recognized in other comprehensive income (loss)	(92.5)	—	(92.5)
Unrealized gain (loss) on cash flow hedges:			
Net derivative gain (loss)	(9.2)	1.0	(8.2)
Reclassification adjustments	(4.7)	1.0	(3.7)
Net gain (loss) recognized in other comprehensive income (loss)	(13.9)	2.0	(11.9)
Unrealized gain (loss) on AFS debt securities:			
Net AFS debt securities gain (loss)	(0.4)	0.1	(0.3)
Reclassification adjustments	1.9	0.9	2.8
Net gain (loss) recognized in other comprehensive income (loss)	1.5	1.0	2.5
Pension/postretirement adjustments:			
Net actuarial gain (loss)	—	—	—
Reclassification adjustments	0.3	(0.1)	0.2
Net gain (loss) recognized in other comprehensive income (loss)	0.3	(0.1)	0.2
Other comprehensive income (loss) attributable to CBI	\$ (104.6)	\$ 2.9	(101.7)
Comprehensive income (loss) attributable to CBI			\$ 1,791.6

	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
(in millions)			
<u>For the Three Months Ended August 31, 2019</u>			
Net income (loss) attributable to CBI			\$ (525.2)
Other comprehensive income (loss) attributable to CBI:			
Foreign currency translation adjustments:			
Net gain (loss)	\$ (76.5)	\$ —	(76.5)
Reclassification adjustments	—	—	—
Net gain (loss) recognized in other comprehensive income (loss)	(76.5)	—	(76.5)
Unrealized gain (loss) on cash flow hedges:			
Net derivative gain (loss)	(34.0)	2.1	(31.9)
Reclassification adjustments	(3.7)	—	(3.7)
Net gain (loss) recognized in other comprehensive income (loss)	(37.7)	2.1	(35.6)
Pension/postretirement adjustments:			
Net actuarial gain (loss)	(0.1)	—	(0.1)
Reclassification adjustments	0.1	—	0.1
Net gain (loss) recognized in other comprehensive income (loss)	—	—	—
Share of OCI of equity method investments			
Net gain (loss)	(11.8)	2.8	(9.0)
Reclassification adjustments	—	—	—
Net gain (loss) recognized in other comprehensive income (loss)	(11.8)	2.8	(9.0)
Other comprehensive income (loss) attributable to CBI	\$ (126.0)	\$ 4.9	(121.1)
Comprehensive income (loss) attributable to CBI			\$ (646.3)
<u>For the Three Months Ended August 31, 2018</u>			
Net income (loss) attributable to CBI			\$ 1,149.5
Other comprehensive income (loss) attributable to CBI:			
Foreign currency translation adjustments:			
Net gain (loss)	\$ 39.8	\$ —	39.8
Reclassification adjustments	—	—	—
Net gain (loss) recognized in other comprehensive income (loss)	39.8	—	39.8
Unrealized gain (loss) on cash flow hedges:			
Net derivative gain (loss)	49.9	(15.6)	34.3
Reclassification adjustments	0.2	(0.3)	(0.1)
Net gain (loss) recognized in other comprehensive income (loss)	50.1	(15.9)	34.2
Other comprehensive income (loss) attributable to CBI	\$ 89.9	\$ (15.9)	74.0
Comprehensive income (loss) attributable to CBI			\$ 1,223.5

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

	Foreign Currency Translation Adjustments	Net Unrealized Gain (Loss) on Derivative Instruments	Pension/ Postretirement Adjustments	Share of OCI of Equity Method Investments	Accumulated Other Comprehensive Income (Loss)
(in millions)					
Balance, February 28, 2019	\$ (406.5)	\$ 25.1	\$ (2.1)	\$ 29.6	\$ (353.9)
Other comprehensive income (loss):					
Other comprehensive income (loss) before reclassification adjustments	(58.2)	(34.6)	—	(23.4)	(116.2)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(6.6)	0.1	—	(6.5)
Other comprehensive income (loss)	(58.2)	(41.2)	0.1	(23.4)	(122.7)
Balance, August 31, 2019	\$ (464.7)	\$ (16.1)	\$ (2.0)	\$ 6.2	\$ (476.6)

18. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The following information sets forth the condensed consolidating balance sheets as of August 31, 2019, and February 28, 2019, the condensed consolidating statements of comprehensive income (loss) for the six months and three months ended August 31, 2019, and August 31, 2018, and the condensed consolidating statements of cash flows for the six months ended August 31, 2019, and August 31, 2018, 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 are 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 2019 Annual Report, and include the recently adopted accounting guidance described in Note 2 and Note 14 herein. There are no restrictions on the ability of the Subsidiary Guarantors to transfer funds to us in the form of cash dividends, loans, or advances.

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
(in millions)					
<u>Condensed Consolidating Balance Sheet at August 31, 2019</u>					
Current assets:					
Cash and cash equivalents	\$ 4.0	\$ 3.9	\$ 73.4	\$ —	\$ 81.3
Accounts receivable	488.0	409.6	56.1	—	953.7
Inventories	56.2	1,024.3	420.4	(189.5)	1,311.4
Intercompany receivable	29,836.0	35,676.9	20,272.7	(85,785.6)	—
Prepaid expenses and other	122.1	61.7	363.0	(21.7)	525.1
Assets held for sale - current	158.7	381.2	126.1	—	666.0
Total current assets	30,665.0	37,557.6	21,311.7	(85,996.8)	3,537.5
Property, plant, and equipment	66.9	633.2	4,441.5	—	5,141.6
Investments in subsidiaries	26,237.5	1,605.4	3,218.1	(31,061.0)	—
Goodwill	—	5,782.5	1,914.2	—	7,696.7
Intangible assets	—	271.2	2,515.8	—	2,787.0
Intercompany notes receivable	2,764.6	—	559.0	(3,323.6)	—
Equity method investments	—	0.5	3,003.3	—	3,003.8
Securities measured at fair value	—	—	1,572.2	—	1,572.2
Deferred income taxes	64.6	—	2,191.6	(109.4)	2,146.8
Assets held for sale	30.2	859.6	129.3	—	1,019.1
Other assets	29.3	340.7	280.4	—	650.4
Total assets	\$ 59,858.1	\$ 47,050.7	\$ 41,137.1	\$ (120,490.8)	\$ 27,555.1
Current liabilities:					
Short-term borrowings	\$ 150.9	\$ —	\$ —	\$ —	\$ 150.9
Current maturities of long-term debt	624.2	11.7	0.2	—	636.1
Accounts payable	47.3	212.3	349.0	—	608.6
Intercompany payable	34,441.2	32,851.1	18,493.3	(85,785.6)	—
Other accrued expenses and liabilities	376.2	300.4	172.7	(49.0)	800.3
Total current liabilities	35,639.8	33,375.5	19,015.2	(85,834.6)	2,195.9
Long-term debt, less current maturities	12,146.5	12.9	0.4	—	12,159.8
Intercompany notes payable	653.0	2,241.9	428.7	(3,323.6)	—
Deferred income taxes and other liabilities	41.3	848.4	728.1	(109.4)	1,508.4
Total liabilities	48,480.6	36,478.7	20,172.4	(89,267.6)	15,864.1
CBI stockholders' equity	11,377.5	10,572.0	20,651.2	(31,223.2)	11,377.5
Noncontrolling interests	—	—	313.5	—	313.5
Total stockholders' equity	11,377.5	10,572.0	20,964.7	(31,223.2)	11,691.0
Total liabilities and stockholders' equity	\$ 59,858.1	\$ 47,050.7	\$ 41,137.1	\$ (120,490.8)	\$ 27,555.1

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
(in millions)					
<u>Condensed Consolidating Balance Sheet at February 28, 2019</u>					
Current assets:					
Cash and cash equivalents	\$ 11.0	\$ 2.6	\$ 80.0	\$ —	\$ 93.6
Accounts receivable	435.6	370.6	40.7	—	846.9
Inventories	197.7	1,485.4	609.9	(162.6)	2,130.4
Intercompany receivable	29,712.5	33,775.4	20,050.6	(83,538.5)	—
Prepaid expenses and other	89.9	78.1	446.7	(1.6)	613.1
Total current assets	30,446.7	35,712.1	21,227.9	(83,702.7)	3,684.0
Property, plant, and equipment	85.3	786.8	4,395.2	—	5,267.3
Investments in subsidiaries	26,533.8	1,599.6	2,982.1	(31,115.5)	—
Goodwill	—	6,185.5	1,903.3	—	8,088.8
Intangible assets	—	605.0	2,593.1	—	3,198.1
Intercompany notes receivable	3,218.6	—	38.6	(3,257.2)	—
Equity method investments	—	1.7	3,463.9	—	3,465.6
Securities measured at fair value	—	—	3,234.7	—	3,234.7
Deferred income taxes	69.2	—	2,183.3	(69.2)	2,183.3
Other assets	17.3	1.1	91.3	—	109.7
Total assets	\$ 60,370.9	\$ 44,891.8	\$ 42,113.4	\$ (118,144.6)	\$ 29,231.5
Current liabilities:					
Short-term borrowings	\$ 732.5	\$ —	\$ 59.0	\$ —	\$ 791.5
Current maturities of long-term debt	1,052.8	12.2	0.2	—	1,065.2
Accounts payable	59.6	141.3	415.8	—	616.7
Intercompany payable	33,787.6	31,428.9	18,322.0	(83,538.5)	—
Other accrued expenses and liabilities	374.3	184.0	156.6	(24.5)	690.4
Total current liabilities	36,006.8	31,766.4	18,953.6	(83,563.0)	3,163.8
Long-term debt, less current maturities	11,743.4	16.0	0.4	—	11,759.8
Intercompany notes payable	38.5	2,694.4	524.3	(3,257.2)	—
Deferred income taxes and other liabilities	31.2	540.5	955.9	(56.9)	1,470.7
Total liabilities	47,819.9	35,017.3	20,434.2	(86,877.1)	16,394.3
CBI stockholders' equity	12,551.0	9,874.5	21,393.0	(31,267.5)	12,551.0
Noncontrolling interests	—	—	286.2	—	286.2
Total stockholders' equity	12,551.0	9,874.5	21,679.2	(31,267.5)	12,837.2
Total liabilities and stockholders' equity	\$ 60,370.9	\$ 44,891.8	\$ 42,113.4	\$ (118,144.6)	\$ 29,231.5

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
(in millions)					
<u>Condensed Consolidating Statement of Comprehensive Income (Loss) for the Six Months Ended August 31, 2019</u>					
Sales	\$ 1,366.7	\$ 4,126.1	\$ 2,307.3	\$ (2,944.2)	\$ 4,855.9
Excise taxes	(168.4)	(240.3)	(6.0)	—	(414.7)
Net sales	1,198.3	3,885.8	2,301.3	(2,944.2)	4,441.2
Cost of product sold	(934.4)	(3,057.4)	(1,143.2)	2,908.4	(2,226.6)
Gross profit	263.9	828.4	1,158.1	(35.8)	2,214.6
Selling, general, and administrative expenses	(235.3)	(535.8)	(110.9)	9.6	(872.4)
Operating income (loss)	28.6	292.6	1,047.2	(26.2)	1,342.2
Equity in earnings (losses) of equity method investees and subsidiaries and related activities	(541.2)	5.3	(352.0)	299.3	(588.6)
Unrealized net gain (loss) on securities measured at fair value	—	—	(1,666.6)	—	(1,666.6)
Net gain (loss) on sale of unconsolidated investment	—	—	(0.1)	—	(0.1)
Interest income	0.5	0.3	8.4	—	9.2
Intercompany interest income	109.2	185.7	170.8	(465.7)	—
Interest expense	(233.9)	(0.5)	(1.0)	—	(235.4)
Intercompany interest expense	(219.1)	(48.6)	(198.0)	465.7	—
Loss on extinguishment of debt	(2.4)	—	—	—	(2.4)
Income (loss) before income taxes	(858.3)	434.8	(991.3)	273.1	(1,141.7)
(Provision for) benefit from income taxes	87.7	(100.4)	396.1	4.2	387.6
Net income (loss)	(770.6)	334.4	(595.2)	277.3	(754.1)
Net income (loss) attributable to noncontrolling interests	—	—	(16.5)	—	(16.5)
Net income (loss) attributable to CBI	\$ (770.6)	\$ 334.4	\$ (611.7)	\$ 277.3	\$ (770.6)
Comprehensive income (loss) attributable to CBI	\$ (893.3)	\$ 333.7	\$ (742.5)	\$ 408.8	\$ (893.3)
<u>Condensed Consolidating Statement of Comprehensive Income (Loss) for the Six Months Ended August 31, 2018</u>					
Sales	\$ 1,491.2	\$ 3,993.9	\$ 2,004.7	\$ (2,734.1)	\$ 4,755.7
Excise taxes	(179.7)	(223.6)	(6.2)	—	(409.5)
Net sales	1,311.5	3,770.3	1,998.5	(2,734.1)	4,346.2
Cost of product sold	(1,034.8)	(2,820.2)	(1,015.1)	2,740.7	(2,129.4)
Gross profit	276.7	950.1	983.4	6.6	2,216.8
Selling, general, and administrative expenses	(271.6)	(452.1)	(114.2)	11.5	(826.4)
Operating income (loss)	5.1	498.0	869.2	18.1	1,390.4
Equity in earnings (losses) of equity method investees and subsidiaries and related activities	2,145.9	(26.0)	326.7	(2,444.0)	2.6
Unrealized net gain (loss) on securities measured at fair value	—	—	950.4	—	950.4
Net gain (loss) on sale of unconsolidated investment	—	—	99.8	—	99.8
Interest income	0.1	—	3.4	—	3.5
Intercompany interest income	135.3	321.5	2.4	(459.2)	—
Interest expense	(164.6)	(0.5)	(14.2)	—	(179.3)
Intercompany interest expense	(271.0)	(99.0)	(89.2)	459.2	—
Income (loss) before income taxes	1,850.8	694.0	2,148.5	(2,425.9)	2,267.4
(Provision for) benefit from income taxes	42.5	(167.9)	(246.4)	2.0	(369.8)
Net income (loss)	1,893.3	526.1	1,902.1	(2,423.9)	1,897.6
Net income (loss) attributable to noncontrolling interests	—	—	(4.3)	—	(4.3)
Net income (loss) attributable to CBI	\$ 1,893.3	\$ 526.1	\$ 1,897.8	\$ (2,423.9)	\$ 1,893.3
Comprehensive income (loss) attributable to CBI	\$ 1,791.6	\$ 525.5	\$ 1,796.3	\$ (2,321.8)	\$ 1,791.6

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
(in millions)					
<u>Condensed Consolidating Statement of Comprehensive Income (Loss) for the Three Months Ended August 31, 2019</u>					
Sales	\$ 737.5	\$ 2,194.2	\$ 1,121.4	\$ (1,479.7)	\$ 2,573.4
Excise taxes	(91.5)	(134.9)	(3.0)	—	(229.4)
Net sales	646.0	2,059.3	1,118.4	(1,479.7)	2,344.0
Cost of product sold	(513.8)	(1,606.7)	(557.1)	1,519.5	(1,158.1)
Gross profit	132.2	452.6	561.3	39.8	1,185.9
Selling, general, and administrative expenses	(122.2)	(272.1)	(77.0)	4.9	(466.4)
Operating income (loss)	10.0	180.5	484.3	44.7	719.5
Equity in earnings (losses) of equity method investees and subsidiaries and related activities	(401.9)	0.2	(350.7)	266.8	(485.6)
Unrealized net gain (loss) on securities measured at fair value	—	—	(839.1)	—	(839.1)
Interest income	0.5	0.3	4.1	—	4.9
Intercompany interest income	70.3	94.8	168.8	(333.9)	—
Interest expense	(115.9)	(0.2)	(0.4)	—	(116.5)
Intercompany interest expense	(130.5)	(22.2)	(181.2)	333.9	—
Loss on extinguishment of debt	(2.4)	—	—	—	(2.4)
Income (loss) before income taxes	(569.9)	253.4	(714.2)	311.5	(719.2)
(Provision for) benefit from income taxes	44.7	(60.1)	226.4	(8.8)	202.2
Net income (loss)	(525.2)	193.3	(487.8)	302.7	(517.0)
Net income (loss) attributable to noncontrolling interests	—	—	(8.2)	—	(8.2)
Net income (loss) attributable to CBI	<u>\$ (525.2)</u>	<u>\$ 193.3</u>	<u>\$ (496.0)</u>	<u>\$ 302.7</u>	<u>\$ (525.2)</u>
Comprehensive income (loss) attributable to CBI	<u>\$ (646.3)</u>	<u>\$ 192.9</u>	<u>\$ (616.2)</u>	<u>\$ 423.3</u>	<u>\$ (646.3)</u>
<u>Condensed Consolidating Statement of Comprehensive Income (Loss) for the Three Months Ended August 31, 2018</u>					
Sales	\$ 808.6	\$ 2,112.7	\$ 997.1	\$ (1,392.7)	\$ 2,525.7
Excise taxes	(100.9)	(122.7)	(3.0)	—	(226.6)
Net sales	707.7	1,990.0	994.1	(1,392.7)	2,299.1
Cost of product sold	(548.0)	(1,498.1)	(516.8)	1,432.0	(1,130.9)
Gross profit	159.7	491.9	477.3	39.3	1,168.2
Selling, general, and administrative expenses	(130.3)	(213.4)	(64.7)	5.2	(403.2)
Operating income (loss)	29.4	278.5	412.6	44.5	765.0
Equity in earnings (losses) of equity method investees and subsidiaries and related activities	1,235.3	(13.5)	179.5	(1,403.4)	(2.1)
Unrealized net gain (loss) on securities measured at fair value	—	—	692.1	—	692.1
Net gain (loss) on sale of unconsolidated investment	—	—	(1.6)	—	(1.6)
Interest income	0.1	—	3.0	—	3.1
Intercompany interest income	67.7	162.7	1.5	(231.9)	—
Interest expense	(84.3)	(0.2)	(6.6)	—	(91.1)
Intercompany interest expense	(137.4)	(49.5)	(45.0)	231.9	—
Income (loss) before income taxes	1,110.8	378.0	1,235.5	(1,358.9)	1,365.4
(Provision for) benefit from income taxes	38.7	(91.0)	(150.3)	(11.5)	(214.1)
Net income (loss)	1,149.5	287.0	1,085.2	(1,370.4)	1,151.3
Net income (loss) attributable to noncontrolling interests	—	—	(1.8)	—	(1.8)
Net income (loss) attributable to CBI	<u>\$ 1,149.5</u>	<u>\$ 287.0</u>	<u>\$ 1,083.4</u>	<u>\$ (1,370.4)</u>	<u>\$ 1,149.5</u>
Comprehensive income (loss) attributable to CBI	<u>\$ 1,223.5</u>	<u>\$ 287.0</u>	<u>\$ 1,158.1</u>	<u>\$ (1,445.1)</u>	<u>\$ 1,223.5</u>

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
(in millions)					
<u>Condensed Consolidating Statement of Cash Flows for the Six Months Ended August 31, 2019</u>					
Net cash provided by (used in) operating activities	\$ 430.0	\$ 9.8	\$ 1,062.8	\$ (83.2)	\$ 1,419.4
Cash flows from investing activities:					
Purchases of property, plant, and equipment	(24.9)	(34.8)	(295.5)	—	(355.2)
Purchases of businesses, net of cash acquired	—	—	(36.2)	—	(36.2)
Investments in equity method investees and securities	—	—	(33.0)	—	(33.0)
Net proceeds from (repayments of) intercompany notes	(309.2)	—	—	309.2	—
Net contributions from (investment in) equity affiliates	(85.4)	—	—	85.4	—
Other investing activities	0.2	0.1	(1.6)	—	(1.3)
Net cash provided by (used in) investing activities	(419.3)	(34.7)	(366.3)	394.6	(425.7)
Cash flows from financing activities:					
Dividends paid to parent company	—	—	(109.7)	109.7	—
Net contributions from (investment in) equity affiliates	—	—	111.9	(111.9)	—
Net proceeds from (repayments of) intercompany notes	901.4	47.5	(639.7)	(309.2)	—
Principal payments of long-term debt	(1,318.8)	(7.6)	(5.1)	—	(1,331.5)
Net proceeds from (repayments of) short-term borrowings	(581.5)	—	(59.0)	—	(640.5)
Dividends paid	(285.0)	—	—	—	(285.0)
Purchases of treasury stock	(50.0)	—	—	—	(50.0)
Payments of minimum tax withholdings on stock-based payment awards	—	(13.7)	(0.5)	—	(14.2)
Payments of debt issuance costs	(8.0)	—	—	—	(8.0)
Proceeds from issuance of long-term debt	1,291.3	—	—	—	1,291.3
Proceeds from shares issued under equity compensation plans	32.9	—	—	—	32.9
Net cash provided by (used in) financing activities	(17.7)	26.2	(702.1)	(311.4)	(1,005.0)
Effect of exchange rate changes on cash and cash equivalents	—	—	(1.0)	—	(1.0)
Net increase (decrease) in cash and cash equivalents	(7.0)	1.3	(6.6)	—	(12.3)
Cash and cash equivalents, beginning of period	11.0	2.6	80.0	—	93.6
Cash and cash equivalents, end of period	\$ 4.0	\$ 3.9	\$ 73.4	\$ —	\$ 81.3

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
(in millions)					
<u>Condensed Consolidating Statement of Cash Flows for the Six Months Ended August 31, 2018</u>					
Net cash provided by (used in) operating activities	\$ (84.4)	\$ 778.1	\$ 644.8	\$ —	\$ 1,338.5
Cash flows from investing activities:					
Purchases of property, plant, and equipment	(15.5)	(58.2)	(296.9)	—	(370.6)
Purchases of businesses, net of cash acquired	—	(19.5)	(0.7)	—	(20.2)
Investments in equity method investees and securities	—	—	(152.1)	—	(152.1)
Proceeds from sale of unconsolidated investment	—	—	110.2	—	110.2
Proceeds from sales of assets	0.3	38.3	6.1	—	44.7
Net proceeds from (repayments of) intercompany notes	456.5	—	—	(456.5)	—
Net contributions from (investment in) equity affiliates	(15.8)	(11.1)	—	26.9	—
Other investing activities	—	—	(0.8)	—	(0.8)
Net cash provided by (used in) investing activities	425.5	(50.5)	(334.2)	(429.6)	(388.8)
Cash flows from financing activities:					
Dividends paid to parent company	—	—	(29.5)	29.5	—
Net contributions from (investment in) equity affiliates	—	32.7	23.7	(56.4)	—
Net proceeds from (repayments of) intercompany notes	57.6	(740.3)	226.2	456.5	—
Principal payments of long-term debt	(4.5)	(8.5)	(10.5)	—	(23.5)
Net proceeds from (repayments of) short-term borrowings	381.7	—	(414.1)	—	(32.4)
Dividends paid	(279.1)	—	—	—	(279.1)
Purchases of treasury stock	(504.3)	—	—	—	(504.3)
Payments of minimum tax withholdings on stock-based payment awards	—	(12.7)	(0.8)	—	(13.5)
Payments of debt issuance costs	(13.6)	—	—	—	(13.6)
Proceeds from issuance of long-term debt	—	—	12.0	—	12.0
Proceeds from shares issued under equity compensation plans	21.5	—	—	—	21.5
Net cash provided by (used in) financing activities	(340.7)	(728.8)	(193.0)	429.6	(832.9)
Effect of exchange rate changes on cash and cash equivalents	—	—	(1.0)	—	(1.0)
Net increase (decrease) in cash and cash equivalents	0.4	(1.2)	116.6	—	115.8
Cash and cash equivalents, beginning of period	4.6	4.4	81.3	—	90.3
Cash and cash equivalents, end of period	\$ 5.0	\$ 3.2	\$ 197.9	\$ —	\$ 206.1

19. BUSINESS SEGMENT INFORMATION

Through February 28, 2019, our internal management financial reporting consisted of two business divisions: (i) Beer and (ii) Wine and Spirits. Beginning March 1, 2019, as a result of our November 2018 Canopy Investment and a change in our chief operating decision maker (“CODM”) on March 1, 2019, we have changed our internal management financial reporting to consist of three business divisions: (i) Beer, (ii) Wine and Spirits, and (iii) Canopy. Consequently, beginning with the first quarter of fiscal 2020, we report our operating results in four segments: (i) Beer, (ii) Wine and Spirits, (iii) Corporate Operations and Other, and (iv) Canopy. The Canopy Equity Method Investment makes up the Canopy segment.

