

MOLSON COORS BREWING CO

Form 10-Q

October 31, 2018

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

FORM 10-Q

(Mark One)

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

For the Quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____ .

Commission File Number: 1-14829

Molson Coors Brewing Company

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

1801 California Street, Suite 4600, Denver, Colorado, USA

1555 Notre Dame Street East, Montréal, Québec, Canada

(Address of principal executive offices)

303-927-2337 (Colorado)

514-521-1786 (Québec)

(Registrant's telephone number, including area code)

84-0178360

(I.R.S. Employer Identification No.)

80202

H2L 2R5

(Zip Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

(Do not check if a smaller reporting company)

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of October 25, 2018:

Class A Common Stock — 2,562,668 shares

Class B Common Stock — 195,644,139 shares

Exchangeable shares:

As of October 25, 2018, the following number of exchangeable shares were outstanding for Molson Coors Canada, Inc.:

Class A Exchangeable shares — 2,757,201 shares

Class B Exchangeable shares — 14,807,312 shares

The Class A exchangeable shares and Class B exchangeable shares are shares of the share capital in Molson Coors Canada Inc., a wholly-owned subsidiary of the registrant. They are publicly traded on the Toronto Stock Exchange under the symbols TPX.A and TPX.B, respectively. These shares are intended to provide substantially the same economic and voting rights as the corresponding class of Molson Coors common stock in which they may be exchanged. In addition to the registered Class A common stock and the Class B common stock, the registrant has also issued and outstanding one share each of a Special Class A voting stock and Special Class B voting stock. The Special Class A voting stock and the Special Class B voting stock provide the mechanism for holders of Class A exchangeable shares and Class B exchangeable shares to be provided instructions to vote with the holders of the Class A common stock and the Class B common stock, respectively. The holders of the Special Class A voting stock and Special Class B voting stock are entitled to one vote for each outstanding Class A exchangeable share and Class B exchangeable share, respectively, excluding shares held by the registrant or its subsidiaries, and generally vote together with the Class A common stock and Class B common stock, respectively, on all matters on which the Class A common stock and Class B common stock are entitled to vote. The Special Class A voting stock and Special Class B voting stock are subject to a voting trust arrangement. The trustee which holds the Special Class A voting stock and the Special Class B voting stock is required to cast a number of votes equal to the number of then-outstanding Class A exchangeable shares and Class B exchangeable shares, respectively, but will only cast a number of votes equal to the number of Class A exchangeable shares and Class B exchangeable shares as to which it has received voting instructions from the owners of record of those Class A exchangeable shares and Class B exchangeable shares, other than the registrant or its subsidiaries, respectively, on the record date, and will cast the votes in accordance with such instructions so received.

MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
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Glossary of Terms and Abbreviations

Acquisition	Refers to the acquisition of SABMiller plc's ("SABMiller") 58% economic interest and 50% voting interest in MillerCoors LLC ("MillerCoors") and all trademarks, contracts and other assets primarily related to the "Miller International Business," as defined in the purchase agreement, outside of the U.S. and Puerto Rico from Anheuser-Busch InBev SA/NV ("ABI"), on October 11, 2016.
AOCI	Accumulated other comprehensive income (loss)
CAD	Canadian dollar
CZK	Czech Koruna
DBRS	A global credit rating agency in Toronto
DSUs	Deferred stock units
EBITDA	Earnings before interest, tax, depreciation and amortization
EPS	Earnings per share
EUR	Euro
FASB	Financial Accounting Standards Board
GBP	British Pound
HRK	Croatian Kuna
JPY	Japanese Yen
Moody's	Moody's Investors Service Limited, a nationally recognized statistical rating organization designated by the SEC
OCI	Other comprehensive income (loss)
OPEB	Other postretirement benefit plans
PSUs	Performance share units
RSD	Serbian Dinar
RSUs	Restricted stock units
SEC	Securities and Exchange Commission
Standard & Poor's	Standard and Poor's Ratings Services, a nationally recognized statistical rating organization designated by the SEC
SOSARs	Stock-only stock appreciation rights
STRs	Sales-to-retailers
STWs	Sales-to-wholesalers
U.K.	United Kingdom
U.S.	United States
U.S. GAAP	Accounting principles generally accepted in the United States of America
USD or \$	U.S. dollar
VIEs	Variable interest entities

Cautionary Statement Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). From time to time, we may also provide oral or written forward-looking statements in other materials we release to the public. Such forward-looking statements are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995.