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 portfolio that includes higher-margin, higher-growth wine brands complemented by certain higher-end spirits brands. Amounts included in the Corporate Operations and Other segment consist of costs of executive management, corporate development, corporate finance, corporate growth and strategy, human resources, internal audit, investor relations, legal, public relations, and information technology, as well as our investments made through our corporate venture capital function. All costs 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 CODM’s evaluation of the operating income (loss) 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. Long-lived tangible assets and total asset information by segment is not provided to, or reviewed by, our CODM as it is not used to make strategic decisions, allocate resources, or assess performance.

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 Six Months Ended August 31,		For the Three Months Ended August 31,	
	2019	2018	2019	2018
(in millions)				
<u>Cost of product sold</u>				
Strategic business development costs	\$ (62.5)	\$ —	\$ (18.0)	\$ —
Settlements of undesignated commodity derivative contracts	(48.4)	(5.1)	(18.4)	(3.6)
Accelerated depreciation	(5.3)	(5.0)	(1.8)	(1.6)
Flow through of inventory step-up	(1.2)	(1.4)	(0.8)	(0.8)
Net gain (loss) on undesignated commodity derivative contracts	26.8	9.6	10.9	(5.8)
Recovery of (loss on) inventory write-down	8.6	(1.5)	8.6	—
Total cost of product sold	(82.0)	(3.4)	(19.5)	(11.8)
<u>Selling, general, and administrative expenses</u>				
Net gain (loss) on foreign currency derivative contracts associated with acquisition of investment	—	(7.1)	—	(7.1)
Restructuring and other strategic business development costs	(50.1)	(8.6)	(26.5)	(4.3)
Transaction, integration, and other acquisition-related costs	(5.5)	(1.0)	(3.2)	(1.0)
Impairment of intangible assets	(11.0)	—	(11.0)	—
Deferred compensation	—	(16.3)	—	—
Other gains (losses) (1)	1.1	8.5	(12.3)	8.5
Total selling, general, and administrative expenses	(65.5)	(24.5)	(53.0)	(3.9)
Comparable Adjustments, Operating income (loss)	\$ (147.5)	\$ (27.9)	\$ (72.5)	\$ (15.7)

(1) Includes a gain of \$11.8 million for the six months ended August 31, 2019, in connection with the increase in our ownership interest in Nelson's Green Brier and a loss of \$11.4 million and \$13.3 million for the six months and three months ended August 31, 2019, respectively, in connection with an increase in estimated fair value of a contingent liability associated with a prior period acquisition.

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 2019 Annual Report, and include the recently adopted accounting guidance described in Note 2 and Note 14 herein. Amounts included below for the Canopy segment represent 100% of Canopy's reported results on a two-month lag, prepared in accordance with U.S. GAAP, and converted from Canadian dollars to U.S. dollars. Although we own less than 100% of the outstanding shares of Canopy, 100% of the Canopy results are included in the information below and subsequently eliminated in order to reconcile to our consolidated financial statements. Segment information is as follows:

	For the Six Months Ended August 31,		For the Three Months Ended August 31,	
	2019	2018	2019	2018
(in millions)				
<u>Beer</u>				
Net sales	\$ 3,117.8	\$ 2,902.2	\$ 1,640.4	\$ 1,527.1
Segment operating income (loss)	\$ 1,265.9	\$ 1,150.6	\$ 685.3	\$ 630.6
Capital expenditures	\$ 272.8	\$ 296.3	\$ 170.7	\$ 159.8
Depreciation and amortization	\$ 106.2	\$ 100.5	\$ 51.9	\$ 51.0
<u>Wine and Spirits</u>				
Net sales:				
Wine	\$ 1,146.1	\$ 1,262.8	\$ 611.1	\$ 671.0
Spirits	177.3	181.2	92.5	101.0
Net sales	\$ 1,323.4	\$ 1,444.0	\$ 703.6	\$ 772.0
Segment operating income (loss)	\$ 321.2	\$ 369.2	\$ 160.4	\$ 201.4
Income (loss) from unconsolidated investments	\$ 3.0	\$ 3.8	\$ (1.0)	\$ (1.0)
Equity method investments	\$ 76.8	\$ 79.1	\$ 76.8	\$ 79.1
Capital expenditures	\$ 43.1	\$ 58.8	\$ 16.2	\$ 31.0
Depreciation and amortization	\$ 50.0	\$ 49.2	\$ 25.0	\$ 24.8
<u>Corporate Operations and Other</u>				
Segment operating income (loss)	\$ (97.4)	\$ (101.5)	\$ (53.7)	\$ (51.3)
Income (loss) from unconsolidated investments	\$ (1.3)	\$ (1.2)	\$ (0.2)	\$ (1.1)
Equity method investments	\$ 81.0	\$ 41.2	\$ 81.0	\$ 41.2
Capital expenditures	\$ 39.3	\$ 15.5	\$ 12.6	\$ 11.6
Depreciation and amortization	\$ 10.5	\$ 17.1	\$ 5.2	\$ 8.7
<u>Canopy</u>				
Net sales	\$ 138.4	NA	\$ 67.7	NA
Segment operating income (loss)	\$ (330.5)	NA	\$ (160.5)	NA
Capital expenditures	\$ 270.6	NA	\$ 158.4	NA
Depreciation and amortization	\$ 35.0	NA	\$ 17.4	NA
<u>Consolidation and Eliminations</u>				
Net sales	\$ (138.4)	\$ —	\$ (67.7)	\$ —
Operating income (loss)	\$ 330.5	\$ —	\$ 160.5	\$ —
Income (loss) from unconsolidated investments	\$ (109.1)	\$ —	\$ (54.7)	\$ —
Equity method investments	\$ 2,846.0	\$ —	\$ 2,846.0	\$ —
Capital expenditures	\$ (270.6)	\$ —	\$ (158.4)	\$ —
Depreciation and amortization	\$ (35.0)	\$ —	\$ (17.4)	\$ —

	For the Six Months Ended August 31,		For the Three Months Ended August 31,	
	2019	2018	2019	2018
(in millions)				
<u>Comparable Adjustments</u>				
Operating income (loss)	\$ (147.5)	\$ (27.9)	\$ (72.5)	\$ (15.7)
Income (loss) from unconsolidated investments	\$ (2,147.9)	\$ 1,050.2	\$ (1,268.8)	\$ 690.5
Depreciation and amortization	\$ 5.3	\$ 5.0	\$ 1.8	\$ 1.6
<u>Consolidated</u>				
Net sales	\$ 4,441.2	\$ 4,346.2	\$ 2,344.0	\$ 2,299.1
Operating income (loss)	\$ 1,342.2	\$ 1,390.4	\$ 719.5	\$ 765.0
Income (loss) from unconsolidated investments (1)	\$ (2,255.3)	\$ 1,052.8	\$ (1,324.7)	\$ 688.4
Equity method investments	\$ 3,003.8	\$ 120.3	\$ 3,003.8	\$ 120.3
Capital expenditures	\$ 355.2	\$ 370.6	\$ 199.5	\$ 202.4
Depreciation and amortization	\$ 172.0	\$ 171.8	\$ 83.9	\$ 86.1

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

	For the Six Months Ended		For the Three Months Ended	
	August 31, 2019	August 31, 2018	August 31, 2019	August 31, 2018
(in millions)				
Unrealized net gain (loss) on securities measured at fair value	\$ (1,666.6)	\$ 950.4	\$ (839.1)	\$ 692.1
Net gain (loss) on sale of unconsolidated investment (i)	(0.1)	99.8	—	(1.6)
Equity in earnings (losses) of equity method investees and related activities (ii)	(588.6)	2.6	(485.6)	(2.1)
	<u>\$ (2,255.3)</u>	<u>\$ 1,052.8</u>	<u>\$ (1,324.7)</u>	<u>\$ 688.4</u>

- (i) In May 2018, we completed the sale of our remaining interest in our previously-owned Australian and European business (the "Accolade Wine Investment") for A\$149.1 million, or \$113.6 million, subject to closing adjustments. We received cash proceeds, net of direct costs to sell, of \$110.2 million and a note receivable of \$3.4 million. This interest consisted of an investment accounted for under the cost method and available-for-sale debt securities.
- (ii) Includes the June 2019 Warrant Modification Loss.

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 2019 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 recent developments, significant investments, acquisitions, and divestitures.
- **Results of operations.** This section provides an analysis of our results of operations presented on a business segment basis for the three months ended August 31, 2019 ("Second Quarter 2020"), and August 31, 2018 ("Second Quarter 2019"), and the six months ended August 31, 2019 ("Six Months 2020"), and August 31, 2018 ("Six Months 2019"). In addition, a brief description of significant 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, outstanding debt, 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 higher-end wine and spirits brands. Many of our products are recognized as leaders in their respective categories. We are one of the leading U.S. growth drivers at retail among beverage alcohol suppliers. In the U.S. market, we are the third-largest beer company and a leading higher-end wine company.

Through February 28, 2019, our internal management financial reporting consisted of two business divisions: (i) Beer and (ii) Wine and Spirits. Beginning March 1, 2019, as a result of our November 2018 Canopy Investment and a change in our CODM on March 1, 2019, we have changed our internal management financial reporting to consist of three business divisions: (i) Beer, (ii) Wine and Spirits, and (iii) Canopy. Consequently, beginning with the first quarter of fiscal 2020, we report our operating results in four segments: (i) Beer, (ii) Wine and Spirits, (iii) Corporate Operations and Other, and (iv) Canopy. Our Canopy Equity Method Investment makes up the Canopy segment.

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, our portfolio includes higher-margin, higher-growth wine brands complemented by certain higher-end spirits brands. Amounts included in the Corporate Operations and Other segment consist of costs of executive management, corporate development, corporate finance, corporate growth and strategy, human resources, internal audit, investor relations, legal, public relations, and information technology, as well as our investments made through our corporate venture capital function. All costs 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 CODM's evaluation of the operating income (loss) performance of the other reportable segments. The new business segments reflect how our operations are managed, how resources are allocated, how operating performance is evaluated by senior management, and the structure of our internal financial reporting.

STRATEGY

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

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

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

Our business strategy for the Beer segment focuses on leading the high-end segment of the U.S. beer market and includes continued focus on growing our beer portfolio in the U.S. through expanding distribution for key brands, as well as new product development and innovation within the existing portfolio of brands, and continued expansion, construction, and optimization activities for our Mexico beer operations. Additionally, in an effort to more fully compete in growing sectors of the high-end segment of the U.S. beer market, we have made acquisitions of high-quality, regional craft beer brands and leveraged our innovation capabilities to introduce new brands that align with consumer trends.

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

Our business strategy for the Wine and Spirits segment is to build an industry-leading portfolio of higher-end wine and spirits brands. We are investing to meet the evolving needs of consumers; building

brands through consumer insights, sensory expertise, and innovation; and refreshing existing brands, as we continue to focus on moving our branded wine and spirits portfolio towards a higher-margin, higher-growth portfolio of brands. We dedicate a large share of our sales and marketing resources to well-known wine and spirits brands sold in the U.S., which comprise the U.S. Power Brands (“Power Brands”), as they represent a majority of our U.S. wine and spirits revenue and profitability, and generally hold strong positions in their respective price categories. These brands and/or portfolio of brands include:

Wine Brands		Wine Portfolio of Brands		Spirits Brands
• 7 Moons	• Drylands	• SIMI	• Charles Smith	• Casa Noble
• Auros	• Kim Crawford	• Spoken Barrel	• Prisoner	• High West
• Champagne Palmer & Co	• Meiomi		• Robert Mondavi	• Mi CAMPO
• Cooper & Thief	• Mount Veeder		• Schrader	• Nelson's Green Brier
• Crafters Union	• Nobilo			• SVEDKA
• Cuvée Sauvage	• Ruffino			• The Real McCoy

We focus our innovation and investment dollars on those brands within our portfolio which position us to benefit from the consumer-led trend towards premiumization. Additionally, in connection with the Wine and Spirits Transaction and the Black Velvet Transaction, we expect to optimize the value of our wine and spirits portfolio by driving increased focus on our higher-end Power Brands to accelerate growth and improve overall operating margins. In markets where it is feasible, we entered into contractual arrangements to consolidate our U.S. distribution network in order to obtain dedicated distributor selling resources which focus on our U.S. wine and spirits portfolio to drive organic growth. This consolidated U.S. distribution network currently represents about 70% of our branded wine and spirits volume in the U.S. Throughout the terms of these contracts, we generally expect shipments on an annual basis to these distributors to essentially equal the distributors' shipments to retailers.

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

We complemented our total beverage alcohol strategy in an adjacent category by making investments in Canopy, a world-leading, diversified cannabis company. These investments are consistent with our long-term strategy to identify, meet, and stay ahead of evolving consumer trends and market dynamics, and they represent a significant expansion of our strategic relationship to position Canopy as a global leader in cannabis production, branding, intellectual property, and retailing.

We remain committed to our long-term financial model of growing sales, expanding margins, and increasing cash flow in order to achieve earnings per share growth, maintain our targeted leverage ratio, and deliver returns to shareholders through the payment of quarterly cash dividends and periodic share repurchases.

Recent Developments

Wine and Spirits Transaction

In April 2019, we entered into a definitive agreement to sell a portion of our wine and spirits business, including approximately 30 lower-margin, lower-growth wine and spirits brands, wineries, vineyards, offices, and facilities, for approximately \$1.7 billion, subject to certain adjustments. The Wine and Spirits Transaction is subject to the satisfaction of certain closing conditions, including receipt of required regulatory approval, and is expected to close by the end of Fiscal 2020. We expect to use the net cash proceeds from this transaction primarily to reduce outstanding borrowings. The Wine and Spirits

Transaction is consistent with our strategic focus on higher-margin, higher-growth brands. For additional information regarding the Wine and Spirits Transaction, refer to Note 4 of the Financial Statements.

We now believe it is likely that a portion of the Wine and Spirits Transaction purchase price may be revised to take the form of contingent consideration, receivable based on future brand performance. We record contingent consideration when it is determined to be realizable. Therefore, we now expect to recognize an additional loss of approximately \$300 million on the write-down of assets held for sale during the three months ended November 30, 2019.

In connection with the Wine and Spirits Transaction, we have net assets of \$1,444.4 million that have met the held for sale criteria as of August 31, 2019.

Black Velvet Transaction

In August 2019, we entered into a definitive agreement to sell Black Velvet Canadian Whisky and the brand's associated production facility, along with a subset of Canadian whisky brands produced at that facility. We expect to receive cash proceeds of approximately \$266 million, subject to closing adjustments and to recognize a gain of approximately \$70 million to \$80 million upon closing. The Black Velvet Transaction is subject to the satisfaction of certain closing conditions, including receipt of required regulatory approvals, and is expected to close in the fourth quarter of calendar 2019. This transaction is consistent with our strategic focus on higher-margin, higher-growth brands. For additional information regarding the Black Velvet Transaction, refer to Note 4 of the Financial Statements.

In connection with the Black Velvet Transaction, we have net assets of \$201.1 million that have met the held for sale criteria as of August 31, 2019.

Selected financial information included in our results of operations for the portion of the Wine and Spirits segment that will no longer be part of our consolidated results after the Wine and Spirits Transaction and Black Velvet Transaction is as follows:

	Net Sales		Gross Profit		Marketing
(in millions)					
<u>Second Quarter 2020</u>					
Wine and Spirits segment results	\$ 263.7		\$ 96.9		\$ 4.3
<u>Six Months 2020</u>					
Wine and Spirits segment results	\$ 522.1		\$ 199.0		\$ 7.4

Investments and Acquisitions

Canopy Segment Canopy Investments

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

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

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

Date of Investment	Investment	Second Quarter 2020	Second Quarter 2019	Six Months 2020	Six Months 2019
(in millions)					
Nov 2017	Common shares (1)	\$ —	\$ 328.1	\$ —	\$ 461.0
Nov 2017	Warrants	(316.7)	310.5	(450.8)	435.9
June 2018	Convertible debt securities	(48.8)	53.5	(81.4)	53.5
Nov 2018	Warrants (3)	(473.6)	—	(1,134.4)	—
		<u>\$ (839.1)</u>	<u>\$ 692.1</u>	<u>\$ (1,666.6)</u>	<u>\$ 950.4</u>

(1) Accounted for at fair value from the date of investment in November 2017 through October 31, 2018. Accounted for under the equity method from November 1, 2018 (see Note 9 of the Financial Statements).

(2) Includes \$17.2 million of direct acquisition costs capitalized under the equity method cost accumulation model. Excludes \$7.3 million of direct acquisition costs associated with the investment in warrants which are expensed as incurred in selling, general, and administrative expenses.

(3) In June 2019, the Canopy Shareholders approved the modification of the terms of the November 2018 Canopy Warrants. For additional information refer to Note 9 of the Financial Statements. Second Quarter 2020 and Six Months 2020 includes a \$1,176.0 million unrealized gain resulting from the June 2019 Warrant Modification.

We expect the value of the Canopy investments accounted for at fair value to be volatile in future periods. Additionally, since November 1, 2018, we recognize equity in earnings (losses) and related activities for our Canopy Equity Method Investment on a two-month lag. Accordingly, we recognized our share of Canopy's first quarter fiscal 2020 earnings (losses) and related activities for the period April through June 2019, in our Second Quarter 2020 results. We recognized our share of Canopy's fourth quarter fiscal 2019 and first quarter fiscal 2020 earnings (losses) and related activities from January through June 2019, in our Six Months 2020 results. We expect Canopy's earnings to be volatile in future periods.

As of August 31, 2019, the conversion of Canopy equity securities held by its employees and/or held by other third parties would not have a significant effect on our share of Canopy's reported earnings or losses. Additionally, under an amended and restated investor rights agreement, we have the option to purchase additional common shares of Canopy at the then-current price of the underlying equity security to allow us to maintain our relative ownership interest. As of August 31, 2019, if Canopy exercised its right to acquire the shares of Acreage, and we were to exercise all of our outstanding November 2017 Canopy Warrants and the New November 2018 Canopy Warrants, our ownership interest in Canopy would still be less than 50 percent.

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

Beer Segment

Four Corners Acquisition

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

Wine and Spirits Segment

Nelson's Green Brier Acquisition

In May 2019, we increased our ownership interest in Nelson's Green Brier to 75%, resulting in consolidation of the business and recognition of a noncontrolling interest. This acquisition included a portfolio of award-winning, Tennessee-based craft bourbon and whiskey products. The preliminary fair value of the business combination was allocated primarily to goodwill, trademarks, inventory, and property, plant, and equipment. The results of operations of Nelson's Green Brier 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 recent developments, investments, and acquisitions, refer to Notes 4, 6, 7, 9, and 19 of the Financial Statements.

RESULTS OF OPERATIONS

FINANCIAL HIGHLIGHTS

For Second Quarter 2020 and Second Quarter 2019:

- Our results of operations were negatively impacted by an unrealized net loss from the changes in fair value of our investments in Canopy and equity in losses from Canopy's results of operations, including the impact from the June 2019 Warrant Modification, and related activities, partially offset by (i) an unrealized gain resulting from the June 2019 modification of the terms of the November 2018 Canopy Warrants, and (ii) the continued improvements within the Beer segment.
- Net sales increased 2% due to an increase in Beer net sales driven predominantly by volume growth and a favorable impact from pricing within our Mexican beer portfolio, partially offset by a decrease in Wine and Spirits net sales led by branded volume decline.