Statements that refer to projections of our future financial performance, anticipated trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements, and include, but are not limited to, statements under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations," and under the heading "Outlook for 2018" therein, relating to overall volume trends, consumer preferences, pricing trends, industry forces, cost reduction strategies, anticipated results, anticipated synergies, anticipated tax rates and benefits, expectations for funding future capital expenditures and operations, expectations regarding future dividends, debt service capabilities, timing and amounts of debt and leverage levels, shipment levels and profitability, market share and the sufficiency of capital resources. In addition, statements that we make in this report that are not statements of historical fact may also be forward-looking statements. Words such as "expects," "goals," "plans," "believes," "continues," "may," "anticipate," "seek," "estimate," "outlook," "trends," "future benefits," "potential," "projects," "strategies," and variations of such words and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are subject to risks and uncertainties that could cause actual results to be materially different from those indicated (both favorably and unfavorably). These risks and uncertainties include, but are not limited to, those described under the heading "Risk Factors" elsewhere throughout this report, and those described from time to time in our past and future reports filed with the SEC, including in our Annual Report on Form 10-K for the year ended December 31, 2017. Caution should be taken not to place undue reliance on any such forward-looking statements. Forward-looking statements speak only as of the date when made and we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

Market and Industry Data

The market and industry data used in this Quarterly Report on Form 10-Q are based on independent industry publications, customers, trade or business organizations, reports by market research firms and other published statistical information from third parties, as well as information based on management's good faith estimates, which we derive from our review of internal information and independent sources.

PART I. FINANCIAL INFORMATION

ITEM 1.

MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (IN MILLIONS, EXCEPT PER SHARE DATA)
 (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Sales	\$3,625.1	\$ 3,552.9	\$10,313.6	\$ 10,259.8
Excise taxes	(690.9)	(669.7)	(1,962.7)	(1,836.6)
Net sales	2,934.2	2,883.2	8,350.9	8,423.2
Cost of goods sold	(1,714.0)	(1,589.1)	(4,988.8)	(4,716.9)
Gross profit	1,220.2	1,294.1	3,362.1	3,706.3
Marketing, general and administrative expenses	(713.9)	(783.8)	(2,139.7)	(2,271.5)
Special items, net	(36.6)	(4.1)	267.7	(27.3)
Operating income (loss)	469.7	506.2	1,490.1	1,407.5
Interest income (expense), net	(67.4)	(72.6)	(227.3)	(258.4)
Other pension and postretirement benefits (costs), net	7.6	9.6	27.5	32.3
Other income (expense), net	0.2	(2.7)	0.2	0.2
Income (loss) before income taxes	410.1	440.5	1,290.5	1,181.6
Income tax benefit (expense)	(64.5)	(147.4)	(231.6)	(338.5)
Net income (loss)	345.6	293.1	1,058.9	843.1
Net (income) loss attributable to noncontrolling interests	(7.3)	(6.1)	(18.4)	(17.7)
Net income (loss) attributable to Molson Coors Brewing Company	\$338.3	\$ 287.0	\$ 1,040.5	\$ 825.4
Net income (loss) attributable to Molson Coors Brewing Company per share:				
Basic	\$1.57	\$ 1.33	\$4.82	\$ 3.83
Diluted	\$1.56	\$ 1.33	\$4.80	\$ 3.81
Weighted-average shares outstanding:				
Basic	216.0	215.5	215.9	215.4
Dilutive effect of share-based awards	0.6	1.0	0.7	1.1
Diluted	216.6	216.5	216.6	216.5
Anti-dilutive securities excluded from the computation of diluted EPS	0.9	0.4	0.9	0.3
Dividends declared and paid per share	\$0.41	\$ 0.41	\$1.23	\$ 1.23

See notes to unaudited condensed consolidated financial statements.

MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (IN MILLIONS)
 (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Net income (loss) including noncontrolling interests	\$345.6	\$ 293.1	\$1,058.9	\$ 843.1
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	17.2	215.2	(163.7)	607.7
Unrealized gain (loss) on derivative instruments	9.6	(38.9)	20.0	(116.1)
Reclassification of derivative (gain) loss to income	0.2	0.9	2.0	0.5
Amortization of net prior service (benefit) cost and net actuarial (gain) loss to income	1.1	4.6	4.1	8.3
Ownership share of unconsolidated subsidiaries' other comprehensive income (loss)	0.6	0.9	0.1	2.9
Total other comprehensive income (loss), net of tax	28.7	182.7	(137.5)	503.3
Comprehensive income (loss)	374.3	475.8	921.4	1,346.4
Comprehensive (income) loss attributable to noncontrolling interests	(7.0)	(6.9)	(17.3)	(20.1)
Comprehensive income (loss) attributable to Molson Coors Brewing Company	\$367.3	\$ 468.9	\$904.1	\$ 1,326.3

See notes to unaudited condensed consolidated financial statements.

MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN MILLIONS, EXCEPT PAR VALUE)
(UNAUDITED)

	As of	
	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$750.1	\$ 418.6
Accounts receivable, net	933.4	733.8
Other receivables, net	184.2	168.2
Inventories, net	631.9	591.5
Other current assets, net	312.7	277.6
Total current assets	2,812.3	2,189.7
Properties, net	4,593.5	4,673.7
Goodwill	8,333.0	8,405.5
Other intangibles, net	13,996.4	14,296.5
Other assets	735.1	681.5
Total assets	\$30,470.3	\$ 30,246.9
Liabilities and equity		
Current liabilities:		
Accounts payable and other current liabilities	\$2,820.6	\$ 2,684.5
Current portion of long-term debt and short-term borrowings	1,602.0	714.8
Total current liabilities	4,422.6	3,399.3
Long-term debt	8,970.3	10,598.7
Pension and postretirement benefits	827.6	848.5
Deferred tax liabilities	1,853.6	1,648.6
Other liabilities	306.2	316.8
Total liabilities	16,380.3	16,811.9
Commitments and contingencies (Note 14)		
Molson Coors Brewing Company stockholders' equity		
Capital stock:		
Preferred stock, \$0.01 par value (authorized: 25.0 shares; none issued)	—	—
Class A common stock, \$0.01 par value per share (authorized: 500.0 shares; issued and outstanding: 2.6 shares and 2.6 shares, respectively)	—	—
Class B common stock, \$0.01 par value per share (authorized: 500.0 shares; issued: 205.1 shares and 204.7 shares, respectively)	2.0	2.0
Class A exchangeable shares, no par value (issued and outstanding: 2.8 shares and 2.9 shares, respectively)	103.4	107.7
Class B exchangeable shares, no par value (issued and outstanding: 14.8 shares and 14.7 shares, respectively)	557.4	553.2
Paid-in capital	6,715.9	6,688.5
Retained earnings	7,953.2	7,206.1
Accumulated other comprehensive income (loss)	(996.4)	(860.0)
Class B common stock held in treasury at cost (9.5 shares and 9.5 shares, respectively)	(471.4)	(471.4)
Total Molson Coors Brewing Company stockholders' equity	13,864.1	13,226.1
Noncontrolling interests	225.9	208.9
Total equity	14,090.0	13,435.0
Total liabilities and equity	\$30,470.3	\$ 30,246.9

See notes to unaudited condensed consolidated financial statements.

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MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN MILLIONS)
(UNAUDITED)