- Operating income (loss) decreased 6% largely due to restructuring and other strategic business development costs incurred in connection with ongoing efforts to gain efficiencies and reduce our cost structure primarily within the Wine and Spirits segment, partially offset by the net sales volume growth and favorable impact from pricing within our Mexican beer portfolio.
- Net income (loss) attributable to CBI and diluted net income (loss) per common share attributable to CBI decreased significantly primarily due to a Second Quarter 2020 unrealized net loss on our investments in Canopy, as compared with an unrealized net gain from the changes in fair value on our investments for Second Quarter 2019.

For Six Months 2020 and Six Months 2019:

- Our results of operations were negatively impacted by an unrealized net loss from the changes in fair value of our investments in Canopy and equity in losses from Canopy's results of operations, including the impact from the June 2019 Warrant Modification, and related activities, partially offset by (i) an unrealized gain resulting from the June 2019 modification of the terms of the November 2018 Canopy Warrants, and (ii) the continued improvements within the Beer segment.
- Net sales increased 2% primarily due to an increase in Beer net sales driven predominantly by volume growth and a favorable impact from pricing within our Mexican beer portfolio, partially offset by a decrease in Wine and Spirits net sales led by branded volume decline.
- Operating income (loss) decreased 3% largely due to restructuring and other strategic business development costs incurred in connection with ongoing efforts to gain efficiencies and reduce our cost structure primarily within the Wine and Spirits segment, partially offset by the net sales volume growth and favorable impact from pricing within our Mexican beer portfolio.
- Net income (loss) attributable to CBI and diluted net income (loss) per common share attributable to CBI decreased significantly primarily due to a Six Months 2020 unrealized net loss on our investments in Canopy, as compared with an unrealized net gain from the changes in fair value on our investments for Six Months 2019.

COMPARABLE ADJUSTMENTS

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

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

	Second Quarter 2020	Second Quarter 2019	Six Months 2020	Six Months 2019
(in millions)				
<u>Cost of product sold</u>				
Strategic business development costs	\$ (18.0)	\$ —	\$ (62.5)	\$ —
Settlements of undesignated commodity derivative contracts	(18.4)	(3.6)	(48.4)	(5.1)
Accelerated depreciation	(1.8)	(1.6)	(5.3)	(5.0)
Flow through of inventory step-up	(0.8)	(0.8)	(1.2)	(1.4)
Net gain (loss) on undesignated commodity derivative contracts	10.9	(5.8)	26.8	9.6
Recovery of (loss on) inventory write-down	8.6	—	8.6	(1.5)
Total cost of product sold	<u>(19.5)</u>	<u>(11.8)</u>	<u>(82.0)</u>	<u>(3.4)</u>
<u>Selling, general, and administrative expenses</u>				
Net gain (loss) on foreign currency derivative contracts associated with acquisition of investment	—	(7.1)	—	(7.1)
Restructuring and other strategic business development costs	(26.5)	(4.3)	(50.1)	(8.6)
Transaction, integration, and other acquisition-related costs	(3.2)	(1.0)	(5.5)	(1.0)
Impairment of intangible assets	(11.0)	—	(11.0)	—
Deferred compensation	—	—	—	(16.3)
Other gains (losses)	(12.3)	8.5	1.1	8.5
Total selling, general, and administrative expenses	<u>(53.0)</u>	<u>(3.9)</u>	<u>(65.5)</u>	<u>(24.5)</u>
Comparable Adjustments, Operating income (loss)	<u>\$ (72.5)</u>	<u>\$ (15.7)</u>	<u>\$ (147.5)</u>	<u>\$ (27.9)</u>
Income (loss) from unconsolidated investments	\$ (1,268.8)	\$ 690.5	\$ (2,147.9)	\$ 1,050.2

Cost of Product Sold

Strategic Business Development Costs

We recognized costs primarily in connection with losses on write-downs of excess inventory, bulk wine sales, and contract terminations resulting from our ongoing efforts to optimize our portfolio, gain efficiencies, and reduce our cost structure within the Wine and Spirits segment.

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.

Recovery of (Loss on) Inventory Write-Down

Reimbursement from our insurance carriers for losses recognized on the write-down of certain bulk wine inventory as a result of smoke damage sustained during the Fall 2017 California wildfires (Second Quarter 2020, Six Months 2020).

Selling, General, and Administrative Expenses

Restructuring and Other Strategic Business Development Costs

We recognized costs primarily in connection with (i) an impairment of long-lived assets held for sale (Second Quarter 2020, Six Months 2020) (ii) costs from our ongoing efforts to gain efficiencies and reduce our cost structure in connection with a program intended to optimize the Wine and Spirits segment (Second Quarter 2020, Six Months 2020), and (iii) costs recognized in connection with the development of a program specifically intended to identify opportunities for further streamlining of processes and improving capabilities, linking strategy with execution, prioritizing resources, and enabling a new enterprise resource planning system.

Transaction, Integration, and Other Acquisition-Related Costs

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

Impairment of Intangible Assets

We recorded trademark impairment losses related to our Beer segment's Ballast Point craft beer trademark asset. For additional information, refer to Note 6 of the Financial Statements.

Deferred Compensation

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

Other Gains (Losses)

We recognized other gains (losses) primarily in connection with (i) a gain on the remeasurement of our previously held equity interest in Nelson's Green Brier to the acquisition-date fair value (Six Months 2020), (ii) an increase in estimated fair value of a contingent liability associated with a prior period acquisition (Second Quarter 2020, Six Months 2020), and (iii) a gain primarily in connection with the sale of certain non-core assets (Second Quarter 2019, Six Months 2019).

Income (Loss) From Unconsolidated Investments

We recognized an unrealized gain (loss) primarily from (i) the changes in fair value of our securities measured at fair value (ii) the increase in fair value resulting from the June 2019 modification of the terms of the November 2018 Canopy Warrants (Second Quarter 2020, Six Months 2020), (iii) equity in losses from Canopy's results of operations, including the impact from the June 2019 Warrant Modification, and related activities (Second Quarter 2020, Six Months 2020), and (iv) a net gain in connection with the sale of our Accolade Wine Investment (Six Months 2019). For additional information, refer to Notes 6, 9, and 19 of the Financial Statements.

SECOND QUARTER 2020 COMPARED TO SECOND QUARTER 2019**Net Sales**

	Second Quarter 2020	Second Quarter 2019	Dollar Change	Percent Change
(in millions)				
Beer	\$ 1,640.4	\$ 1,527.1	\$ 113.3	7%
Wine and Spirits:				
Wine	611.1	671.0	(59.9)	(9%)
Spirits	92.5	101.0	(8.5)	(8%)
Total Wine and Spirits	703.6	772.0	(68.4)	(9%)
Canopy	67.7	NA	67.7	NM
Consolidation and Eliminations	(67.7)	—	(67.7)	NM
Consolidated net sales	\$ 2,344.0	\$ 2,299.1	\$ 44.9	2%

NM = Not Meaningful

Beer Segment

	Second Quarter 2020	Second Quarter 2019	Dollar Change	Percent Change
(in millions, branded product, 24-pack, 12-ounce case equivalents)				
Net sales	\$ 1,640.4	\$ 1,527.1	\$ 113.3	7%
Shipment volume	91.9	87.3		5.3%
Depletion volume (1)				6.2%

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

The increase in Beer net sales is primarily due to \$85.4 million of volume growth within our Mexican beer portfolio, which benefited from continued consumer demand, increased marketing spend, and new product introductions and a \$37.9 million favorable impact from pricing in select markets within our Mexican beer portfolio. The increase was partially offset by a decline in craft beer net sales. The shipment timing benefit that occurred at the end of Fiscal 2019 partially reversed in Second Quarter 2020.

Wine and Spirits Segment

	Second Quarter 2020	Second Quarter 2019	Dollar Change	Percent Change
(in millions, branded product, 9-liter case equivalents)				
Net sales	\$ 703.6	\$ 772.0	\$ (68.4)	(9%)
Shipment volume				
Total	14.4	16.0		(10.0%)
U.S. Domestic	13.5	14.8		(8.8%)
U.S. Domestic Power Brands	6.3	6.3		—%
Depletion volume (1)				
U.S. Domestic				(13.3%)
U.S. Domestic Power Brands				(3.8%)

The decrease in Wine and Spirits net sales is primarily due to a \$70.1 million decline in branded wine and spirits volume. The decrease in volume is partially attributable to timing as shipment volumes were accelerated for Second Quarter 2019 in advance of then expected continuing logistic and transportation constraints. The Wine and Spirits Second Quarter 2020 results have been negatively impacted by transition activities with distributors who are repositioning for ownership of brands upon closing the Wine and Spirits Transaction and the Black Velvet Transaction.

Canopy Segment

Our ownership interest in Canopy allows us to exercise significant influence, but not control, and, therefore, we account for our investment in Canopy under the equity method. Amounts included for the Canopy segment represent 100% of Canopy's reported results on a two-month lag, prepared in accordance with U.S. GAAP, and converted from Canadian dollars to U.S. dollars. Although we own less than 100% of the outstanding shares of Canopy, 100% of the Canopy results are included and subsequently eliminated in order to reconcile to our consolidated financial statements. See "Income (Loss) from Unconsolidated Investments" below for a discussion of Canopy's net sales, gross profit, selling, general, and administrative expenses, and operating income (loss).

Gross Profit

	Second Quarter 2020	Second Quarter 2019	Dollar Change	Percent Change
(in millions)				
Beer	\$ 913.3	\$ 843.4	\$ 69.9	8 %
Wine and Spirits	292.1	336.6	(44.5)	(13 %)
Canopy	9.8	NA	9.8	NM
Consolidation and Eliminations	(9.8)	—	(9.8)	NM
Comparable Adjustments	(19.5)	(11.8)	(7.7)	65 %
Consolidated gross profit	<u>\$ 1,185.9</u>	<u>\$ 1,168.2</u>	<u>\$ 17.7</u>	2 %

The increase in Beer is primarily due to \$47.7 million of volume growth and the \$37.9 million favorable impact from pricing, partially offset by higher cost of product sold for our Mexican beer business of \$6.2 million. The higher cost of product sold is predominately due to increased operational costs that included higher material costs, including glass and cartons. The decrease in Wine and Spirits is largely due to \$30.9 million of decline in branded wine and spirits volume and \$10.2 million higher cost of product sold. The higher cost of product sold is largely attributable to higher grape raw material and processing costs, as well as increased transportation costs.

Gross profit as a percent of net sales decreased slightly to 50.6% for Second Quarter 2020 compared with 50.8% for Second Quarter 2019. This was largely due to the higher cost of product sold within both the Beer and Wine and Spirits segments, which resulted in approximately 25 basis points and 40 basis points of rate decline, respectively and (ii) an unfavorable change of approximately 30 basis points in Comparable Adjustments. The rate declines were largely offset by the favorable impact from Beer pricing in select markets, which contributed approximately 75 basis points of rate growth.

Selling, General, and Administrative Expenses

	Second Quarter 2020	Second Quarter 2019	Dollar Change	Percent Change
(in millions)				
Beer	\$ 228.0	\$ 212.8	\$ 15.2	7 %
Wine and Spirits	131.7	135.2	(3.5)	(3 %)
Corporate Operations and Other	53.7	51.3	2.4	5 %
Canopy	170.3	NA	170.3	NM
Consolidation and Eliminations	(170.3)	—	(170.3)	NM
Comparable Adjustments	53.0	3.9	49.1	NM
Consolidated selling, general, and administrative expenses	<u>\$ 466.4</u>	<u>\$ 403.2</u>	<u>\$ 63.2</u>	16 %

The increase in Beer is primarily due to an increase of \$13.0 million in marketing spend. The increase in marketing spend is due largely to planned investment to support the growth of our Mexican beer portfolio, including support of the new product introductions.

The decrease in Wine and Spirits is primarily due to a decrease of \$7.5 million in general and administrative expenses, partially offset by an increase of \$3.9 million in marketing spend. The decrease in general and administrative expenses is largely driven by certain cost saving initiatives including decreased compensation and benefits. The increase in marketing spend is primarily attributable to planned national advertising campaigns.

The increase in Corporate Operations and Other is largely due to an increase in compensation and benefits as compared with Second Quarter 2019.

Selling, general, and administrative expenses as a percent of net sales increased to 19.9% for Second Quarter 2020 as compared with 17.5% for Second Quarter 2019. The increase is driven largely by (i) an unfavorable change of approximately 205 basis points in Comparable Adjustments and (ii) Wine and Spirits with approximately 35 basis points of rate increase as the decline in Wine and Spirits net sales exceeded the decline in Wine and Spirits selling, general, and administrative expenses.

Operating Income (Loss)

	Second Quarter 2020	Second Quarter 2019	Dollar Change	Percent Change
(in millions)				
Beer	\$ 685.3	\$ 630.6	\$ 54.7	9 %
Wine and Spirits	160.4	201.4	(41.0)	(20 %)
Corporate Operations and Other	(53.7)	(51.3)	(2.4)	(5 %)
Canopy	(160.5)	NA	(160.5)	NM
Consolidation and Eliminations	160.5	—	160.5	NM
Comparable Adjustments	(72.5)	(15.7)	(56.8)	NM
Consolidated operating income (loss)	<u>\$ 719.5</u>	<u>\$ 765.0</u>	<u>\$ (45.5)</u>	(6 %)

The increase in Beer is primarily attributable to the strong net sales growth and favorable pricing impact, partially offset by the planned increase in marketing spend. The decrease in Wine and Spirits was driven by the decline in branded wine and spirits volume and unfavorable cost of product sold, partially

offset by lower general and administrative costs. As previously discussed, the Corporate Operations and Other increase in operating loss is due largely to the increase in compensation and benefit costs.

Income (Loss) From Unconsolidated Investments

General

Income (loss) from unconsolidated investments decreased to \$(1,324.7) million for Second Quarter 2020 from \$688.4 million for Second Quarter 2019, a decrease of \$2,013.1 million. This decrease is driven largely by an unrealized net loss of \$839.1 for Second Quarter 2020, which consists of an unrealized net loss from the changes in fair value of our securities measured at fair value of \$2,015.1 million, partially offset by an unrealized gain of \$1,176.0 million from the June 2019 modification of the terms of the November 2018 Canopy Warrants, as compared with an unrealized net gain of \$692.1 million for Second Quarter 2019. Second Quarter 2020 also includes \$484.4 million of equity in losses from Canopy's results of operations, and related activities, including the \$409.0 million loss from the June 2019 Warrant Modification.

Canopy Segment

Canopy's Second Quarter 2020 net sales; gross profit; selling, general, and administrative expenses; and operating income (loss) are not comparable against Second Quarter 2019 due to the timing of the November 2018 Canopy Investment and Canopy becoming a segment on March 1, 2019.

Interest Expense

Interest expense increased to \$111.6 million for Second Quarter 2020 from \$88.0 million for Second Quarter 2019. This increase of \$23.6 million or 27% is predominantly due to higher average borrowings of approximately \$3.2 billion primarily attributable to the November 2018 Canopy Transaction.

(Provision For) Benefit From Income Taxes

Our effective tax rate for Second Quarter 2020 was 28.1% of tax benefit as compared with 15.7% of tax expense for Second Quarter 2019. The Second Quarter 2020 effective tax rate was significantly impacted by the net unrealized loss from the changes in fair value of our investments in Canopy, which has resulted in an overall net loss for the quarter. In comparison to prior year, our taxes benefited from:

- a higher effective rate of tax benefit from our foreign businesses including the tax benefits recorded on the net unrealized loss from the changes in fair value of our investments in Canopy and the tax benefits recorded on the Canopy equity in earnings (losses) and related activities; and
- a larger net income tax benefit from stock-based compensation award activity for Second Quarter 2020 from changes in option exercise activity and stock price.

For additional information, refer to Note 12 of the Financial Statements.

Net Income (Loss) Attributable to CBI

Net income (loss) attributable to CBI decreased to \$(525.2) million for Second Quarter 2020 from \$1,149.5 million for Second Quarter 2019. This decrease of \$1,674.7 million is largely attributable to the significant decrease in income from unconsolidated investments discussed above as well as the decline in operating performance from Wine and Spirits. These decreases were partially offset by solid operating performance from Beer contributing an additional \$54.7 million of operating income.

SIX MONTHS 2020 COMPARED TO SIX MONTHS 2019**Net Sales**

	Six Months 2020	Six Months 2019	Dollar Change	Percent Change
(in millions)				
Beer	\$ 3,117.8	\$ 2,902.2	\$ 215.6	7%
Wine and Spirits:				
Wine	1,146.1	1,262.8	(116.7)	(9%)
Spirits	177.3	181.2	(3.9)	(2%)
Total Wine and Spirits	1,323.4	1,444.0	(120.6)	(8%)
Canopy	138.4	NA	138.4	NM
Consolidation and Eliminations	(138.4)	—	(138.4)	NM
Consolidated net sales	\$ 4,441.2	\$ 4,346.2	\$ 95.0	2%

Beer Segment

	Six Months 2020	Six Months 2019	Dollar Change	Percent Change
(in millions, branded product, 24-pack, 12-ounce case equivalents)				
Net sales	\$ 3,117.8	\$ 2,902.2	\$ 215.6	7%
Shipment volume	174.0	165.2		5.3%
Depletion volume (1)				6.4%

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

The increase in Beer net sales is primarily due to \$165.3 million of volume growth within our Mexican beer portfolio, which benefited from continued consumer demand, increased marketing spend, and new product introductions, and a \$70.8 million favorable impact from pricing in select markets within our Mexican beer portfolio. The increase was partially offset by a decline in craft beer net sales. In Second Quarter 2020, the shipment volume timing benefit that occurred at the end of Fiscal 2019 only partially reversed, as shipment volumes were accelerated for First Quarter 2020 in advance of proposed tariffs on imports into the United States from Mexico. We expect the rest of the shipment timing benefit to reverse during the remainder of Fiscal 2020.

Wine and Spirits Segment

	Six Months 2020	Six Months 2019	Dollar Change	Percent Change
(in millions, branded product, 9-liter case equivalents)				
Net sales	\$ 1,323.4	\$ 1,444.0	\$ (120.6)	(8%)
Shipment volume				
Total	26.8	29.5		(9.2%)
U.S. Domestic	24.8	27.3		(9.2%)
U.S. Domestic Power Brands	10.8	11.6		(6.9%)
Depletion volume (1)				
U.S. Domestic				(7.5%)
U.S. Domestic Power Brands				(0.3%)

The decrease in Wine and Spirits net sales is primarily due to (i) a \$122.6 million decline in branded wine and spirits volume and (ii) \$12.1 million of unfavorable product mix shift, partially offset by a \$12.1 million favorable impact from pricing. The Wine and Spirits Six Months 2020 results have been negatively impacted by transition activities with distributors who are repositioning for ownership of brands upon closing the Wine and Spirits Transaction and the Black Velvet Transaction.

Gross Profit

	Six Months 2020	Six Months 2019	Dollar Change	Percent Change
(in millions)				
Beer	\$ 1,732.8	\$ 1,592.8	\$ 140.0	9%
Wine and Spirits	563.8	627.4	(63.6)	(10%)
Canopy	21.1	NA	21.1	NM
Consolidation and Eliminations	(21.1)	—	(21.1)	NM
Comparable Adjustments	(82.0)	(3.4)	(78.6)	NM
Consolidated gross profit	<u>\$ 2,214.6</u>	<u>\$ 2,216.8</u>	<u>\$ (2.2)</u>	—%

The increase in Beer is primarily due to \$92.1 million of volume growth and the \$70.8 million of favorable impact from pricing, partially offset by \$10.2 million of higher cost of product sold for our Mexican beer business as well as a decline in our craft beer portfolio. The higher cost of product sold within our Mexican beer portfolio is primarily due to increased operational costs of \$11.0 million and logistics costs of \$9.6 million, partially offset by foreign currency transactional benefits of \$10.4 million. The higher operational costs are largely attributable to higher material costs, including glass and cartons, partially offset by brewery sourcing benefits and lower depreciation.

The decrease in Wine and Spirits is largely due to \$54.7 million of decline in branded wine and spirits volume, \$6.1 million unfavorable product mix shift, and \$11.9 million higher cost of product sold. The higher cost of product sold is largely attributable to increased transportation costs as well as higher grape raw material and processing costs. The decrease in Wine and Spirits gross profit was partially offset by the \$12.1 million favorable impact from pricing.

Gross profit as a percent of net sales decreased to 49.9% for Six Months 2020 compared with 51.0% for Six Months 2019. This was largely due to an unfavorable change of 175 basis points in Comparable Adjustments, higher cost of product sold within both the Beer and Wine and Spirits segments, which resulted in approximately 25 basis points of rate decline for each segment, partially offset by the favorable impact from Beer pricing in select markets, which contributed approximately 75 basis points of rate growth.

Selling, General, and Administrative Expenses

	Six Months 2020	Six Months 2019	Dollar Change	Percent Change
(in millions)				
Beer	\$ 466.9	\$ 442.2	\$ 24.7	6 %
Wine and Spirits	242.6	258.2	(15.6)	(6 %)
Corporate Operations and Other	97.4	101.5	(4.1)	(4 %)
Canopy	351.6	NA	351.6	NM
Consolidation and Eliminations	(351.6)	—	(351.6)	NM
Comparable Adjustments	65.5	24.5	41.0	NM
Consolidated selling, general, and administrative expenses	<u>\$ 872.4</u>	<u>\$ 826.4</u>	<u>\$ 46.0</u>	6 %

The increase in Beer is primarily due to an increase of \$27.6 million in marketing spend. The increase in marketing spend is due to planned investment to support the growth of our Mexican beer portfolio, including support of the new product introductions. The decrease in Wine and Spirits is largely due to a decrease of \$14.2 million in general and administrative expenses. The decrease in general and administrative expenses is driven by certain cost saving initiatives including decreased compensation and benefits. The decrease in Corporate Operations and Other is due to a decrease of approximately \$9 million in consulting costs, partially offset by an increase of approximately \$4 million in compensation and benefits as compared with Six Months 2019.

Selling, general, and administrative expenses as a percent of net sales increased to 19.6% for Six Months 2020 as compared with 19.0% for Six Months 2019. The increase is driven largely by an unfavorable change of approximately 85 basis points in Comparable Adjustments, partially offset by Beer with approximately 30 basis points of rate decline as the growth in Beer net sales exceeded the growth in Beer selling, general, and administrative expenses.

Operating Income (Loss)

	Six Months 2020	Six Months 2019	Dollar Change	Percent Change
(in millions)				
Beer	\$ 1,265.9	\$ 1,150.6	\$ 115.3	10 %
Wine and Spirits	321.2	369.2	(48.0)	(13 %)
Corporate Operations and Other	(97.4)	(101.5)	4.1	4 %
Canopy	(330.5)	NA	(330.5)	NM
Consolidation and Eliminations	330.5	—	330.5	NM
Comparable Adjustments	(147.5)	(27.9)	(119.6)	NM
Consolidated operating income (loss)	<u>\$ 1,342.2</u>	<u>\$ 1,390.4</u>	<u>\$ (48.2)</u>	(3 %)

The increase in Beer is primarily attributable to the strong volume growth and favorable pricing impact, partially offset by the planned increase in marketing spend combined with the increase in cost of product sold. The decrease in Wine and Spirits was driven largely by the decline in branded wine and spirits volume and higher cost of product sold, partially offset by the favorable impact from pricing and lower general and administrative expenses. As previously discussed, Corporate Operations and Other decrease in operating loss is due largely to the lower consulting costs, partially offset by increased compensation and benefits.

Income (Loss) From Unconsolidated Investments

General

Income (loss) from unconsolidated investments decreased to \$(2,255.3) million for Six Months 2020 from \$1,052.8 million for Six Months 2019, a decrease of \$(3,308.1) million. This decrease is driven largely by an unrealized net loss of \$1,666.6 million for Six Months 2020, which consists of an unrealized net loss from the changes in fair value of our securities measured at fair value of \$2,842.6 million, partially offset by an unrealized gain of \$1,176.0 million from the June 2019 modification of the terms of the November 2018 Canopy Warrants, as compared with an unrealized net gain of \$950.4 million recognized for Six Months 2019. Six Months 2020 was also negatively impacted by \$590.4 million of equity in losses from Canopy's results of operations, and related activities, including the \$409.0 million loss from the June 2019 Warrant Modification, while Six Months 2019 benefited from a net gain in connection with the sale of our Accolade Wine Investment of \$99.8 million.

Canopy Segment

Canopy's Six Months 2020 net sales; gross profit; selling, general, and administrative expenses; and operating income (loss) are not comparable against Six Months 2019 due to the timing of the November 2018 Canopy Investment and Canopy becoming a segment on March 1, 2019.

Interest Expense

Interest expense increased to \$226.2 million for Six Months 2020 from \$175.8 million for Six Months 2019, an increase of \$50.4 million, or 29%. This increase is predominantly due to higher average borrowings of approximately \$3.3 billion primarily attributable to the November 2018 Canopy Transaction.

(Provision For) Benefit From Income Taxes

Our effective tax rate for Six Months 2020 was 33.9% of tax benefit as compared with 16.3% of tax expense for Six Months 2019. The Six Months 2020 effective tax rate was significantly impacted by the net unrealized loss from the changes in fair value of our investments in Canopy, which has resulted in an overall net loss for the period. In comparison to prior year, our taxes benefited from:

- higher effective rate of tax benefit from our foreign businesses including the tax benefits recorded on the net unrealized loss from the changes in fair value of our investments in Canopy and the tax benefits recorded on the Canopy equity in earnings (losses) and related activities;
- the reversal of valuation allowances for capital loss carryforwards in connection with the Wine and Spirits Transaction; offset by
- a smaller net income tax benefit from stock-based compensation award activity for Six Months 2020 from changes in option exercise activity and stock price.

For additional information, refer to Note 12 of the Financial Statements.

We expect our reported effective tax rate for Fiscal 2020 to be in the range of 95% to 97% due to net unrealized losses and related tax benefits from our Canopy investments for the Six Months 2020. This includes an estimated impact for (i) benefits related to the recognition of the income tax effect of stock-based compensation awards in the income statement when the awards vest or are settled, (ii) lower effective tax rates applicable to our foreign businesses, and (iii) closing of the Wine and Spirits Transaction and the Black Velvet Transaction in accordance with the expected timeline. Since estimates are not currently available, this range does not reflect (i) any future changes in the fair value of our Canopy investments measured at fair value, (ii) any gain (loss) recognized in connection with the Wine and Spirits Transaction and/or the Black Velvet Transaction, and (iii) any future equity in earnings (losses) and related activities from the Canopy Equity Method Investment. The range also excludes an estimated one-time benefit to our deferred tax assets of approximately \$500 million to \$550 million that will be recognized during the three months ended November 30, 2019 as a result of certain foreign tax reform that was enacted in September 2019.

Net Income (Loss) Attributable to CBI

Net income (loss) attributable to CBI decreased to \$(770.6) million for Six Months 2020 from \$1,893.3 million for Six Months 2019. This decrease of \$2,663.9 million is largely attributable to the significant decrease in income from unconsolidated investments discussed above as well as the decline in operating performance from Wine and Spirits. These decreases were partially offset by solid operating performance from Beer contributing an additional \$115.3 million of operating income.

FINANCIAL LIQUIDITY AND CAPITAL RESOURCES**General**

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

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

We have recently entered into agreements to sell a portion of our U.S. wine and spirits business as well as our Canadian whisky business. We expect to use the net cash proceeds from closing these transactions primarily to reduce outstanding borrowings.

Cash Flows

	Six Months 2020	Six Months 2019	Dollar Change
(in millions)			
Net cash provided by (used in):			
Operating activities	\$ 1,419.4	\$ 1,338.5	\$ 80.9
Investing activities	(425.7)	(388.8)	(36.9)
Financing activities	(1,005.0)	(832.9)	(172.1)
Effect of exchange rate changes on cash and cash equivalents	(1.0)	(1.0)	—
Net increase (decrease) in cash and cash equivalents	<u>\$ (12.3)</u>	<u>\$ 115.8</u>	<u>\$ (128.1)</u>

Operating Activities

The increase in net cash provided by operating activities for Six Months 2020 is largely due to strong cash flow from the Beer segment driven primarily by the segment's solid operating results, combined with the timing of collections for recoverable value-added taxes. Net cash provided by operating activities also benefited from lower income tax payments largely due to a change in estimated

taxable income, timing of payments, and the receipt of a higher federal tax refund for Six Months 2020 as compared with Six Months 2019. The increase in net cash provided by operating activities was partially offset by higher cash outflows from accounts payable primarily attributable to the timing of payments for both the Wine and Spirits and Beer segments.

Investing Activities

Net cash used in investing activities for Six Months 2020 increased primarily due to prior year proceeds received from (i) the May 2018 sale of our Accolade Wine Investment of \$110.2 million and (ii) sales of assets of \$44.7 million, partially offset by a Six Months 2020 decrease in investments in equity method investees and securities of \$119.1 million.

Financing Activities

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

	Six Months 2020	Six Months 2019	Dollar Change
(in millions)			
Net proceeds from (payments of) debt, current and long-term, and related activities	\$ (688.7)	\$ (57.5)	\$ (631.2)
Dividends paid	(285.0)	(279.1)	(5.9)
Purchases of treasury stock	(50.0)	(504.3)	454.3
Net cash provided by stock-based compensation activities	18.7	8.0	10.7
Net cash provided by (used in) financing activities	<u>\$ (1,005.0)</u>	<u>\$ (832.9)</u>	<u>\$ (172.1)</u>

Debt

Total debt outstanding as of August 31, 2019, amounted to \$12,946.8 million, a decrease of \$669.7 million from February 28, 2019. This decrease was primarily due to (i) a reduction in commercial paper outstanding of \$581.6 million, (ii) the early redemption of the \$400.0 million 3.875% November 2014 Senior Notes, and (iii) the \$400.0 million partial repayment of the Five-Year Term Facility under our Term Credit Agreement, partially offset by the issuance of the \$800.0 million July 2019 Senior Notes.

2019 Term Credit Agreement

In June 2019, we entered into the 2019 Term Credit Agreement, which resulted in the creation of a \$491.3 million five-year term loan facility. We utilized the proceeds from borrowings under the 2019 Term Credit Agreement to repay in full the U.S. Term A-1 Facility under the 2018 Credit Agreement.

General

The majority of our outstanding borrowings as of August 31, 2019, consisted of fixed-rate senior unsecured notes, with maturities ranging from calendar 2019 to calendar 2048, and variable-rate senior unsecured term loan facilities under our Term Credit Agreement and 2019 Term Credit Agreement, with maturities ranging from calendar 2021 to calendar 2024.

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

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

affect our liquidity given our borrowing capacity available under our revolving credit facility under our 2018 Credit Agreement.

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

	Remaining Borrowing Capacity	
	August 31, 2019	September 30, 2019
(in millions)		
Revolving Credit Facility (1)	\$ 1,836.8	\$ 1,987.8
(1) Net of outstanding revolving credit facility borrowings and outstanding letters of credit under our 2018 Credit Agreement and outstanding borrowings under our commercial paper program.		

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

We and our subsidiaries are subject to covenants that are contained in our 2018 Credit Agreement, including those restricting the incurrence of additional indebtedness (including guarantees of indebtedness) by subsidiaries that are not guarantors, additional liens, mergers and consolidations, transactions with affiliates, and sale and leaseback transactions, in each case subject to numerous conditions, exceptions, and thresholds. The financial covenants are limited to a minimum interest coverage ratio and a maximum net leverage ratio, both as defined in our 2018 Credit Agreement. As of August 31, 2019, under our 2018 Credit Agreement, the minimum interest coverage ratio was 2.5x and the maximum net leverage ratio was 5.0x.

The obligations under the Term Credit Agreement and our 2019 Term Credit Agreement are guaranteed by certain of our U.S. subsidiaries. In addition, the representations, warranties, covenants, and events of default set forth in our Term Credit Agreement and our 2019 Term Credit Agreement are substantially similar to those set forth in our 2018 Credit Agreement.

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

As of August 31, 2019, we were in compliance with our covenants under our 2018 Credit Agreement, our Term Credit Agreement, our 2019 Term Credit Agreement and our indentures, and have met all debt payment obligations.

For a complete discussion and presentation of all borrowings and available sources of borrowing, refer to Note 12 of our consolidated financial statements included in our 2019 Annual Report and Note 11 of the Financial Statements.

Common Stock Dividends

On October 2, 2019, our Board of Directors declared a quarterly cash dividend of \$0.75 per share of Class A Common Stock, \$0.68 per share of Class B Convertible Common Stock, and \$0.68 per share of Class 1 Common Stock payable on November 22, 2019, to stockholders of record of each class on November 8, 2019.

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 2019 Annual Report as supplemented by the additional factors set forth under Item 1A “Risk Factors” included in our Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2019.

Share Repurchase Program

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

As of August 31, 2019, total shares repurchased under this authorization are as follows:

	Repurchase Authorization	Class A Common Shares	
		Dollar Value of Shares Repurchased	Number of Shares Repurchased
(in millions, except share data)			
2018 Authorization	\$ 3,000.0	\$ 1,045.9	4,897,605

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

For additional information, refer to Note 16 of our consolidated financial statements included in our 2019 Annual Report and Note 15 of the Financial Statements.

Critical Accounting Estimates and Policies

Our significant accounting policies are more fully described in Note 1 of our consolidated financial statements included in our 2019 Annual Report. However, certain of our accounting policies are particularly important to the portrayal of our financial position and results of operations and require the application of significant judgment by management; as a result, they are subject to an inherent degree of uncertainty. In applying those policies, management uses its judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on our historical experience, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. On an ongoing basis, we review our estimates to ensure that they appropriately reflect changes in our business. Our critical accounting estimates included in the 2019 Annual Report have not changed except for the addition of the following critical accounting estimate:

Fair value of financial instruments.

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

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities;
- Level 2 inputs include data points that are observable such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) such as volatility, 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.

Assessing the significance of a particular input to the fair value measurement requires judgment, considering factors specific to the asset or liability. Determining whether a fair value measurement is based on Level 1, Level 2, or Level 3 inputs is important because certain disclosures are applicable only to those fair value measurements that use Level 3 inputs. The use of Level 2 or Level 3 inputs may include information derived through extrapolation or interpolation which involves management assumptions as well as valuation techniques.

The fair values of our financial instruments that require the application of significant judgment by management are as follows:

Canopy investments

Equity securities, Warrants - estimated using the Black-Scholes option-pricing model (Level 2 fair value measurement) and Monte Carlo simulations (Level 2 fair value measurement). These valuation models use various market-based inputs, including stock price, expected life, expected volatility, risk-free interest rate, and expected dividend yield, as applicable.

Debt securities, Convertible - estimated using a binomial lattice option-pricing model (Level 2 fair value measurement), which includes an estimate of the credit spread based on the implied spread as of the issuance date of the notes. This valuation model uses various market-based inputs, including stock price, remaining term, expected volatility, risk-free interest rate and expected dividend yield, as applicable.

Management's estimate of fair value requires significant management judgment and is subject to a high degree of variability based upon market conditions, the availability of specific information and management's assumptions.

For further discussion on fair value of our financial instruments, refer to Note 6 in the Notes to the Financial Statements.

ACCOUNTING GUIDANCE

Refer to Note 2 and Note 14 of the Financial Statements for information on recently adopted accounting guidance.

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 are forward-looking statements, including without limitation:

- The statements under Part I – Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding:
 - our business strategy, future operations, future financial position, future net sales and expected volume trends, expected effective tax rates and anticipated tax liabilities, prospects, plans, and objectives of management;
 - information concerning expected or potential actions of third parties, including potential changes to international trade agreements, tariffs, taxes, and other governmental rules and regulations;

- information concerning the future expected balance of supply and demand for our products;
- timing and source of funds for operating activities;
- the manner, timing, and duration of the share repurchase program and source of funds for share repurchases; and
- the amount and timing of future dividends.
- The statements regarding our beer expansion, construction, and optimization activities, including anticipated costs and timeframes for completion.
- The statements regarding:
 - the volatility of the fair value of our investments in Canopy measured at fair value;
 - our activities surrounding our investments in Canopy;
 - the time to return to our targeted leverage ratio;
 - the New November 2018 Canopy Warrants; and
 - our future ownership level in Canopy.
- The statements regarding the Wine and Spirits Transaction and the Black Velvet Transaction, including expected gain or loss, form of consideration, amount and use of expected proceeds, estimated remaining costs, expected restructuring charge, and expected additional loss on the write-down of assets held for sale.
- The statements regarding Canopy's transaction with Acreage.

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:

- the actual balance of supply and demand for our products will vary from current expectations due to, among other reasons, actual raw material supply, actual shipments to distributors, and actual consumer demand;
- the actual demand, net sales, and volume trends for our products will vary from current expectations due to, among other reasons, actual shipments to distributors, and actual consumer demand;
- the amount, timing, and source of funds for any share repurchases may vary due to market conditions, our cash and debt position, the impact of the beer operations expansion activities, the impact of our investments in Canopy, the expected impacts of the Wine and Spirits Transaction, and other factors as determined by management from time to time;
- 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;
- the fair value of our investments in Canopy may vary due to market and economic conditions in Canopy's markets and business locations;
- 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 required regulatory approvals by the expected dates and on the expected terms, and other factors as determined by management;
- any consummation of the Wine and Spirits Transaction or of the Black Velvet Transaction, and any actual date of consummation of either may vary from our current expectations; the actual restructuring charge, if any, will vary based on management's final plans; the amount of additional loss, if any, on the future write-down of assets held for sale will vary based on the

- form of consideration, amount of consideration actually received, and future brand performance;
- any impact of U.S. federal laws on the transaction between Acreage and Canopy or upon the implementation of that transaction, may vary from management's current expectations; and
- the time to return to our targeted leverage ratio may vary from management's current expectations due to market conditions, our ability to generate cash flow at expected levels and our ability to generate expected earnings.

The Wine and Spirits Transaction and the Black Velvet Transaction are each subject to the satisfaction of certain closing conditions, including receipt of required regulatory approvals. For additional information about risks and uncertainties that could adversely affect our forward-looking statements, please refer to Item 1A "Risk Factors" of our 2019 Annual Report as supplemented by the additional factors set forth under Item 1A "Risk Factors" included in our Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2019.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a result of our global operating, investment, acquisition, and financing activities, we are exposed to market risk associated with changes in foreign currency exchange rates, commodity prices, interest rates, and equity prices. To manage the volatility relating to these risks, we periodically purchase and/or sell derivative instruments including foreign currency forward and option contracts, commodity swap contracts, and interest rate swap contracts. We use derivative instruments to reduce earnings and cash flow volatility resulting from shifts in market rates, as well as to hedge economic exposures. We 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 investments, acquisitions or divestitures outside the U.S. As of August 31, 2019, we had exposures to foreign currency risk primarily related to the Mexican peso, euro, Canadian dollar, and New Zealand dollar. Approximately 87% of our balance sheet exposures and forecasted transactional exposures for the remaining six months of fiscal 2020 were hedged as of August 31, 2019.

Commodity derivative instruments are or may be used to hedge forecasted commodity purchases from third parties as either economic hedges or accounting hedges. As of August 31, 2019, exposures to commodity price risk which we are currently hedging include aluminum, corn, diesel fuel, natural gas, and wheat prices. Approximately 83% of our forecasted transactional exposures for the remaining six months of fiscal 2020 were hedged as of August 31, 2019.

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. Gains or losses 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	
	August 31, 2019	August 31, 2018	August 31, 2019	August 31, 2018	August 31, 2019	August 31, 2018
(in millions)						
Foreign currency contracts	\$ 2,741.1	\$ 5,193.8	\$ (27.9)	\$ 2.8	\$ 200.9	\$ 149.3
Commodity derivative contracts	\$ 265.1	\$ 224.5	\$ (24.8)	\$ 8.1	\$ 21.1	\$ (19.7)

Interest Rate Risk

The estimated fair value of our fixed interest rate debt is subject to interest rate risk, credit risk, and foreign currency risk. In addition, we also have variable interest rate debt outstanding (primarily LIBOR-based), certain of which includes a fixed margin subject to the same risks identified for our fixed interest rate debt.

As of August 31, 2019, we had \$375.0 million of outstanding cash flow designated interest rate swap agreements which fixed LIBOR interest rates (to minimize interest rate volatility) on our floating LIBOR rate debt. There were no cash flow designated interest rate swap contracts outstanding as of August 31, 2018.

As of August 31, 2018, we had outstanding forward-starting interest rate swap contracts with an aggregate notional value of \$1,250.0 million which economically hedged our exposure to interest rate volatility associated with the then anticipated debt financing in connection with the November 2018 Canopy Transaction. The interest rate swap contracts were not designated as a hedge for accounting purposes. There were no undesignated interest rate swap contracts outstanding as of August 31, 2019.

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	
	August 31, 2019	August 31, 2018	August 31, 2019	August 31, 2018	August 31, 2019	August 31, 2018
(in millions)						
Fixed interest rate debt	\$ 10,675.2	\$ 8,780.6	\$ (11,405.0)	\$ (8,528.4)	\$ (735.2)	\$ (476.0)
Variable interest rate debt	\$ 2,354.7	\$ 1,213.4	\$ (2,423.1)	\$ (1,203.4)	\$ (64.5)	\$ (26.5)
Interest rate swap contracts	\$ 375.0	\$ 1,250.0	\$ (0.7)	\$ 2.7	\$ (2.2)	\$ 108.3

Equity Price Risk

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

As of August 31, 2019, the fair value of our investments in the Canopy warrants and the Canopy convertible debt securities was \$1,572.2 million, with an unrealized net gain (loss) on these investments of \$(1,666.6) million recognized in our results of operations for the six months ended August 31, 2019. We have performed a sensitivity analysis to estimate our exposure to market risk of the equity price reflecting the impact of a hypothetical 10% adverse change in the quoted market price of the underlying equity security. As of August 31, 2019, such a hypothetical 10% adverse change would have resulted in a decrease in fair value of \$235.2 million.

For additional discussion on our market risk, refer to Notes 5 and 6 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

We plan to implement a new enterprise resource planning system across our business units using a phased approach over the next several years. There will be changes in our internal controls as this system becomes operational at each business unit.

In connection with the foregoing evaluation by our Chief Executive Officer and our Chief Financial Officer, no other changes were identified in the Company's "internal control over financial reporting" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(f) and 15d-15(f)) that occurred during our fiscal quarter ended August 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION**Item 1. Legal Proceedings.**

On August 21, 2019, Industria Vidriera de Coahuila, S. de R.L. de C.V. ("IVC"), the Mexican subsidiary of a consolidated joint venture of the Company, received from the Procuraduria de Protección al Ambiente de Coahuila ("PROPAEC") notification of an enforcement action for violations of certain laws in the Mexican state of Coahuila de Zaragoza regulating the discharge of wastewater into the environment. The notification was based on PROPAEC's evaluation of IVC's May 22, 2019 response to allegations arising from an inspection of IVC's facility originally conducted by PROPAEC on April 12, 2018. The allegations against IVC consist of the discharge of wastewater from evaporators without PROPAEC's authorization and associated recordkeeping violations under relevant state environmental regulations. IVC has been assessed a penalty of approximately \$110,000 (the United States dollar equivalent of MXN\$ 2,196,740). The cost of remediation is not expected to be material to the Company, to the Company's consolidated joint venture, or to IVC.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**ISSUER PURCHASES OF EQUITY SECURITIES**

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (1)
June 1 – 30, 2019	—	\$ —	—	\$ —
July 1 – 31, 2019	—	\$ —	—	\$ —
August 1 – 31, 2019	265,593	\$ 188.28	265,593	\$ 1,954,103,834
Total	<u>265,593</u>	<u>\$ 188.28</u>	<u>265,593</u>	

(1) In January 2018, we announced that our Board of Directors authorized the repurchase of up to an aggregate amount of \$3.0 billion of our Class A Common Stock and Class B Convertible Common Stock under the 2018 Authorization. The Board of Directors did not specify a date upon which the 2018 Authorization would expire. Share repurchases for the periods included herein were effected through open market transactions.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item Exhibits.**6.**

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

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

INDEX TO EXHIBITS

Exhibit No.