	Nine Months Ended	
	September 30, 2018	September 30, 2017
Cash flows from operating activities:		
Net income (loss) including noncontrolling interests	\$1,058.9	\$ 843.1
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	644.2	604.3
Amortization of debt issuance costs and discounts	10.0	17.6
Share-based compensation	33.8	46.2
(Gain) loss on sale or impairment of properties and other assets, net	0.2	(9.6)
Unrealized (gain) loss on foreign currency fluctuations and derivative instruments, net	61.2	(84.5)
Income tax (benefit) expense	231.6	338.5
Income tax (paid) received	11.2	15.9
Interest expense, excluding interest amortization	231.8	259.3
Interest paid	(273.1)	(299.0)
Pension expense (benefit)	(42.9)	(46.9)
Pension contributions paid	(7.1)	(307.7)
Change in current assets and liabilities and other	(168.4)	(231.8)
Net cash provided by (used in) operating activities	1,791.4	1,145.4
Cash flows from investing activities:		
Additions to properties	(491.0)	(466.0)
Proceeds from sales of properties and other assets	7.5	56.9
Other	(50.0)	11.1
Net cash provided by (used in) investing activities	(533.5)	(398.0)
Cash flows from financing activities:		
Exercise of stock options under equity compensation plans	6.7	3.6
Dividends paid	(265.6)	(264.9)
Payments on debt and borrowings	(310.2)	(2,601.5)
Proceeds on debt and borrowings	—	1,536.0
Net proceeds from (payments on) revolving credit facilities and commercial paper	(374.8)	999.7
Change in overdraft balances and other	20.5	(40.7)
Net cash provided by (used in) financing activities	(923.4)	(367.8)
Cash and cash equivalents:		
Net increase (decrease) in cash and cash equivalents	334.5	379.6
Effect of foreign exchange rate changes on cash and cash equivalents	(3.0)	30.8
Balance at beginning of year	418.6	560.9
Balance at end of period	\$750.1	\$ 971.3
See notes to unaudited condensed consolidated financial statements.		

MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND NONCONTROLLING INTERESTS
(IN MILLIONS)
(UNAUDITED)

	MCBC Stockholders' Equity							Accumulated other comprehensive income (loss)	Common Stock	
	Total	Common stock issued		Exchangeable shares issued		Paid-in- capital	Retained earnings		held in treasury Class B	Non controlling interests
		Class A	Class B	Class A	Class B					
As of December 31, 2016	\$11,621.7	\$—	\$2.0	\$108.1	\$571.2	\$6,635.3	\$6,145.3	\$(1,571.8)	\$(471.4)	\$203.0
Exchange of shares	—	—	—	(0.4)	(18.0)	18.4	—	—	—	—
Shares issued under equity compensation plan	(22.4)	—	—	—	—	(22.4)	—	—	—	—
Amortization of share-based compensation	45.3	—	—	—	—	45.3	—	—	—	—
Acquisition of business and purchase of noncontrolling interest	1.6	—	—	—	—	—	—	—	—	1.6
Net income (loss) including noncontrolling interests	843.1	—	—	—	—	—	825.4	—	—	17.7
Other comprehensive income (loss), net of tax	503.3	—	—	—	—	—	—	500.9	—	2.4
Dividends declared and paid	(281.2)	—	—	—	—	—	(264.9)	—	—	(16.3)
As of September 30, 2017	\$12,711.4	\$—	\$2.0	\$107.7	\$553.2	\$6,676.6	\$6,705.8	\$(1,070.9)	\$(471.4)	\$208.4

	MCBC Stockholders' Equity							Accumulated other comprehensive income (loss)	Common Stock	
	Total	Common stock issued		Exchangeable shares issued		Paid-in- capital	Retained earnings		held in treasury Class B	Non controlling interests
		Class A	Class B	Class A	Class B					
As of December 31, 2017	\$13,435.0	\$—	\$2.0	\$107.7	\$553.2	\$6,688.5	\$7,206.1	\$(860.0)	\$(471.4)	\$208.9
Exchange of shares	—	—	—	(4.3)	4.2	0.1	—	—	—	—

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Shares issued under equity compensation plan	(6.3)	—	—	—	(6.3)	—	—	—	—
Amortization of share-based compensation	33.6	—	—	—	33.6	—	—	—	—
Purchase of noncontrolling interest	(0.2)	—	—	—	—	—	—	—	(0.2)
Net income (loss) including noncontrolling interests	1,058.9	—	—	—	—	1,040.5	—	—	18.4
Other comprehensive income (loss), net of tax	(137.5)	—	—	—	—	—	(136.4)	—	(1.1)
Adoption of new accounting pronouncement (see <u>Note 2</u>)	(27.8)	—	—	—	—	(27.8)	—	—	—
Contributions from noncontrolling interests	14.4	—	—	—	—	—	—	—	14.4
Dividends declared and paid	(280.1)	—	—	—	—	(265.6)	—	—	(14.5)
As of September 30, 2018	\$14,090.0	\$-2.0	\$103.4	\$557.4	\$6,715.9	\$7,953.2	\$(996.4)	\$(471.4)	\$225.9

See notes to unaudited condensed consolidated financial statements.

MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Summary of Significant Accounting Policies

Unless otherwise noted in this report, any description of "we," "us" or "our" includes Molson Coors Brewing Company ("MCBC" or the "Company"), principally a holding company, and its operating and non-operating subsidiaries included within our reporting segments and Corporate. Our reporting segments include: MillerCoors LLC ("MillerCoors" or U.S. segment), operating in the United States; Molson Coors Canada ("MCC" or Canada segment), operating in Canada; Molson Coors Europe (Europe segment), operating in Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Republic of Ireland, Romania, Serbia, the United Kingdom and various other European countries; and Molson Coors International ("MCI" or International segment), operating in various other countries. Unless otherwise indicated, information in this report is presented in USD and comparisons are to comparable prior periods. Our primary operating currencies, other than USD, include the CAD, the GBP, and our Central European operating currencies such as the EUR, CZK, HRK and RSD.

The accompanying unaudited condensed consolidated interim financial statements reflect all adjustments which are necessary for a fair statement of the financial position, results of operations and cash flows for the periods presented in accordance with U.S. GAAP. Such unaudited interim condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations.

These unaudited condensed consolidated interim financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017 ("Annual Report"), and have been prepared on a consistent basis with the accounting policies described in Note 1 of the Notes to the Audited Consolidated Financial Statements included in our Annual Report, except as noted below and in Note 2, "New Accounting Pronouncements". We adopted the FASB's new revenue recognition standard and the presentation of net periodic pension and other postretirement benefit cost standard during the first quarter of 2018. We also adopted the updated hedge accounting standard during the second quarter of 2018. The adoption of each of these accounting standards was effective January 1, 2018.

Our historical unaudited condensed consolidated financial statements have been revised to reflect the retrospective application of our change in accounting policy for calculating the market-related value of pension plan assets used to determine net periodic pension cost as discussed in our Annual Report.

The results of operations for the three and nine months ended September 30, 2018, are not necessarily indicative of the results that may be achieved for the full year.

Non-Cash Activity

Non-cash activity includes non-cash issuances of share-based awards, as well as non-cash investing activities related to movements in our guarantee of indebtedness of certain equity method investments. See Note 4, "Investments" and Note 5, "Share-Based Payments" for further discussion. We also had non-cash activities related to capital expenditures incurred but not yet paid, and the recognition of capital leases. These non-cash activities are excluded from our unaudited condensed consolidated statements of cash flows and were \$169.7 million and \$153.8 million for the nine months ended September 30, 2018, and September 30, 2017, respectively.

Discontinued Operations

We no longer present the activity related to foreign exchange movements nor the liabilities associated with our indemnities resulting from the historical sale of the Kaiser business (as discussed in Note 19 of the Notes included in our Annual Report) within discontinued operations and have accordingly reclassified the activity into other income within continuing operations of the unaudited condensed consolidated statements of operations, and the liabilities into other current and long-term liabilities within the unaudited condensed consolidated balance sheets. This change has been applied retrospectively and prospectively. As a result, we reclassified a foreign exchange loss of \$0.2 million and a gain of \$0.8 million from discontinued operations to other income (expense), net for the three and nine months ended September 30, 2017, respectively.

Revenue Recognition

We account for revenue in accordance with Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers, which we adopted on January 1, 2018, using the modified retrospective transition approach (see Note 2, “New Accounting Pronouncements” for impacts of adoption).

Our net sales represent the sale of beer and other malt beverages (including adjacencies, such as cider and hard soda), net of excise tax. Sales are stated net of incentives, discounts and returns. Sales of products are for cash or otherwise agreed upon credit terms. Our payment terms vary by location and customer, however, the time period between when revenue is recognized and when payment is due is not significant. Our revenue generating activities have a single performance obligation and are recognized at the point in time when control transfers and our obligation has been fulfilled, which is when the related goods are shipped or delivered to the customer, depending upon the method of distribution and shipping terms. Where our products are sold under consignment arrangements, revenue is not recognized until control has transferred, which is when the product is sold to the end customer. Revenue is measured as the amount of consideration we expect to receive in exchange for the sale of our product. The cost of various programs, such as price promotions, rebates and coupons are treated as a reduction of sales. In certain of our markets, we make cash payments to customers such as slotting or listing fees, or payments for other marketing or promotional activities. These cash payments are recorded as a reduction of revenue unless we receive a distinct good or service as defined under ASC 606. Specifically, a good or service is considered distinct when it is separately identifiable from other promises in the contract, we receive a benefit from the good or service, and the benefit is separable from the sale of our product to the customer.