- 2.1 [Subscription Agreement, dated as of August 14, 2018, by and between CBG Holdings LLC and Canopy Growth Corporation, including, among other things, a form of the Amended and Restated Investor Rights Agreement \(filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated August 14, 2018, filed August 16, 2018, and incorporated herein by reference\).](#) †
- 2.2 [Foreign Exchange Rate Agreement dated October 26, 2018 between CBG Holdings LLC and Canopy Growth Corporation \(filed as Exhibit 2.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2018 and incorporated herein by reference\).](#)
- 2.3 [Asset Purchase Agreement made and entered into by and between the Company and E. & J. Gallo Winery \(filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated April 3, 2019, filed April 8, 2019 and incorporated herein by reference\).](#) †
- 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 [By-Laws of the Company, amended and restated as of October 3, 2018 \(filed as Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2018 and incorporated herein by reference\).](#)
- 4.1 [Indenture, dated as of April 17, 2012, by and among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated April 17, 2012, filed April 23, 2012 and incorporated herein by reference\).](#) #
- 4.2 [Supplemental Indenture No. 1, with respect to 6.0% Senior Notes due May 2022, dated as of April 17, 2012, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(no longer outstanding\) \(filed as Exhibit 4.1.1 to the Company's Current Report on Form 8-K dated April 17, 2012, filed April 23, 2012 and incorporated herein by reference\).](#) #
- 4.3 [Supplemental Indenture No. 3, with respect to 3.75% Senior Notes due May 2021, dated as of May 14, 2013, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 14, 2013, filed May 16, 2013 and incorporated herein by reference\).](#) #
- 4.4 [Supplemental Indenture No. 4, with respect to 4.25% Senior Notes due May 2023, dated as of May 14, 2013, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated May 14, 2013, filed May 16, 2013 and incorporated herein by reference\).](#) #
- 4.5 [Supplemental Indenture No. 5, dated as of June 7, 2013, among the Company, Constellation Brands Beach Holdings, Inc., Crown Imports LLC, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.4 to the Company's Current Report on Form 8-K dated June 7, 2013, filed June 11, 2013 and incorporated herein by reference\).](#) #

- 4.6 [Supplemental Indenture No. 6, dated as of May 28, 2014, among the Company, Constellation Marketing Services, Inc., and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.21 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2014 and incorporated herein by reference\).](#) #
- 4.7 [Supplemental Indenture No. 7, with respect to 3.875% Senior Notes due 2019, dated as of November 3, 2014, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(no longer outstanding\) \(filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated November 3, 2014, filed November 7, 2014 and incorporated herein by reference\).](#) #
- 4.8 [Supplemental Indenture No. 8, with respect to 4.750% Senior Notes due 2024, dated as of November 3, 2014, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated November 3, 2014, filed November 7, 2014 and incorporated herein by reference\).](#) #
- 4.9 [Supplemental Indenture No. 9, with respect to 4.750% Senior Notes due 2025, dated as of December 4, 2015, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated December 4, 2015, filed December 8, 2015 and incorporated herein by reference\).](#)
- 4.10 [Supplemental Indenture No. 10, dated as of January 15, 2016, among the Company, Home Brew Mart, Inc. and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.26 to the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2016 and incorporated herein by reference\).](#)
- 4.11 [Supplemental Indenture No. 11 with respect to 3.700% Senior Notes due 2026, dated as of December 6, 2016, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee, \(filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated December 6, 2016, filed December 6, 2016 and incorporated herein by reference\).](#)
- 4.12 [Supplemental Indenture No. 12 with respect to 2.700% Senior Notes due 2022, dated as of May 9, 2017, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 9, 2017, filed May 9, 2017 and incorporated herein by reference\).](#)
- 4.13 [Supplemental Indenture No. 13 with respect to 3.500% Senior Notes due 2027, dated as of May 9, 2017, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated May 9, 2017, filed May 9, 2017 and incorporated herein by reference\).](#)
- 4.14 [Supplemental Indenture No. 14 with respect to 4.500% Senior Notes due 2047, dated as of May 9, 2017, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.3 to the Company's Current Report on Form 8-K dated May 9, 2017, filed May 9, 2017 and incorporated herein by reference\).](#)
- 4.15 [Supplemental Indenture No. 15 with respect to 2.000% Senior Notes due 2019, dated as of November 7, 2017, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated November 7, 2017, filed November 7, 2017 and incorporated herein by reference\).](#)
- 4.16 [Supplemental Indenture No. 16 with respect to 2.250% Senior Notes due 2020, dated as of November 7, 2017, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated November 7, 2017, filed November 7, 2017 and incorporated herein by reference\).](#)

- 4.17 [Supplemental Indenture No. 17 with respect to 2.650% Senior Notes due 2022, dated as of November 7, 2017, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.3 to the Company's Current Report on Form 8-K dated November 7, 2017, filed November 7, 2017 and incorporated herein by reference\).](#)
- 4.18 [Supplemental Indenture No. 18 with respect to 3.200% Senior Notes due 2023, dated as of February 7, 2018, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated February 7, 2018 filed February 7, 2018 and incorporated herein by reference\).](#)
- 4.19 [Supplemental Indenture No. 19 with respect to 3.600% Senior Notes due 2028, dated as of February 7, 2018, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated February 7, 2018 filed February 7, 2018 and incorporated herein by reference\).](#)
- 4.20 [Supplemental Indenture No. 20 with respect to 4.100% Senior Notes due 2048, dated as of February 7, 2018, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.3 to the Company's Current Report on Form 8-K dated February 7, 2018 filed February 7, 2018 and incorporated herein by reference\).](#)
- 4.21 [Supplemental Indenture No. 21 with respect to Senior Floating Rate Notes due 2021, dated as of October 29, 2018, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated October 29, 2018, filed October 29, 2018, and incorporated herein by reference\).](#)
- 4.22 [Supplemental Indenture No. 22 with respect to 4.400% Senior Notes due 2025, dated as of October 29, 2018, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated October 29, 2018, filed October 29, 2018, and incorporated herein by reference\).](#)
- 4.23 [Supplemental Indenture No. 23 with respect to 4.650% Senior Notes due 2028, dated as of October 29, 2018, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.3 to the Company's Current Report on Form 8-K dated October 29, 2018, filed October 29, 2018 and incorporated herein by reference\).](#)
- 4.24 [Supplemental Indenture No. 24 with respect to 5.250% Senior Notes due 2048, dated as of October 29, 2018, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.4 to the Company's Current Report on Form 8-K dated October 29, 2018, filed October 29, 2018 and incorporated herein by reference\).](#)
- 4.25 [Supplemental Indenture No. 25 with respect to 3.150% Senior Notes due 2029, dated as of July 29, 2019, among the Company, as Issuer, certain subsidiaries, as Guarantors, and Manufacturers and Traders Trust Company, as Trustee \(filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated July 29, 2019, filed July 29, 2019 and incorporated herein by reference\).](#)
- 4.26 [Restatement Agreement, dated as of September 14, 2018, by and among the Company, CB International Finance S.à r.l., certain of the Company's subsidiaries as guarantors, Bank of America, N.A., as Administrative Agent, and the Lenders party thereto, including the Eighth Amended and Restated Credit Agreement dated as of September 14, 2018, by and among the Company, CB International Finance S.à r.l., Bank of America, N.A., as Administrative Agent, and the Lenders party thereto \(filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated September 14, 2018, filed September 19, 2018 and incorporated herein by reference\).](#)
- 4.27 [2018 Term Loan Credit Agreement, dated as of September 14, 2018, by and among the Company, Bank of America, N.A., as Administrative Agent, and the Lenders party thereto \(filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated September 14, 2018, filed September 19, 2018 and incorporated herein by reference\).](#)

- 4.28 [2019 Term Loan Credit Agreement, dated as of June 28, 2019, by and among the Company and Bank of America, N.A., as Administrative Agent and Lender \(filed as Exhibit 4.1 to the Company Current Report on Form 8-K dated June 28, 2019, filed July 3, 2019 and incorporated herein by reference\).](#) †
- 10.1 [Amended and Restated Guarantee Agreement, dated as of July 14, 2017, made by the subsidiaries of Constellation Brands, Inc. from time to time party thereto and Constellation Brands, Inc. in favor of Bank of America, N.A., as Administrative Agent, for the ratable benefit of the Lenders party to the Credit Agreement \(filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 14, 2017, filed July 19, 2017 and incorporated herein by reference\).](#)
- 10.2 [Guarantee Agreement \(2018 Term Loan Credit Agreement\), dated as of September 14, 2018, made by the subsidiaries of Constellation Brands, Inc. from time to time party thereto in favor of Bank of America, N.A., as Administrative Agent, for the ratable benefit of the Lenders party to the 2018 Term Loan Credit Agreement \(filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 14, 2018, filed September 19, 2018 and incorporated herein by reference\).](#)
- 10.3 [Guarantee Agreement \(2019 Term Loan Credit Agreement\), dated as of June 28, 2019, made by the subsidiaries of Constellation Brands, Inc. from time to time party thereto in favor of Bank of America, N.A., as Administrative Agent, for the ratable benefit of the Lenders party to the 2019 Term Loan Credit Agreement \(filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 28, 2019, filed July 3, 2019 and incorporated herein by reference\).](#)
- 10.4 [Executive Employment Agreement made as of June 3, 2019, between Constellation Brands, Inc. and Robert L. Hanson \(filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2019 and incorporated herein by reference\).](#) *
- 10.5 [Form of Performance Share Unit Agreement with respect to the Company's Long-Term Stock Incentive Plan \(relating to margin and market performance\) \(filed herewith\).](#) * †
- 10.6 [Form of Stock Option Agreement for Directors with respect to grants of options to purchase Class 1 Stock pursuant to the Company's Long-Term Stock Incentive Plan \(grants on and after July 16, 2019\) \(filed herewith\).](#) *
- 10.7 [Form of Restricted Stock Unit Agreement for Directors with respect to awards of restricted stock units pursuant to the Company's Long-Term Stock Incentive Plan \(grants on and after July 16, 2019\) \(filed herewith\).](#) *
- 10.8 [Description of Compensation Arrangements for Non-Management Directors \(filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 24, 2019, filed September 25, 2019 and incorporated herein by reference\).](#) *
- 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 [Consent Agreement, dated April 18, 2019, by and between CBG Holdings LLC and Canopy Growth Corporation \(incorporated herein by reference to Exhibit 99.4 of Canopy Growth Corporation's Form 6-K filed April 30, 2019\).](#)

99.2	Second Amended and Restated Investor Rights Agreement, dated April 18, 2019, by and among Greenstar Canada Investment Limited Partnership, CBG Holdings LLC and Canopy Growth Corporation (incorporated herein by reference to Exhibit 99.3 of Canopy Growth Corporation's Form 6-K filed April 30, 2019).
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document (filed herewith).
101.SCH	XBRL Taxonomy Extension Schema Document (filed herewith).
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith).
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed herewith).
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document (filed herewith).
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith).
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

Company's Commission File No. 001-08495.

* Designates management contract or compensatory plan or arrangement.

† Certain schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K.

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.

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: October 3, 2019

Date: October 3, 2019

CONSTELLATION BRANDS, INC.

By: /s/ Thomas M. McCorry

Thomas M. McCorry, Senior Vice President
and Controller

By: /s/ David Klein

David Klein, Executive Vice President and
Chief Financial Officer (principal financial
officer and principal accounting officer)

PERFORMANCE SHARE UNIT AGREEMENT
Pursuant to the
CONSTELLATION BRANDS, INC.
LONG-TERM STOCK INCENTIVE PLAN

Name of Participant:

Grant Date:

Target Number of Performance Share Units:

Service Vesting Date:

_____ **The first November 1st that is at least six months following the Date of Grant**

Earliest Retirement Date:

PSU Payment Period

Within the two-week period following the Service Vesting Date

Constellation Brands, Inc. (the "Company") hereby awards to the designated participant (the "Participant"), the opportunity to receive the Performance Share Units described herein under the Company's Long-Term Stock Incentive Plan, Amended and Restated as of July 18, 2017 (the "Plan"). The principal features of this Award are set forth above, including the date of grant of the Performance Share Units (the "Grant Date"). This Award shall be effective on the Grant Date. The Performance Share Units consist of the right to receive shares of Class A Common Stock, par value \$.01 per share, of the Company ("Shares"). Generally, the Participant will not receive any Performance Share Units unless specified service and performance requirements are satisfied. This Performance Share Unit Agreement is subject to the provisions of the Terms and Conditions of Performance Share Unit Agreement and the Appendix, if any (together, this "Agreement") and terms of the Plan.

PLEASE BE SURE TO READ ALL OF THE SPECIFIC TERMS AND CONDITIONS OF THIS AGREEMENT. TO THE EXTENT ANY CAPITALIZED TERMS USED IN THE TERMS AND CONDITIONS ARE NOT DEFINED HEREIN, THEY WILL HAVE THE MEANING ASCRIBED TO THEM IN THE PLAN.

BY MY ELECTRONIC ELECTION TO ACCEPT THE TERMS AND CONDITIONS OF THIS AWARD OF PERFORMANCE SHARE UNITS (WHICH SERVES AS MY ELECTRONIC SIGNATURE OF THIS AGREEMENT), I AGREE THAT MY PARTICIPATION IN THE PLAN IS GOVERNED BY THE PROVISIONS OF THE PLAN AND THIS AGREEMENT (INCLUDING ITS TERMS AND CONDITIONS AND THE APPENDIX, IF ANY, FOR MY COUNTRY OF RESIDENCE OR EMPLOYMENT, IF DIFFERENT). IF I FAIL TO ACCEPT THE TERMS AND CONDITIONS OF THIS AWARD WITHIN NINETY (90) DAYS OF THE GRANT DATE SET FORTH ABOVE, THE COMPANY MAY DETERMINE THAT THIS AWARD HAS BEEN FORFEITED.

TERMS AND CONDITIONS OF PERFORMANCE SHARE UNIT AGREEMENT

1. Award. The Company hereby grants to the Participant under the Plan as a separate incentive and not in lieu of any salary or other compensation for his or her services the opportunity to receive Performance Share Units as of the Grant Date specified above, subject to all of the terms and conditions in this Agreement and the Plan. Generally, the Participant will not receive any Performance Share Units unless the specified service and performance requirements set forth herein are satisfied.

2. Vesting in Performance Share Units. Any Performance Share Units that do not vest in accordance with this Section shall be forfeited and shall not be paid.

(a) Performance and service vesting requirements. Except as otherwise provided under this Agreement, both performance and service vesting requirements must be satisfied before the Participant can earn Performance Share Units under this Agreement. With certain exceptions noted below, the Participant will vest in his/her right to receive Performance Share Units under this Agreement if the Participant remains in Continuous Service with the Company, any of its Subsidiaries, or any other entity which is a Related Entity (the "Employer") until the Service Vesting Date (as set forth on the first page of this Agreement) and the Company achieves the performance targets specified in Schedule A. The Participant ceases to be employed with the Employer on the date that the entity employing the Participant ceases to be a Subsidiary or an entity which is a Related Entity. For participants based outside of the United States, the Participant ceases to be employed by the Employer on the later of (i) the date that is the last day of any statutory notice of termination period applicable to the Participant pursuant to applicable employment standards legislation or (ii) the date that is designated by the Employer as the last date of the Participant's employment with the Employer, and the date the Participant's ceases to be employed by the Employer specifically does not mean the date on which any period of reasonable notice that the Employer may be required at law to provide to the Participant expires. If the Participant remains in Continuous Service with the Employer until the Service Vesting Date, the Participant shall vest in his/her right to receive a number of Performance Share Units based on the performance matrix set forth in Schedule A. Schedule A sets forth how the number of the Participant's vested Performance Share Units is calculated.

(b) Death or Disability. If the Participant dies or incurs a PSU Disability (as defined below) while employed by the Employer prior to the Service Vesting Date, the Participant shall vest in a number of Performance Share Units equal to the number of the Participant's Target Number of Performance Share Units, provided that such Performance Share Units were not previously forfeited. A "PSU Disability" means a disability as defined under Treasury regulation section 1.409A-3(i)(4)(i)(A) which generally means that the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months. Any Performance Share Units that do not vest under this provision shall be forfeited upon the Participant's death or PSU Disability.

(c) Retirement. If the Participant ceases to be in Continuous Service with the Employer prior to the Service Vesting Date as a result of the Participant's Retirement at any time on or after the Earliest Retirement Date (as set forth on the first page of this Agreement), the Participant shall be deemed to have met the service vesting requirements under this Agreement and shall be eligible to receive a number of Performance Share Units equal to (X) multiplied by (Y), where: (X) equals the number of Performance Share Units to which the Participant would be entitled based on actual performance during the Valuation Period as described in the performance matrix set forth in Schedule A; and (Y) is a ratio, the numerator of which equals the number of days the Participant remained in Continuous Service with the Employer from the beginning of the Valuation Period as described in the performance matrix set forth in Schedule A ("Performance Start Date") until Retirement, and the

denominator of which equals the number of days from the Performance Start Date through the end of the Valuation Period as described in the performance matrix set forth in Schedule A. For purposes of this Agreement:

- (i) “Retirement” means the Participant ceases to be employed by the Employer for any reason other than Cause, death or disability (including but not limited to a PSU Disability) on or after the date the Participant attains Retirement Eligibility with respect to this Award;
- (ii) “Retirement Eligibility” with respect to this Award means a Participant attaining age sixty (60) and completing five (5) Full Years of Continuous Service with the Employer; and
- (iii) “Full Year” means a twelve-month period beginning on the date of the Participant's commencement of service for the Employer and each anniversary thereof.

The Participant’s Continuous Service with the Employer shall be determined by the Committee in its sole discretion (subject to applicable requirements of Code Section 409A and the Treasury regulations and guidance issued thereunder (“Section 409A”), to the extent applicable).

(d) Leave of Absence. Unless otherwise determined by the Committee or required under Section 409A, an authorized leave of absence pursuant to a written agreement or other leave entitling the Participant to re-employment in a comparable position by law or Rule shall not constitute a termination of employment for purposes of the Plan and shall not interrupt the Participant’s Continuous Service with the Employer unless the Participant does not return at or before the end of the authorized leave or within the period for which re-employment is guaranteed by law or Rule.

(e) Change in Control. If the successor or purchaser in the Change in Control has assumed the Company’s obligations with respect to the Performance Share Units or provided a substitute award as contemplated by Section 22 of the Plan and, within 24 months following the occurrence of the Change in Control, the Participant’s employment is terminated without Cause or the Participant terminates employment for Good Reason, the Participant shall become vested in the Participant’s Target Number of Performance Share Units or if a substitute award has been provided, a number of units in the successor company (or a subsidiary or affiliate of such successor company, as applicable) that is equal in value to the Participant’s Target Number of Performance Share Units as of the effective date of the Change in Control; provided that such Performance Share Units or substitute award units were not previously forfeited.

3. Restrictive Covenants.

(a) The Participant agrees that (i) during the period of employment with the Company, its Subsidiaries, and/or any other entity which is a Related Entity (and its successors) (“Constellation” for purpose of this Section) and (ii) during any period of continued vesting following Retirement in accordance with the terms of this Agreement, the Participant will not, without the written consent of the Company, seek or obtain a position with a Competitor (as defined below) in which the Participant will use or is likely to use any confidential information or trade secrets of Constellation, or in which the Participant 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 the Participant for Constellation. The parties agree that the Participant may continue service on any boards of directors on which he or she is serving while employed by Constellation. If Participant’s employment is terminated by the Participant for Good Reason or by Constellation for any reason other than Cause, then Constellation will not unreasonably withhold such consent provided Constellation receives information and assurances, satisfactory to Constellation, regarding the Participant’s new position.

(b) The Participant understands and agrees that the relationship between Constellation and each of their respective employees constitutes a valuable asset of Constellation and may not be converted to the Participant's own use. Accordingly, the Participant hereby agrees that (i) during the period of employment with Constellation and (ii) during any period of continued vesting following Retirement in accordance with the terms of this Agreement, the Participant shall not directly or indirectly, on his or her own behalf or on behalf of another person, solicit or induce any employee to terminate his or her employment relationship with 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.

For the purposes of this Section, "Competitive Services" means the provision of goods or services that are competitive with any goods or services offered by Constellation including, but not limited to manufacturing, importing, exporting, distributing or selling cannabis, wine, beer, liquor or other alcoholic beverages in the United States, Canada, New Zealand, Italy and/or Mexico. The parties acknowledge that Constellation 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 the Participant agrees that this provision 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. "Competitor" means any individual or any entity or enterprise engaged, wholly or in part, in Competitive Services.

(c) The Participant agrees that, due to his or her position of trust and confidence, the restrictions contained in this Section are reasonable, and the equity compensation conferred on the Participant in this Agreement is adequate consideration, and, since the nature of Constellation's collective business is international in scope, the geographic restriction herein is reasonable.

(d) The Participant acknowledges that a breach of this Section will cause irreparable injury and damage, which cannot be reasonably or adequately compensated by money damages. Accordingly, the Participant acknowledges that the remedies of injunction and specific performance shall be available in the event of such a breach, and the Company 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 shall be extended for a period of time equal to the duration of any breach or violation thereof.

(e) In the event of the Participant's breach of this Section, in addition to the injunctive relief described above, all unvested Performance Share Units held by the Participant shall be immediately forfeited on the date which the Participant breaches this Section unless terminated sooner by operation of another term or condition of this Agreement or the Plan, and any gain realized by the Participant from the vesting of any Performance Share Units, following such breach, shall be paid by the Participant to the Company.

(f) In the event that any provision of this Section 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 enforceable, it being acknowledged by the parties that the representations and covenants set forth herein are of the essence of this Agreement. Notwithstanding anything in this Agreement to the contrary, the post-employment restrictive covenants described in this Section above will not apply to this Award to the extent required under California law.

(g) Trade Secrets and Confidential Information. The Participant agrees that unless duly authorized in writing by the Company, the Participant will neither during his or her employment by Constellation nor at any time thereafter divulge or use in connection with any business activity other than that of Constellation any trade secrets or confidential information first acquired by the Participant during and by virtue of employment with Constellation. Notwithstanding the foregoing, nothing in this Agreement prohibits the Participant from reporting possible violations of federal law or regulation to any governmental agency or entity, including but not limited to the Securities and Exchange Commission, or making other disclosures that are protected under the whistleblower protections of federal law or regulation.

4. Committee Discretion. The Committee, in its absolute discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Performance Share Units at any time; provided that, the time or schedule of any amount to be settled pursuant to the terms of this Agreement that provides for the deferral of compensation under Section 409A, may not be accelerated except as otherwise permitted under Section 409A. The Committee has complete and full discretionary authority to make all decisions and determinations under this Agreement, and all decisions and determinations by the Committee will be final and binding upon all persons, including, but not limited to, the Participant and his/her personal representatives, heirs and assigns.

5. Death of Participant. Any distribution or delivery to be made to the Participant under this Agreement shall, if the Participant is then deceased, be made to the Participant's designated beneficiary, or if no beneficiary survives the Participant, the Participant does not designate any beneficiary or the Committee does not permit beneficiary designations, to the administrator or executor of the Participant's estate. Any designation of a beneficiary by the Participant shall be effective only if such designation is made in a form and manner acceptable to the Committee. Any such permitted transferee upon the Participant's death must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

6. Code Section 409A. Notwithstanding any provision of this Agreement to the contrary, in the event that any delivery of Shares to the Participant is made upon, or as a result of the Participant's termination of employment (other than as a result of death), and the Participant is a "specified employee" (as that term is defined under Section 409A) at the time the Participant becomes entitled to delivery of such Shares, and provided further that the delivery of such Shares does not otherwise qualify for an applicable exemption from Section 409A, then no such delivery of such Shares shall be made to the Participant under this Agreement until the date that is the earlier to occur of: (i) the Participant's death, or (ii) six (6) months and one (1) day following the Participant's termination of employment (the "Delay Period"). For purposes of this Agreement, to the extent the Performance Share Units (or equivalent units received following a Change in Control) are subject to the provision of Section 409A, the terms "ceases to be employed", "termination of employment" and variations thereof, as used in this Agreement, are intended to mean a termination of employment that constitutes a "separation from service" under Section 409A.

Performance Share Units are generally intended to be exempt from Section 409A as short-term deferrals and, accordingly, the terms of this Agreement shall be construed to preserve such exemption. To the extent that Performance Share Units granted under this Agreement are subject to the requirements of Section 409A, this Agreement shall be interpreted and administered in accordance with the intent that the Participant not be subject to tax under Section 409A. Neither the Company, any of its Subsidiaries nor any entity which is a Related Entity shall be liable to any Participant (or any other individual claiming a benefit through the Participant) for any tax, interest, or penalties the Participant might owe as a result of participation in the Plan, and the Company, its Subsidiaries nor any other entity

which is a Related Entity shall have no obligation to indemnify or otherwise protect the Participant from the obligation to pay any taxes pursuant to Section 409A, unless otherwise specified.

7. Settlement of Performance Share Units.

(a) Status as a Creditor. Unless and until Performance Share Units have vested and become payable, the Participant will have no settlement right with respect to any Performance Share Units. Prior to settlement of any vested Performance Share Units, the vested Performance Share Units will represent an unfunded and unsecured obligation of the Company, payable (if at all) only from the general assets of the Company. The Participant is an unsecured general creditor of the Company, and settlement of Performance Share Units is subject to the claims of the Company's creditors.

(b) Form and Timing of Settlement. Performance Share Units will be settled in the form of Shares of Class A Stock. Fractional Shares will not be issued upon the vesting of Performance Share Units. In the event that a fractional Share is owed to the Participant, the Company may (1) round up the Shares that are payable to the Participant to the nearest whole number, or (2) pay a cash payment equivalent in place of such fractional Share. Upon issuance, Shares will be electronically transferred to an account in the Participant's name at the provider then administering the Plan as it relates to the Performance Share Units. The Shares to be issued upon settlement will be issued as soon as practicable to the Participant following the Service Vesting Date; provided that:

(i) such Shares shall be paid during the PSU Payment Period (as set forth on the first page of this Agreement), but payment shall only be made after the Committee completes a written certification with respect to this Award;

(ii) if the Participant dies or incurs a PSU Disability while employed by the Employer prior to the Service Vesting Date, the Participant's vested Performance Share Units shall be paid within thirty (30) days following the date of the Participant's death or PSU Disability; or

(iii) if the Participant's employment is terminated within 24 months of a Change in Control which triggers accelerated vesting in accordance with the terms of this Agreement, the Participant shall receive payment within thirty (30) days following the date of the Participant's termination of employment.

(c) Clawback. Notwithstanding any provision to the contrary, any "clawback" or "recoupment" policy required under applicable law or provided for under Company policy shall automatically apply to this Award.

8. Dividend Equivalents. During the period beginning on the Grant Date and ending on the date that Shares are issued in settlement of vested Performance Share Units, the Participant will accrue dividend equivalents on the Performance Share Units equal to any cash dividend or cash distribution that would have been paid on the Performance Share Unit had that Performance Share Unit been an issued and outstanding Share of Class A Common Stock on the record date for the dividend or distribution. Such accrued dividend equivalents (i) will vest and become payable upon the same terms and at the same time of settlement as the Performance Share Unit to which they relate (and will be payable with respect to any Shares that are issued or that are withheld in order to satisfy Participant's Tax-Related Items), (ii) will be denominated and payable solely in cash and paid in such manner as the Company deems appropriate, and (iii) will not bear or accrue interest. Dividend equivalent payments, at settlement, will be net of applicable federal, state, local and foreign income and social insurance withholding taxes. Upon the forfeiture of the Performance Share Units, any accrued dividend equivalents attributable to such Performance Share Units will also be forfeited.

9. Responsibility for Taxes & Withholding. Regardless of any action the Company, any of its Subsidiaries or any other entity which is a Related Entity takes with respect to any or all income tax, social insurance or social security, payroll tax, payment on account or other tax-related items related to the Participant's participation in the Plan and legally applicable to the Participant ("Tax-Related Items"), the Participant acknowledges that the ultimate liability for all Tax-Related Items is and remains the Participant's responsibility and may exceed the amount actually withheld by the Company, any of its Subsidiaries or any other entity which is a Related Entity, if any. The Participant further acknowledges that the Company, any of its Subsidiaries or any other entity which is a Related Entity (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Performance Share Units, including, but not limited to, the grant, vesting or settlement of the Performance Share Units, the issuance of Shares upon settlement of the Performance Share Units, the subsequent sale of Shares acquired pursuant to such issuance and the receipt of any dividends and/or dividend equivalents; and (2) do not commit to and are under no obligation to structure the terms of any Award to reduce or eliminate Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant becomes subject to tax in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, the Participant acknowledges that Company, any of its Subsidiaries or any other entity which is a Related Entity may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

The Participant agrees as a condition of his or her participation in the Plan to make arrangements satisfactory to the Company, any of its Subsidiaries or any other entity which is a Related Entity (including the employer) to satisfy all Tax-Related Items. In this regard, the Company, or their respective agents, will withhold Shares to be issued upon vesting/settlement of the Performance Share Units, unless the Company, or if different, the employer, at their discretion, permit the obligations to be satisfied with regard to all Tax-Related Items by one or a combination of the following:

- (a) withholding from the Participant's wages/salary or other cash compensation paid to the Participant by the Company, or if different, the employer; or
- (b) withholding from proceeds of the Shares acquired upon settlement of the Performance Share Units either through a voluntary sale or through a mandatory sale arranged by the Company (on Participant's behalf pursuant to this authorization).

Notwithstanding the above, if the Participant is a Section 16 officer of the Company under the U.S. Securities and Exchange Act of 1934, as amended, then the Company will withhold in Shares upon the relevant taxable or tax withholding event, as applicable, unless the use of such withholding method is problematic under applicable tax or securities law or has materially adverse accounting consequences, in which case, the obligation for Tax-Related Items may be satisfied by one or a combination of methods (a) and (b) above.

Notwithstanding anything to the contrary in the Plan, the Participant shall not be entitled to satisfy any Tax-Related Item or withholding obligation that arises as a result of the Agreement by delivering to the Company any shares of capital stock of the Company. To avoid negative accounting treatment, the Company, any of its Subsidiaries or any other entity which is a Related Entity may withhold or account for Tax-Related Items by considering applicable statutory withholding amounts or other applicable withholding rates (but not in excess of the maximum amount permitted for tax withholding under applicable law). If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, the Participant is deemed to have been issued the full number of Shares attributable to the vested Performance Share Units, notwithstanding that a number of Shares are held back

solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Participant's participation in the Plan.

The Participant shall pay to the Company, or if different, the employer, any amount of Tax-Related Items that the Company, or if different, the employer, may be required to withhold or account for as a result of the Participant's participation in the Plan that will not for any reason be satisfied by the means previously described. The Company may refuse to issue or deliver the Shares or the proceeds of the sale of Shares if the Participant fails to comply with the Participant's obligations in connection with the Tax-Related Items.

By accepting this grant of Performance Share Units, the Participant expressly consents to the methods of withholding Tax-Related Items by the Company, or if different, the employer as set forth herein, including the withholding of Shares and the withholding from the Participant's wages/salary or other amounts payable to the Participant. All other Tax-Related Items related to the Performance Share Units and any Shares delivered in satisfaction thereof are the Participant's sole responsibility.

10. Transferability. The Participant shall have no right to sell, assign, transfer, pledge or otherwise encumber the Performance Share Units in any manner until the Shares are issued to the Participant upon settlement. Following settlement and issuance of Shares, in the event the Company permits the Participant to arrange for a sale of Shares through a broker or another designated agent of the Company, the Participant acknowledges and agrees that the Company may block any such sale and/or cancel any order to sell placed by the Participant, in each case if the Participant is not then permitted under the Company's insider trading policy to engage in transactions with respect to securities of the Company. If the Committee determines that the ability of the Participant to sell or transfer Shares is restricted, then the Company may notify the Participant in accordance with the terms this Agreement. The Participant may only sell such Shares in compliance with such notification by the Company.

11. Rights as Stockholder. Neither the Participant nor any person claiming under or through the Participant shall have any of the rights or privileges of a stockholder of the Company in respect of any Performance Share Units (whether vested or unvested) or underlying Shares unless and until such Performance Share Units vest and the corresponding Shares are issued. After such issuance, the Participant shall have the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares, if any.

12. Acknowledgments. The Participant acknowledges and agrees to the following:

- (a) The Plan is discretionary in nature and the Committee may amend, suspend, or terminate it at any time.
- (b) The grant of the Performance Share Units is voluntary and occasional and does not create any contractual or other right to receive future grants of Performance Share Units, or benefits in lieu of the Performance Share Units, even if the Performance Share Units have been granted repeatedly in the past.
- (c) All determinations with respect to such future Performance Share Units, if any, including, but not limited to, the times when Performance Share Units shall be granted or when Performance Share Units shall vest, will be at the sole discretion of the Committee.
- (d) The Participant's participation in the Plan is voluntary.

(e) The future value of the Shares is unknown and cannot be predicted with certainty.

(f) No claim or entitlement to compensation or damages arises from the termination or forfeiture of the Award, termination of the Plan, or diminution in value of the Performance Share Units or Shares, and the Participant irrevocably releases the Company, any of its Subsidiaries or any other entity which is a Related Entity from any such claim that may arise.

(g) Neither the Plan nor the Performance Share Units shall be construed to create an employment relationship where any employment relationship did not otherwise already exist.

(h) Nothing in this Agreement or the Plan shall confer upon the Participant any right to continue to be employed by the Employer or shall interfere with or restrict in any way the rights of the Employer, which are hereby expressly reserved, to terminate the employment of the Participant under applicable law.

(i) The transfer of the employment of the Participant between the Company, any one of its Subsidiaries or any other entity which is a Related Entity (or between such entities) shall not be deemed a termination of service.

(j) Nothing in this Agreement shall affect the Participant's right to participate in and receive benefits under and in accordance with the then current provisions of any pension, insurance or other employee welfare plan or program of the Employer.

(k) The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Participant's participation in the Plan, or the Participant's acquisition or sale of the underlying Shares. The Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

(l) In addition, the following provisions apply if the Participant is providing services outside the United States:

(i) The value of the Performance Share Units is an extraordinary item of compensation, which is outside the scope of the Participant's employment contract (if any), except as may otherwise be explicitly provided in the Participant's employment contract (if any).

(ii) The Performance Share Units are not part of normal or expected compensation or salary for any purpose, including, but not limited to, calculating termination, severance, resignation, redundancy, end of service, or similar payments, or bonuses, long-service awards, pension or retirement benefits.

(iii) The Participant acknowledges and agrees that neither the Company, any Subsidiary nor any other entity which is a Related Entity shall be liable for any foreign exchange rate fluctuation between Participant's local currency and the United States Dollar that may affect the value of the Performance Share Units or of any amounts due to the Participant pursuant to the settlement of the Performance Share Units or the subsequent sale of any Shares acquired upon settlement.

(iv) The Company reserves the right to impose other requirements on participation in the Plan, on the Performance Share Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local laws or other

applicable Rule or facilitate the administration of the Plan, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

13. Changes in Stock. In the event of a change in the capital stock of the Company as set forth in Section 16 of the Plan, the Performance Share Units shall be adjusted automatically consistent with such change to prevent substantial dilution or enlargement of the rights granted to, or available for, the Participant hereunder.

14. Address for Notices. All notices to the Company shall be in writing and sent to the Company's General Counsel at the Company's corporate headquarters. Notices to the Participant shall be addressed to the Participant at the address as from time to time reflected in the Company's employment records as the Participant's address.

15. Binding Agreement. Subject to the limitation on the transferability of this Award contained herein, this Agreement shall be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

16. Plan Governs. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan shall govern.

17. Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware, United States of America, regardless of the law that might be applied under principles of conflict of laws.

18. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

19. Severability. In the event that any provision in this Agreement shall be held invalid or unenforceable, such provision shall be severable from, and such invalidity or unenforceability shall not be construed to have any effect on, the remaining provisions of this Agreement.

20. Modifications to this Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. The Participant expressly warrants that he or she is not executing this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement can be made only in an express written contract executed by a duly authorized officer of the Company.

21. Amendment, Suspension or Termination of the Plan. By accepting this Award, the Participant expressly warrants that he or she has received a right to an equity based award under the Plan, and has received, read, and understood a description of the Plan. The Participant understands that the Plan is discretionary in nature and may be modified, suspended, or terminated by the Company at any time.

22. Compliance with Laws and Regulations; General Restrictions on Delivery of Shares. The Participant understands that the vesting of the Performance Share Units under the Plan and the issuance, transfer, assignment, sale, or other dealings of the Shares shall be subject to compliance by the Company, any of its Subsidiaries or any other entity which is a Related Entity and the Participant with all applicable requirements under the laws and Rules of the country of which the Participant is a resident.

Furthermore, the Participant agrees that he or she will not acquire Shares pursuant to the Plan except in compliance with the laws and Rules of the country of which the Participant is a resident and/or employed.

The Company shall not be required to transfer or deliver any Shares, dividends, dividend equivalents or distributions relating to such Shares until it has been furnished with such opinions, representations or other documents as it may deem necessary or desirable, in its discretion, to ensure compliance with any law or Rules of the Securities and Exchange Commission or any other governmental authority having jurisdiction under the Plan or over the Company, the Participant, or the Shares or any interests therein. The Award of Performance Share Units evidenced by this Agreement is also subject to the condition that, if at any time the Committee administering the Plan shall determine, in its discretion, that the listing, registration or qualification of the Shares (or any capital stock distributed with respect thereto) upon the New York Stock Exchange (or any other securities exchange or trading market) or under any United States state or federal law or other applicable Rule, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of the Performance Share Units evidenced by this Agreement or the issuance, transfer or delivery of the Shares (or the payment of any dividends, dividend equivalents or other distributions related to the Shares), the Company shall not be required to transfer or deliver any Shares, dividends, dividend equivalents or distributions relating to such Shares unless such listing, registration, qualification, consent or approval shall have been effected or obtained to the complete satisfaction of the Committee and free of any conditions not acceptable to the Committee.

23. ***Authorization to Release and Transfer Necessary Personal Information.*** *The Participant hereby explicitly and unambiguously consents to the collection, use, processing, and transfer, in electronic or other form, of his or her personal data by and among, as applicable, the Company, any of its Subsidiaries or any other entity which is a Related Entity for the exclusive purpose of implementing, administering and managing the Participant's participation in the Plan. The Participant understands that the Company, any of its Subsidiaries or any other entity which is a Related Entity may hold certain personal information about the Participant including, but not limited to, the Participant's name, home address, email address and telephone number, date of birth, social security number (or any other social or national identification number), salary, nationality, job title, number of Performance Share Units and/or Shares held and the details of all Performance Share Units or any other entitlement to Shares awarded, cancelled, vested, unvested or outstanding for the purpose of implementing, administering and managing the Participant's participation in the Plan (the "Data"). The Participant understands that the Data may be transferred to the Company, any of its Subsidiaries or any other entity which is a Related Entity, or to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in the Participant's country or elsewhere, and that any recipient's country (e.g., the United States) may have different data privacy laws and protections than the Participant's country. The Participant understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting the Company's Global Privacy Lead at privacy@cbrands.com. The Participant authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing his or her participation in the Plan, including any requisite transfer of such Data to a broker or other third party assisting with the administration of Performance Share Units under the Plan or with whom Shares acquired pursuant to the vesting of the Performance Share Units or cash from the sale of such Shares may be deposited. Furthermore, the Participant acknowledges and understands that the transfer of the Data to the Company, any of its Subsidiaries or any other entity which is a Related Entity or to any third parties is necessary for his or her participation in the Plan. The Participant understands that the Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan. The Participant understands that he or she may, at any time, view the Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein by contacting the Company's Global*

Privacy Lead at privacy@cbrands.com. The Participant further acknowledges that withdrawal of consent may affect his or her ability to vest in or realize benefits from the Performance Share Units, and his or her ability to participate in the Plan. For more information on the consequences of refusal to consent or withdrawal of consent, the Participant understands that he or she may contact the Company's Global Privacy Lead at privacy@cbrands.com.

Finally, upon request of the Employer, the Participant agrees to provide an executed data privacy consent form (or any other agreements or consents that may be required by the Employer) to the Employer that the Employer may deem necessary to obtain from the Participant for the purpose of administering the Participant's participation in the Plan in compliance with the data privacy laws in the Participant's country, either now or in the future. The Participant understands and agrees that the Participant will not be able to participate in the Plan if the Participant fails to provide any such consent or agreement requested by the Employer.

24. Electronic Delivery and Execution. The Participant hereby consents and agrees to electronic delivery of any documents that the Company may elect to deliver (including, but not limited to, plan documents, prospectus and prospectus supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other Award made or offered under the Plan. The Participant understands that, unless revoked by the Participant by giving written notice to the Company pursuant to the Plan, this consent will be effective for the duration of this Agreement. The Participant also understands that he or she will have the right at any time to request that the Company deliver written copies of any and all materials referred to above. The Participant hereby consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may elect to deliver, and agrees that his or her electronic signature is the same as, and will have the same force and effect as, his or her manual signature. The Participant consents and agrees that any such procedures and delivery may be affected by a third party engaged by the Company to provide administrative services related to the Plan.

25. English Language. The Participant acknowledges and agrees that it is the Participant's express intent that this Agreement, the Plan and all other documents, notices and legal proceedings entered into, given or instituted pursuant to the Plan be drawn up in English. If the Participant receives this Agreement, the Plan or any other documents related to the Plan translated into a language other than English, and if the meaning of the translated version is different than the English version, the English version will control.

26. Appendix. Notwithstanding any provision of the Agreement to the contrary, this Performance Share Unit Award and the Shares acquired under the Plan shall be subject to any and all special terms and provisions as set forth in the Appendix, if any, for the Participant's country of residence (and country of employment, if different). Further, if the Participant transfers his or her residence and/or employment to another country reflected in the Appendix to this Agreement, the special terms and conditions for such country will apply to the Participant to the extent the Company determines, in its sole discretion, that the application of such terms and conditions is necessary or advisable in order to comply with local laws or rules to facilitate the operation and administration of the Performance Share Units and the Plan (or the Company may establish alternative terms and conditions as may be necessary or advisable to accommodate the Participant's transfer). Any applicable Appendix shall constitute part of this Agreement.

APPENDIX

In addition to the terms and conditions of the Constellation Brands, Inc. Long-Term Stock Incentive Plan, as Amended and Restated as of July 18, 2017 (the “Plan”) and the Agreement, the Participant’s grant of Performance Shares Units is subject to the following additional terms and conditions as set forth in this appendix (the “Appendix”). All defined terms as contained in this Appendix shall have the same meaning as set forth in the Plan and the Agreement.

CANADA

1. Resale Restriction. The Participant is permitted to sell the Shares acquired upon vesting through the designated broker appointed under the Plan, provided the resale of Shares acquired under the Plan takes place outside of Canada through the facilities of the stock exchange on which the shares are listed. The Shares are currently listed on the New York Stock Exchange.

2. Use of English Language. The parties acknowledge that it is their express wish that the present agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English. As a convenience, the award agreement and other documents have been translated into French. If the meaning of the translated version of any document or text is different than the English version, the English version will control. *Les parties reconnaissent avoir exigé la rédaction en anglais de la présente convention, ainsi que de tous documents, notifications et procédures judiciaires conclus, donnés ou intentés en vertu de la présente convention ou se rattachant directement ou indirectement à la présente convention. Pour des raisons pratiques, la convention de subvention et d'autres documents ont été traduits en langue française. Si le sens de la version traduite de tout document ou si le texte est différent de la version anglaise, la version anglaise prévaudra.*

MEXICO

Use of English Language. The parties acknowledge that it is their express wish that the present agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English. As a convenience, the award agreement and other documents have been translated into Spanish. If the meaning of the translated version of any document or text is different than the English version, the English version will control. *Uso del idioma inglés. Las partes señalan que es su expreso deseo que el presente acuerdo, así como todos los documentos, comunicaciones y procedimientos judiciales en los que entren a ser parte, otorgados o instituidos a este respecto, o relacionados directa o indirectamente con el mismo, se redacten en inglés. Para su comodidad, el acuerdo de adjudicación y otros documentos han sido traducidos al español. Si el significado de la versión traducida de cualquier documento o texto no fuera el mismo que el de la versión inglesa, prevalecerá el significado de la versión inglesa.*

SWITZERLAND

Securities Law Information. The Performance Share Units are not intended to be publicly offered in or from Switzerland. Neither this document nor any other materials relating to the Plan (i) constitutes a prospectus as such term is understood pursuant to article 652a of the Swiss Code of Obligations (ii) may be publicly distributed nor otherwise made publicly available in Switzerland or (iii) have been or will be filed with, approved or supervised by any Swiss regulatory authority, including the Swiss Financial Market Authority (FINMA).

PSU

**CONSTELLATION BRANDS, INC.
LONG-TERM STOCK INCENTIVE PLAN**

STOCK OPTION AGREEMENT

**TERMS AND CONDITIONS OF STOCK OPTIONS
CLASS 1 COMMON STOCK**

Name of Participant:

Grant Date: _____

Number of Options Granted: _____

Exercise Price:

Vesting Date: _____ : 100% of the Option Shares

Termination Date: _____

Constellation Brands, Inc. (the "Company") hereby awards under the Company's Long-Term Stock Incentive Plan, Amended and Restated as of July 18, 2017 (the "Plan") to the designated participant (the "Participant"), stock options to purchase Class 1 Common Stock, par value US\$0.01 per share, of the Company ("Shares"). The principal features of this Award are set forth above, including the date of grant of the stock options (the "Grant Date"). The stock options represented by this agreement (the "Options") are subject to the provisions of the terms and conditions of the agreement and the appendix, if any (together, the "Agreement"). The Options are Non-Qualified Stock Options granted pursuant to Section 5 of the Plan.

PLEASE BE SURE TO READ ALL OF THE SPECIFIC TERMS AND CONDITIONS OF THE AGREEMENT. TO THE EXTENT ANY CAPITALIZED TERMS USED IN THE TERMS AND CONDITIONS ARE NOT DEFINED HEREIN, THEY WILL HAVE THE MEANING ASCRIBED TO THEM IN THE PLAN.

BY MY ELECTRONIC ELECTION TO ACCEPT THE TERMS AND CONDITIONS OF THIS AWARD OF OPTIONS (WHICH SERVES AS MY ELECTRONIC SIGNATURE OF THE AGREEMENT), I AGREE THAT MY PARTICIPATION IN THE PLAN IS GOVERNED BY THE PROVISIONS OF THE PLAN AND THE AGREEMENT (INCLUDING ITS TERMS AND CONDITIONS AND THE APPENDIX, IF ANY, FOR MY COUNTRY OF RESIDENCE).

1. **Term of Options.** The Options hereby granted on the Grant Date (as set forth on the first page of this Agreement) to purchase up to the Number of Options Granted (as set forth on the first page of this Agreement) will terminate and expire, to the extent not previously exercised or earlier terminated as provided in this Agreement, at 5:00 p.m. U.S. Eastern Time on the Termination Date (as set forth on the first page of this Agreement). All references to times and dates in the Plan or in documents or materials relating to the Plan refer to Eastern Standard Time (or Eastern Daylight Savings Time, as appropriate) in the United States of America and to dates in New York State based on such Eastern Standard Time (or Eastern Daylight Savings Time, as appropriate).

2. **Vesting Schedule and Exercise Period.**

(a) **Service.** Except as otherwise provided for in this Section, the Options shall vest and become exercisable in accordance with the Vesting Dates (as set forth on the first page of this Agreement); provided, in each case, that the Participant remains in Continuous Service with the Company until such date.

(b) **Death or Disability.** Subject to the limitations on exercise set forth below, if a Participant dies or suffers a Disability (as defined below), all the unvested Option Shares shall become immediately vested and exercisable on the date of death or Disability. Options which have vested due to death or Disability prior to the date that the Participant is no longer in Continuous Service with the Company may be exercised within three (3) years after the date of death or Disability. "Disability" means a disability as defined under Treasury regulation section 1.409A-3(i)(4)(i)(A) which generally means that the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months.

(c) **Other Terminations.** Subject to the limitations on exercise set forth below, if a Participant ceases to be in Continuous Service with the Company, and Section 2(b) is not applicable to the Participant, all the unvested Option Shares shall become immediately forfeited on the date that the Participant ceases to be in Continuous Service and Options which have vested prior to the date may be exercised for a period of three (3) years following such termination.

(d) **Limitations on Exercise.**

(i) No Option may be exercised by any person if any time after the Grant Date (as set forth on the first page of this Agreement) the Participant's relationship with the Company has been terminated for Cause, as defined in the Plan.

(ii) Any Options which are exercisable under this Section that are not exercised within the applicable period specified in this Section, will automatically terminate at the end of that applicable period.

(e) **Clawback.** Notwithstanding any provision to the contrary, any "clawback" or "recoupment" policy required under applicable law or provided for under Company policy shall automatically apply to this Award.

3. **Manner of Exercise.**

(a) The Participant can exercise Options by complying with the provisions of the Plan and by following instructions provided in materials distributed by the Company. Unless such alternatives are limited by the Company in its sole discretion, the Exercise Price (as set forth on the first

page of this Agreement), for the number of Option Shares being purchased and any related withholding tax obligations may be paid by the Participant by (i) delivery of cash, money order or a certified or cashier's check; (ii) tendering previously acquired Shares or shares of Class A Common Stock, par value US\$0.01 per share, of the Company ("Class A Shares"), as provided for in the Plan; (iii) delivery of a conversion notice or other conversion instructions acceptable to the Company irrevocably electing to convert a sufficient number of Shares received under the Option into Class A Shares ("Conversion Shares") together with delivery of irrevocable instructions to a broker or other agent acceptable to the Company to promptly sell the Conversion Shares received under the Option and to deliver to the Company the appropriate amount of proceeds; and/or (iv) any other payment method that is established by the Company (which payment method may be restricted or eliminated from time to time by the Company, in its sole discretion).

(b) The Company will, without transfer or issue tax to the Participant, issue and cause to be delivered to the Participant the number of Option Shares purchased as soon as reasonably practicable after the Participant has appropriately exercised any Options. The Company is not required to issue Shares to the Participant until all obligations to withhold taxes, if any, have been resolved to the satisfaction of the Company.

4. **Board Discretion.** The Company's Board of Directors, in its absolute discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Options at any time. If so accelerated, such Options shall be considered as having vested as of the date specified by the Board.

5. **Code Section 409A.** The Options are intended to be exempt from Code Section 409A and the Treasury regulations and guidance issued thereunder ("Section 409A") and, accordingly, the terms of the Agreement shall be construed to preserve such exemption. To the extent that the Options are subject to the requirements of Section 409A, the Agreement shall be interpreted and administered in accordance with the intent that the Participant not be subject to tax under Section 409A. Neither the Company nor any of its Subsidiaries shall be liable to any Participant (or any other individual claiming a benefit through the Participant) for any tax, interest, or penalties the Participant might owe as a result of participation in the Plan, and the Company and its Subsidiaries shall have no obligation to indemnify or otherwise protect the Participant from the obligation to pay any taxes pursuant to Section 409A, unless otherwise specified.

6. **Responsibility for Taxes & Withholding.**

(a) The Participant acknowledges that the ultimate liability for all taxes or other tax related items ("Tax-Related Items") related to the Participant's participation in the Plan and legally applicable to the Participant is and remains the Participant's responsibility. The Participant further acknowledges that the Company and/or its Subsidiaries (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect to the Options, including, but not limited to, the grant, vesting or exercise of the Options, the issuance of Shares upon exercise of the Options, the subsequent sale of Shares acquired pursuant to such exercise and the receipt of any dividends; and (2) do not commit to and are under no obligation to structure the terms of any Award to reduce or eliminate Participant's liability for Tax-Related Items.

(b) The Participant agrees as a condition of his or her participation in the Plan to make arrangements satisfactory to the Company to enable it to satisfy any withholding, payment and/or collection requirements associated with the satisfaction of the Tax-Related Items. The withholding obligation shall be satisfied in a manner acceptable to the Company in its sole discretion and may include the following methods: (1) by the Company withholding all applicable amounts from the Participant's

cash compensation due to the Participant, (2) by surrender to the Company by attestation to the ownership of Shares already owned that would satisfy the withholding amount, or by having the Company retain a portion of the Shares otherwise issuable upon exercise of the Options, or (3) by delivery of a conversion notice or conversion instructions acceptable to the Company irrevocably electing to convert a sufficient number of Shares received under the Option into Conversion Shares together with delivery of irrevocable instructions to a broker or other agent acceptable to the Company to promptly sell the Conversion Shares received under the Option and to deliver to the Company the appropriate amount of proceeds to satisfy the withholding requirements. To avoid negative accounting treatment, the Company may withhold or account for Tax-Related Items by considering applicable statutory withholding amounts or other applicable withholding rates (but not in excess of the maximum amount permitted for tax withholding under applicable law). Furthermore, the Participant agrees to pay the Company any amount the Company may be required to withhold, collect or pay as a result of the Participant's participation in the Plan or that cannot be satisfied by deduction from the Participant's cash compensation paid to the Participant by the Company or sale of the Shares acquired under the Plan. The Participant acknowledges that he or she may not participate in the Plan unless the tax withholding, payment and/or collection obligations of the Company are satisfied.

7. **No Transfer of Options.** Unless transferability is authorized by the Option grant or otherwise permitted by the Committee, Options are not transferable by the Participant other than (a) by will or the laws of descent and distribution, or (b) pursuant to a domestic relations order. Because of laws affecting the transferability of the Option Shares, the Participant should understand the securities laws and other implications of any transfer of Options. Any attempt at assignment, transfer, pledge, hypothecation, or other disposition of the Option contrary to the provisions hereof, and the levy of any attachment or similar process upon such Option, shall be null and void and without effect.

8. **Transferability of Shares.** Following exercise of the Option and issuance of Shares, in the event the Company permits the Participant to arrange for sale of Shares through a broker or another designated agent of the Company, the Participant acknowledges and agrees that the Company may block any such sale and/or cancel any order to sell placed by the Participant, in each case if the Participant is not then permitted under the Company's insider trading policy to engage in transactions with respect to securities of the Company. If the Committee determines that the ability of the Participant to sell or transfer Shares is restricted, then the Company may place a restrictive legend or stop transfer notation on any certificate that may be issued to represent such Shares or on its books with respect to such Shares. If a legend or stop transfer notation is placed on any certificate or the Company's books with respect to the Participant's Shares, the Participant may only sell such Shares in compliance with such legend or notation.

9. **Rights as Stockholder.** Neither the Participant nor any person claiming under or through the Participant shall have any of the rights or privileges of a stockholder of the Company in respect of any Options (whether vested or unvested) unless and until such Options are exercised and the corresponding Shares are issued. After such issuance, the Participant shall have the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares, if any.

10. **Acknowledgment.** The Participant acknowledges and agrees to the following:

- (a) The Plan is discretionary in nature and the Committee may amend, suspend, or terminate it at any time.

(b) The grant of the Options is voluntary and occasional and does not create any contractual or other right to receive future grants of Options or benefits in lieu of the Options even if the Options have been granted repeatedly in the past.

(c) All determinations with respect to such future Options, if any, including but not limited to, the times when the Options shall be granted or when the Options shall vest, will be at the sole discretion of the Board.

(d) The Participant's participation in the Plan is voluntary.

(e) The future value of the Shares is unknown and cannot be predicted with certainty.

(f) No claim or entitlement to compensation or damages arises from the termination or forfeiture of the Award, termination of the Plan, or diminution in value of the Options or Shares and the Participant irrevocably releases the Company and its Subsidiaries from any such claim that may arise.

(g) Neither the Plan nor the Options shall be construed to confer upon the Participant any right to be retained as a Director of the Company. Further, nothing in the Plan or this Agreement shall be construed to limit the discretion of the Company to terminate the Director's Continuous Service at any time.

(h) The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Participant's participation in the Plan, or the Participant's acquisition or sale of the underlying Shares. The Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

(i) The Company reserves the right to impose other requirements on participation in the Plan, on the Options and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with Applicable Laws or facilitate the administration of the Plan, and to require the Participants to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

11. **Changes in Stock.** In the event of a change in the capital stock of the Company as set forth in Section 16 of the Plan, the number and kind of unexercised Options and the Exercise Price of such Options are subject to adjustment consistent with such change to prevent substantial dilution or enlargement of the rights granted to, or available for, the Participant hereunder.

12. **Address for Notices.** All notices to the Company shall be in writing and sent to the Company's General Counsel at the Company's corporate headquarters. Notices to the Participant shall be addressed to the Participant at the address as from time to time reflected in the Company's records as the Participant's address.

13. **Binding Agreement.** Subject to the limitation on the transferability of this Award contained herein, the Agreement shall be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

14. **Plan Governs.** The Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of the Agreement and one or more provisions of the

Plan, the provisions of the Plan shall govern.

15. **Governing Law.** The Agreement shall be construed in accordance with and governed by the laws of the State of Delaware, United States of America, regardless of the law that might be applied under principles of conflict of laws.

16. **Captions.** Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of the Agreement.

17. **Severability.** In the event that any provision in the Agreement shall be held invalid or unenforceable, such provision shall be severable from, and such invalidity or unenforceability shall not be construed to have any effect on, the remaining provisions of the Agreement.

18. **Modifications to the Agreement.** The Agreement constitutes the entire understanding of the parties on the subjects covered. The Participant expressly warrants that he or she is not executing the Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to the Agreement can be made only in an express written contract executed by a duly authorized officer of the Company.

19. **Amendment, Suspension or Termination of the Plan.** By accepting this Award, the Participant expressly warrants that he or she has received a right to an equity-based award under the Plan, and has received, read, and understood a description of the Plan. The Participant understands that the Plan is discretionary in nature and may be modified, suspended, or terminated by the Company at any time.

20. **Compliance with Laws and Regulations; General Restrictions on Delivery of Shares.** The Participant understands that the exercise of the Options under the Plan and the issuance, transfer, assignment, sale, or other dealings of the Shares shall be subject to compliance by the Company and any of its Subsidiaries and the Participant with all applicable requirements under the laws, rules, and regulations of the country of which the Participant is a resident and/or provides services. Furthermore, the Participant agrees that he or she will not acquire Shares pursuant to the Plan except in compliance with Applicable Laws.

The Company shall not be required to transfer or deliver any Shares or dividends or distributions relating to such Shares until it has been furnished with such opinions, representations or other documents as it may deem necessary or desirable, in its discretion, to ensure compliance with any law or Rules of the Securities and Exchange Commission or any other governmental authority having jurisdiction under the Plan or over the Company, the Participant, or the Shares or any interests therein. The Award of Options evidenced by the Agreement is also subject to the condition that, if at any time the Committee administering the Plan shall determine, in its discretion, that the listing, registration or qualification of the Shares (or any capital stock distributed with respect thereto) upon the New York Stock Exchange (or any other securities exchange or trading market) or under any United States state or Federal law or other applicable Rule, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of the Award of Options evidenced by the Agreement or the issuance, transfer or delivery of the Shares (or the payment of any dividends or other distributions related to the Shares), the Company shall not be required to transfer or deliver any Shares or dividends or distributions relating to such Shares unless such listing, registration, qualification, consent or approval shall have been effected or obtained to the complete satisfaction of the Committee and free of any conditions not acceptable to the Committee.

21. **Authorization to Release and Transfer Necessary Personal Information.** The Participant hereby explicitly and unambiguously consents to the collection, use, processing, and transfer, in electronic or other form, of his or her personal data by and among, as applicable, the Company and any of its Subsidiaries for the exclusive purpose of implementing, administering and managing the Participant's participation in the Plan. The Participant understands that the Company and any of its Subsidiaries may hold certain personal information about the Participant including, but not limited to, the Participant's name, home address, email address, and telephone number, date of birth, social security number (or any other social or national identification number), salary, nationality, job title, number of Options and/or Option Shares held and the details of all Options or any other entitlement to Shares awarded, exercised, cancelled, vested, unvested or outstanding for the purpose of implementing, administering and managing the Participant's participation in the Plan (the "Data"). The Participant understands that the Data may be transferred to the Company, any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in the Participant's country or elsewhere, and that any recipient's country (e.g., the United States) may have different data privacy laws and protections than the Participant's country. The Participant understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative. The Participant authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing his or her participation in the Plan, including any requisite transfer of such Data to a broker or other third party assisting with the administration of Options under the Plan or with whom Shares acquired pursuant to the exercise of the Options or cash from the sale of such Shares may be deposited. Furthermore, the Participant acknowledges and understands that the transfer of the Data to the Company, any of its Subsidiaries, or to any third parties is necessary for his or her participation in the Plan. The Participant understands that the Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan. The Participant understands that he or she may, at any time, view the Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein by contacting the Company's Global Privacy Lead at privacy@cbrands.com. The Participant further acknowledges that withdrawal of consent may affect his or her ability to vest in or realize benefits from the Options, and his or her ability to participate in the Plan. For more information on the consequences of refusal to consent or withdrawal of consent, the Participant understands that he or she may contact the Company's Global Privacy Lead at privacy@cbrands.com.

Finally, upon request of the Company, the Participant agrees to provide an executed data privacy consent form (or any other agreements or consents that may be required by the Company) to the Company that the Company may deem necessary to obtain from the Participant for the purpose of administering the Participant's participation in the Plan in compliance with the data privacy laws in the Participant's country, either now or in the future. The Participant understands and agrees that the Participant will not be able to participate in the Plan if the Participant fails to provide any such consent or agreement requested by the Company.

22. **No Listing of Option Shares; Conversion.** The Company has not listed the Option Shares for trading on the New York Stock Exchange and does not intend to effect such a listing. Pursuant to the Certificate of Incorporation of the Company, Option Shares may be converted into Class A Shares, but only if the Class A Shares received upon the conversion are sold or transferred immediately following the conversion in a market transaction or qualifying private transaction as such terms are defined in the Company's Certificate of Incorporation. The Class A Shares into which Option Shares may be converted have been or will, prior to issuance, be listed for trading on the New York Stock Exchange.

23. **Electronic Delivery and Execution.** The Participant hereby consents and agrees to electronic delivery of any documents that the Company may elect to deliver (including, but not limited to, plan documents, prospectus and prospectus supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other Award made or offered under the Plan. The Participant understands that, unless revoked by the Participant by giving written notice to the Company pursuant to the Plan, this consent will be effective for the duration of the Agreement. The Participant also understands that he or she will have the right at any time to request that the Company deliver written copies of any and all materials referred to above. The Participant hereby consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may elect to deliver, and agree that his or her electronic signature is the same as, and will have the same force and effect as, his or her manual signature. The Participant consents and agrees that any such procedures and delivery may be affected by a third party engaged by the Company to provide administrative services related to the Plan.

24. **English Language.** The Participant acknowledges and agrees that it is the Participant's express intent that this Agreement, the Plan and all other documents, notices and legal proceedings entered into, given or instituted pursuant to the Plan be drawn up in English. If the Participant receives this Agreement, the Plan or any other document related to the Plan translated into a language other than English, and if the meaning of the translated version is different than the English version, the English version will control.

25. **Appendix.** Notwithstanding any provision of the Agreement to the contrary, this Option grant and the Shares acquired under the Plan shall be subject to any and all special terms and provisions as set forth in the Appendix, if any, for the Participant's country of residence.

APPENDIX

In addition to the terms and conditions of the Constellation Brands, Inc. Long-Term Stock Incentive Plan, as Amended and Restated as of July 18, 2017 (the "Plan") and the Agreement, the Participant's grant of Options is subject to the following additional terms and conditions as set forth in this appendix (the "Appendix"). All defined terms as contained in this Appendix shall have the same meaning as set forth in the Plan and the Agreement.

MEXICO

1. Use of English Language. The parties acknowledge that it is their express wish that the present agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English. As a convenience, the award agreement and other documents may have been translated into Spanish. If the meaning of the translated version of any document or text is different than the English version, the English version will control. *Uso del idioma inglés. Las partes señalan que es su expreso deseo que el presente acuerdo, así como todos los documentos, comunicaciones y procedimientos judiciales en los que entren a ser parte, otorgados o instituidos a este respecto, o relacionados directa o indirectamente con el mismo, se redacten en inglés. Para su comodidad, el acuerdo de adjudicación y otros documentos pueden haberse traducido sido traducidos al español. Si el significado de la versión traducida de cualquier documento o texto no fuera el mismo que el de la versión inglesa, prevalecerá el significado de la versión inglesa.*

RESTRICTED STOCK UNIT AGREEMENT
Pursuant to the
CONSTELLATION BRANDS, INC.
LONG-TERM STOCK INCENTIVE PLAN

Name of Participant:

Grant Date: _____

Number of Restricted Stock Units:

Vesting Dates: _____ : 100% of the Restricted Stock Units

Constellation Brands, Inc. (the "Company") hereby awards to the designated participant (the "Participant"), Restricted Stock Units under the Company's Long-Term Stock Incentive Plan, Amended and Restated as of July 18, 2017 (the "Plan"). The principal features of this Award are set forth above, including the date of grant of the Restricted Stock Units (the "Grant Date"). This Award shall be effective on the Grant Date. The Restricted Stock Units consist of the right to receive shares of Class A Common Stock, par value \$0.01 per share, of the Company ("Shares") and are subject to the provisions of the Terms and Conditions of the Agreement and the Appendix, if any (together, the "Agreement").

PLEASE BE SURE TO READ ALL OF THE SPECIFIC TERMS AND CONDITIONS OF THE AGREEMENT. TO THE EXTENT ANY CAPITALIZED TERMS USED IN THE TERMS AND CONDITIONS ARE NOT DEFINED HEREIN, THEY WILL HAVE THE MEANING ASCRIBED TO THEM IN THE PLAN.

BY MY ELECTRONIC ELECTION TO ACCEPT THE TERMS AND CONDITIONS OF THIS GRANT OF RESTRICTED STOCK UNITS (WHICH SERVES AS MY ELECTRONIC SIGNATURE OF THE AGREEMENT), I AGREE THAT MY PARTICIPATION IN THE PLAN IS GOVERNED BY THE PROVISIONS OF THE PLAN AND THE AGREEMENT (INCLUDING ITS TERMS AND CONDITIONS AND THE APPENDIX, IF ANY, FOR MY COUNTRY OF RESIDENCE). IF I FAIL TO ACCEPT THE TERMS AND CONDITIONS OF THIS AWARD WITHIN NINETY (90) DAYS OF THE GRANT DATE SET FORTH ABOVE, THE COMPANY MAY DETERMINE THAT THIS AWARD HAS BEEN FORFEITED.

TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT AGREEMENT

1. **Grant.** The Company hereby awards to the Participant under the Plan as a separate incentive and not in lieu of any salary or other compensation for his or her services, an Award of Restricted Stock Units as of the Grant Date specified above, subject to all of the terms and conditions in the Agreement and the Plan.
2. **Vesting Schedule.** Any Restricted Stock Units that do not vest in accordance with this Section shall be forfeited and shall not be paid.
 - (a) **Service.** Except as otherwise provided under this Agreement, the Restricted Stock Units shall vest in accordance with the following vesting schedule: 100% of the Restricted Stock Units shall vest on the Vesting Date (as set forth on the first page of this Agreement); provided, in each case, that the Participant remains in Continuous Service with the Company until such date.
 - (b) **Death or Disability.** If the Participant dies or incurs a RSU Disability (as defined below) while serving as a member of the Company's Board of Directors prior to the Vesting Date, any Restricted Stock Units that have not vested prior to the date of the Participant's death or RSU Disability shall immediately vest. "RSU Disability" means a disability as defined under Treasury regulation section 1.409A-3(i)(4)(i)(A) which generally means that the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.
 - (c) **Termination.** If the Company's Board of Directors decides not to nominate the Participant for an additional term as a member of the Company's Board of Directors, unless such decision is for Cause, the Restricted Stock Units shall vest on the Vesting Date (as set forth on the first page of this Agreement); provided that the Participant remains in Continuous Service with the Company until the earlier of the Vesting Date or the date of the Company's next Annual Meeting of Stockholders at which directors are elected.
 - (d) **Change in Control.** The Restricted Stock Units are subject to the following rules in the event the Participant remains in Continuous Service with the Company until the date of a change in control described in this subsection, which rules shall apply in lieu of the default Change in Control provisions under the Plan. Upon the occurrence of an event that: (A) occurs before the Vesting Date; (B) is a Change in Control; and (C) constitutes a change in ownership or effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company within the meaning of Code Section 409A and the Treasury regulations and guidance issued thereunder ("Section 409A") (such event shall be referenced as a "RSU Change in Control"), any Restricted Stock Units that have not vested prior to the date of the RSU Change in Control shall immediately vest.
3. **Board Discretion.** The Company's Board of Directors, in its absolute discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock Units at any time; provided that, the time or schedule of any amount to be settled pursuant to the terms of this Agreement that provides for deferral of compensation under Section 409A, may not be accelerated except as otherwise permitted under Section 409A. If so accelerated, such Restricted Stock Units shall be considered as having vested as of the date specified by the Board.
4. **Death of Participant.** Any distribution or delivery to be made to the Participant under the Agreement shall, if the Participant is then deceased, be made to the Participant's designated beneficiary, or if either no beneficiary survives the Participant or the Committee does not permit beneficiary designations, to the administrator or executor of the Participant's estate. Any designation of a

beneficiary by the Participant shall be effective only if such designation is made in a form and manner acceptable to the Committee. Any transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

5. **Code Section 409A.** Restricted Stock Units are generally intended to be exempt from Section 409A as short-term deferrals and, accordingly, the terms of this Agreement shall be construed to preserve such exemption. To the extent that Restricted Stock Units granted under this Agreement are subject to the requirements of Section 409A, this Agreement shall be interpreted and administered in accordance with the intent that the Participant not be subject to tax under Section 409A. Neither the Company nor any of its Subsidiaries, shall be liable to any Participant (or any other individual claiming a benefit through the Participant) for any tax, interest, or penalties the Participant might owe as a result of participation in the Plan, and the Company and its Subsidiaries shall have no obligation to indemnify or otherwise protect the Participant from the obligation to pay any taxes pursuant to Section 409A, unless otherwise specified.

6. **Settlement of Restricted Stock Units.**

(a) **Status as a Creditor.** Unless and until Restricted Stock Units have vested, the Participant will have no settlement right with respect to any Restricted Stock Units. Prior to settlement of any vested Restricted Stock Units, the vested Restricted Stock Units will represent an unfunded and unsecured obligation of the Company, payable (if at all) only from the general assets of the Company. The Participant is an unsecured general creditor of the Company, and settlement of Restricted Stock Units is subject to the claims of the Company's creditors.

(b) **Form and Timing of Settlement.** Restricted Stock Units will be settled in the form of Shares upon the vesting of the Restricted Stock Units. Where a fractional Share would be owed to the Participant upon the vesting of Restricted Stock Units, the Company may (1) round up the Shares that are payable to the Participant to the nearest whole number, or (2) pay a cash payment equivalent in place of such fractional Share. Upon issuance, Shares will be electronically transferred to an account in the Participant's name at the provider then administering the Plan as it relates to the Restricted Stock Units. The Shares to be issued upon settlement will be issued as soon as practicable to the Participant following the Vesting Date; provided that such Shares will be issued no later than the date that is two and a half (2.5) months from the end of the later of (1) the Participant's tax year that includes the Vesting Date, or (2) the Company's tax year that includes the Vesting Date.

(c) **Clawback.** Notwithstanding any provision to the contrary, any "clawback" or "recoupment" policy required under applicable law or provided for under Company policy shall automatically apply to this Award.

7. **Dividend Equivalents.** During the period beginning on the Grant Date and ending on the date that Shares are issued in settlement of vested Restricted Stock Units, the Participant will accrue dividend equivalents on Restricted Stock Units equal to any cash dividend or cash distribution that would have been paid on the Restricted Stock Unit had that Restricted Stock Unit been an issued and outstanding Share of Class A Common Stock on the record date for the dividend or distribution. Such accrued dividend equivalents (1) will vest and become payable upon the same terms and at the same time of settlement as the Restricted Stock Unit to which they relate (and will be payable with respect to any Shares that are issued or that are withheld in order to satisfy Participant's Tax-Related Items), (2) will be denominated and payable solely in cash and paid in such manner as the Company deems appropriate, and (3) will not bear or accrue interest. Dividend equivalent payments, at settlement, will be net of applicable federal, state, local and foreign income and social insurance withholding taxes. Upon the forfeiture of the

Restricted Stock Units, any accrued dividend equivalents attributable to such Restricted Stock Units will also be forfeited.

8. **Responsibility for Taxes & Withholding.** Regardless of any action the Company takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related items related to the Participant's participation in the Plan and legally applicable to the Participant ("Tax-Related Items"), the Participant acknowledges that the ultimate liability for all Tax-Related Items is and remains the Participant's responsibility and may exceed the amount actually withheld by the Company. The Participant further acknowledges that the Company (1) makes no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect to the Restricted Stock Units, including, but not limited to, the grant, vesting or settlement of the Restricted Stock Units, the issuance of Shares upon settlement of the Restricted Stock Units, the subsequent sale of Shares acquired pursuant to such issuance and the receipt of any dividends and/or dividend equivalents; and (2) does not commit to and are under no obligation to structure the terms of any Award to reduce or eliminate Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant becomes subject to tax in more than one jurisdiction between the date of grant and the date of any relevant taxable event, the Participant acknowledges that the Company may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

The Participant agrees as a condition of his or her participation in the Plan to make arrangements satisfactory to the Company to satisfy all Tax-Related Items. In this regard, the Company, or its respective agents, will withhold in Shares upon the relevant taxable or tax withholding event, as applicable, unless the Company, at its discretion, permits the obligations to be satisfied with regard to all Tax-Related Items by one or a combination of the following:

(a) withholding from the Participant's cash compensation paid to the Participant by the Company; or

(b) withholding from proceeds of the Shares acquired upon vesting/settlement of the Restricted Stock Units either through a voluntary sale or through a mandatory sale arranged by the Company (on Participant's behalf pursuant to this authorization).

Notwithstanding anything to the contrary in the Plan, the Participant shall not be entitled to satisfy any Tax-Related Item or withholding obligation that arise as a result of the Agreement by delivering to the Company any shares of capital stock of the Company. To avoid negative accounting treatment, the Company may withhold or account for Tax-Related Items by considering applicable statutory withholding amounts or other applicable withholding rates (but not in excess of the maximum amount permitted for tax withholding under applicable law). If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, the Participant is deemed to have been issued the full number of Shares attributable to the vested Restricted Stock Units, notwithstanding that a number of Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Participant's participation in the Plan.

The Participant shall pay to the Company any amount of Tax-Related Items that the Company may be required to withhold or account for as a result of the Participant's participation in the Plan that will not for any reason be satisfied by the means previously described. The Company may refuse to issue or deliver the Shares or the proceeds of the sale of Shares if the Participant fails to comply with the Participant's obligations in connection with the Tax-Related Items.

By accepting this grant of Restricted Stock Units, the Participant expressly consents to the methods of withholding Tax-Related Items by the Company as set forth herein, including the

withholding of Shares and the withholding from the Participant's cash compensation or other amounts payable to the Participant. All other Tax-Related Items related to the Restricted Stock Units and any Shares delivered in satisfaction thereof are the Participant's sole responsibility.

9. **Transferability.** The Participant shall have no right to sell, assign, transfer, pledge or otherwise encumber the Restricted Stock Units in any manner until the Shares are issued to Participant upon settlement. Following settlement and issuance of Shares, in the event the Company permits Participant to arrange for sale of Shares through a broker or another designated agent of the Company, Participant acknowledges and agrees that the Company may block any such sale and/or cancel any order to sell placed by the Participant, in each case if the Participant is not then permitted under the Company's insider trading policy to engage in transactions with respect to securities of the Company. If the Committee determines that the ability of the Participant to sell or transfer Shares is restricted, then the Company may notify the Participant in accordance with the terms of the Agreement. The Participant may only sell such Shares in compliance with such notification by the Company.

10. **Rights as Stockholder.** Neither the Participant nor any person claiming under or through the Participant shall have any of the rights or privileges of a stockholder of the Company in respect of any Restricted Stock Units (whether vested or unvested) unless and until such Restricted Stock Units vest and the corresponding Shares are issued. After such issuance, the Participant shall have the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares, if any.

11. **Acknowledgments.** The Participant acknowledges and agrees to the following:

(a) The Plan is discretionary in nature and the Committee may amend, suspend, or terminate it at any time.

(b) The grant of the Restricted Stock Units is voluntary and occasional and does not create any contractual or other right to receive future grants of Restricted Stock Units, or benefits in lieu of the Restricted Stock Units even if the Restricted Stock Units have been granted repeatedly in the past.

(c) All determinations with respect to such future Restricted Stock Units, if any, including but not limited to, the times when the Restricted Stock Units shall be granted or when the Restricted Stock Units shall vest, will be at the sole discretion of the Board.

(d) The Participant's participation in the Plan is voluntary.

(e) The future value of the Shares is unknown and cannot be predicted with certainty.

(f) No claim or entitlement to compensation or damages arises from the termination or forfeiture of the Award, termination of the Plan, or diminution in value of the Restricted Stock Units or Shares and the Participant irrevocably releases the Company and its Subsidiaries from any such claim that may arise.

(g) Neither the Plan nor the Restricted Stock Units shall be construed to confer upon the Participant any right to be retained as a Director of the Company. Further, nothing in the Plan or this Agreement shall be construed to limit the discretion of the Company to terminate the Director's Continuous Service at any time.

(h) The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Participant's participation in the Plan, or the Participant's acquisition or sale of the underlying Shares. The Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

(i) The Company reserves the right to impose other requirements on participation in the Plan, on the Restricted Stock Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or other applicable Rule or facilitate the administration of the Plan, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

12. **Changes in Stock.** In the event of a change in the capital stock of the Company as set forth in Section 16 of the Plan, the Restricted Stock Units shall be adjusted automatically consistent with such change to prevent substantial dilution or enlargement of the rights granted to, or available for, the Participant hereunder.

13. **Address for Notices.** All notices to the Company shall be in writing and sent to the Company's General Counsel at the Company's corporate headquarters. Notices to the Participant shall be addressed to the Participant at the address as from time to time reflected in the Company's records as the Participant's address.

14. **Binding Agreement.** Subject to the limitation on the transferability of this Award contained herein, the Agreement shall be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

15. **Plan Governs.** The Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of the Agreement and one or more provisions of the Plan, the provisions of the Plan shall govern.

16. **Governing Law.** The Agreement shall be construed in accordance with and governed by the laws of the State of Delaware, United States of America, regardless of the law that might be applied under principles of conflict of laws.

17. **Captions.** Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of the Agreement.

18. **Severability.** In the event that any provision in the Agreement shall be held invalid or unenforceable, such provision shall be severable from, and such invalidity or unenforceability shall not be construed to have any effect on, the remaining provisions of the Agreement.

19. **Modifications to the Agreement.** The Agreement constitutes the entire understanding of the parties on the subjects covered. The Participant expressly warrants that he or she is not executing the Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to the Agreement can be made only in an express written contract executed by a duly authorized officer of the Company.

20. **Amendment, Suspension or Termination of the Plan.** By accepting this Award, the Participant expressly warrants that he or she has received a right to an equity based award under the Plan, and has received, read, and understood a description of the Plan. The Participant understands that the

Plan is discretionary in nature and may be modified, suspended, or terminated by the Company at any time.

21. **Compliance with Laws and Regulations; General Restrictions on Delivery of Shares.** The Participant understands that the vesting of the Restricted Stock Units under the Plan and the issuance, transfer, assignment, sale, or other dealings of the Shares shall be subject to compliance by the Company (or any Subsidiary) and the Participant with all applicable requirements under the laws and Rules of the country of which the Participant is a resident. Furthermore, the Participant agrees that he or she will not acquire Shares pursuant to the Plan except in compliance with the laws and Rules of the country of which the Participant is a resident.

The Company shall not be required to transfer or deliver any Shares, dividends, dividend equivalents or distributions relating to such Shares until it has been furnished with such opinions, representations or other documents as it may deem necessary or desirable, in its discretion, to ensure compliance with any law or Rules of the Securities and Exchange Commission or any other governmental authority having jurisdiction under the Plan or over the Company, the Participant, or the Shares or any interests therein. The Award of Restricted Stock Units evidenced by the Agreement is also subject to the condition that, if at any time the Committee administering the Plan shall determine, in its discretion, that the listing, registration or qualification of the Shares (or any capital stock distributed with respect thereto) upon the New York Stock Exchange (or any other securities exchange or trading market) or under any United States state or federal law or other applicable Rule, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of the Award of Restricted Stock Units evidenced by the Agreement or the issuance, transfer or delivery of the Shares (or the payment of any dividends, dividend equivalents or other distributions related to the Shares), the Company shall not be required to transfer or deliver any Shares, dividends, dividend equivalents or distributions relating to such Shares unless such listing, registration, qualification, consent or approval shall have been effected or obtained to the complete satisfaction of the Committee and free of any conditions not acceptable to the Committee.

22. **Authorization to Release and Transfer Necessary Personal Information.** The Participant hereby explicitly and unambiguously consents to the collection, use, processing, and transfer, in electronic or other form, of his or her personal data by and among, as applicable, the Company and any of its Subsidiaries for the exclusive purpose of implementing, administering and managing the Participant's participation in the Plan. The Participant understands that the Company and any of its Subsidiaries may hold certain personal information about the Participant including, but not limited to, the Participant's name, home address, email address, and telephone number, date of birth, social security number (or any other social or national identification number), salary, nationality, job title, number of Restricted Stock Units and/or Shares held and the details of all Restricted Stock Units or any other entitlement to Shares awarded, exercised, cancelled, vested, unvested or outstanding for the purpose of implementing, administering and managing the Participant's participation in the Plan (the "Data"). The Participant understands that the Data may be transferred to the Company, any of its Subsidiaries, or to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in the Participant's country or elsewhere, and that any recipient's country (e.g., the United States) may have different data privacy laws and protections than the Participant's country. The Participant understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative. The Participant authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing his or her participation in the Plan, including any requisite transfer of such Data to a broker or other third party assisting with the administration of Restricted Stock Units under the Plan or with whom Shares acquired pursuant to the vesting of the Restricted Stock Units or cash from the sale of such Shares may be deposited.

Furthermore, the Participant acknowledges and understands that the transfer of the Data to the Company, any of its Subsidiaries, or to any third parties is necessary for his or her participation in the Plan. The Participant understands that the Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan. The Participant understands that he or she may, at any time, view the Data, request additional information about the storage and processing of the Data, require any necessary amendments to the Data or refuse or withdraw the consents herein by contacting the Company's Global Privacy Lead at privacy@cbrands.com. The Participant further acknowledges that withdrawal of consent may affect his or her ability to vest in or realize benefits from the Restricted Stock Units, and his or her ability to participate in the Plan. For more information on the consequences of refusal to consent or withdrawal of consent, the Participant understands that he or she may contact the Company's Global Privacy Lead at privacy@cbrands.com.

Finally, upon request of the Company, the Participant agrees to provide an executed data privacy consent form (or any other agreements or consents that may be required by the Company) to the Company that the Company may deem necessary to obtain from the Participant for the purpose of administering the Participant's participation in the Plan in compliance with the data privacy laws in the Participant's country, either now or in the future. The Participant understands and agrees that the Participant will not be able to participate in the Plan if the Participant fails to provide any such consent or agreement requested by the Company.

23. **Electronic Delivery and Execution.** The Participant hereby consents and agrees to electronic delivery of any documents that the Company may elect to deliver (including, but not limited to, plan documents, prospectus and prospectus supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other Award made or offered under the Plan. The Participant understands that, unless revoked by the Participant by giving written notice to the Company pursuant to the Plan, this consent will be effective for the duration of the Agreement. The Participant also understands that he or she will have the right at any time to request that the Company deliver written copies of any and all materials referred to above. The Participant hereby consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may elect to deliver, and agree that his or her electronic signature is the same as, and will have the same force and effect as, his or her manual signature. The Participant consents and agrees that any such procedures and delivery may be affected by a third party engaged by the Company to provide administrative services related to the Plan.

24. **English Language.** The Participant acknowledges and agrees that it is the Participant's express intent that this Agreement, the Plan and all other documents, notices and legal proceedings entered into, given or instituted pursuant to the Plan be drawn up in English. If the Participant receives this Agreement, the Plan or any other document related to the Plan translated into a language other than English, and if the meaning of the translated version is different than the English version, the English version will control.

25. **Appendix.** Notwithstanding any provision of the Agreement to the contrary, this Restricted Stock Unit grant and the Shares acquired under the Plan shall be subject to any and all special terms and provisions as set forth in the Appendix, if any, for the Participant's country of residence.

APPENDIX

In addition to the terms and conditions of the Constellation Brands, Inc. Long-Term Stock Incentive Plan, as Amended and Restated as of July 18, 2017 (the “Plan”) and the Agreement, the Participant’s grant of Restricted Stock Units is subject to the following additional terms and conditions as set forth in this appendix (the “Appendix”). All defined terms as contained in this Appendix shall have the same meaning as set forth in the Plan and the Agreement.

MEXICO

1. Use of English Language. The parties acknowledge that it is their express wish that the present agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English. As a convenience, the award agreement and other documents may have been translated into Spanish. If the meaning of the translated version of any document or text is different than the English version, the English version will control. *Uso del idioma inglés. Las partes señalan que es su expreso deseo que el presente acuerdo, así como todos los documentos, comunicaciones y procedimientos judiciales en los que entren a ser parte, otorgados o instituidos a este respecto, o relacionados directa o indirectamente con el mismo, se redacten en inglés. Para su comodidad, el acuerdo de adjudicación y otros documentos pueden haberse traducido sido traducidos al español. Si el significado de la versión traducida de cualquier documento o texto no fuera el mismo que el de la versión inglesa, prevalecerá el significado de la versión inglesa.*

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

**Constellation Brands, Inc.
Form 10-Q for Fiscal Quarter Ended August 31, 2019**

I, William A. Newlands, 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: October 3, 2019

/s/ William A. Newlands

William A. Newlands
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 August 31, 2019**

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: October 3, 2019

/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 August 31, 2019**

In connection with the Constellation Brands, Inc. Quarterly Report on Form 10-Q for the Fiscal Quarter Ended August 31, 2019, I, William A. Newlands, 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 August 31, 2019 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 August 31, 2019 of Constellation Brands, Inc. fairly presents, in all material respects, the financial condition and results of operations of Constellation Brands, Inc.

Dated: October 3, 2019

/s/ William A. Newlands

William A. Newlands,
President and Chief Executive Officer

**SECTION 1350 CERTIFICATION
OF CHIEF FINANCIAL OFFICER**

**Constellation Brands, Inc.
Form 10-Q for Fiscal Quarter Ended August 31, 2019**

In connection with the Constellation Brands, Inc. Quarterly Report on Form 10-Q for the Fiscal Quarter Ended August 31, 2019, 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 August 31, 2019 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 August 31, 2019 of Constellation Brands, Inc. fairly presents, in all material respects, the financial condition and results of operations of Constellation Brands, Inc.

Dated: October 3, 2019

/s/ David Klein

David Klein,
Executive Vice President and
Chief Financial Officer