Certain payments made to customers are conditional on the achievement of volume targets, marketing commitments, or both. If paid in advance, we record such payments as prepayments and amortize them over the relevant period to which the customer commitment is made (generally up to five years). When the payment is not for a distinct good or service, or fair value cannot be reasonably estimated, the amortization of the prepayment or the cost as incurred is recorded as a reduction of revenue. Where a distinct good or service is received and fair value can be reasonably estimated, the cost is included as marketing, general and administrative expenses. The amounts deferred are reassessed regularly for recoverability over the contract period and are impaired where there is objective evidence that the benefits will not be realized or the asset is otherwise not recoverable. Separately, as discussed below, we analyze whether these advance payments contain a significant financing component for potential adjustment to the transaction price.

Our primary revenue generating activity represents the sale of beer and other malt beverages to customers, including both domestic and exported product sales. Our customer could be a distributor, retail or on-premise outlet, depending on the market. The majority of our revenues are generated from brands that we own and brew ourselves, however, we also import or brew and sell certain non-owned partner brands under licensing and related arrangements. In addition, primarily in the U.K., as well as certain other countries in our Europe segment, we sell other beverage companies' products to on-premise customers to provide them with a full range of products for their retail outlets. We refer to this as the “factored brand business.” Sales from this business are included in our net sales and cost of goods sold when ultimately sold. In the factored brand business, we normally purchase inventory, which includes excise taxes charged by the vendor, take orders from customers for such brands, negotiate with the customers on pricing and invoice customers for the product and related costs of delivery. In addition, we incur the risk of loss at times we are in possession of the inventory and for the receivables due from the customers. Revenues for owned brands, partner and imported brands, as well as factored brands are recognized at the point in time when control is transferred to the customer as discussed above.

Other Revenue Generating Activities

We contract manufacture for other brewers in some of our markets. These contractual agreements require us to brew, package and ship certain brands to these brewers, who then sell the products to their own customers in their respective markets. Revenues under contract brewing arrangements are recognized when our obligation related to the finished product is fulfilled and control of the product transfers to these other brewers.

We also have licensing agreements with third party partners who brew and distribute our products in various markets across our segments. Under these agreements, we are compensated based on the amount of products sold by our partners in these markets at an agreed upon royalty rate or profit percentage. We apply the sales-based royalty

practical expedient to these licensing arrangements and recognize revenue as product is sold by our partners at the agreed upon rate.

We have evaluated these other revenue generating activities under the disaggregation disclosure criteria outlined within the guidance and concluded that these other revenue generating activities are immaterial for separate disclosure. See Note 3, "Segment Reporting", for disclosure of revenues by geographic segment.

Variable Consideration

Our revenue generating activities include variable consideration which is recorded as a reduction of the transaction price based upon expected amounts at the time revenue for the corresponding product sale is recognized. For example, customer promotional discount programs are entered into with certain distributors for certain periods of time. The amount ultimately reimbursed to distributors is determined based upon agreed-upon promotional discounts which are applied to distributors' sales to retailers. Other common forms of variable consideration include volume rebates for meeting established sales targets, and coupons and mail-in rebates offered to the end consumer. The determination of the reduction of the transaction price for variable consideration requires that we make certain estimates and assumptions that affect the timing and amounts of revenue and liabilities recorded. We estimate this variable consideration, including analyzing for a potential constraint on variable consideration, by taking into account factors such as the nature of the promotional activity, historical information and current trends, availability of actual results, and expectations of customer and consumer behavior.

We do not have standard terms that permit return of product; however, in certain markets where returns occur we estimate the amount of returns as variable consideration based on historical return experience and adjust our revenue accordingly. Products that do not meet our high quality standards are returned by the customer or recalled and destroyed and are recorded as a reduction of revenue. The reversal of revenue is recorded upon determination that the product will be recalled and destroyed. We estimate the costs required to facilitate product returns and record them in cost of goods sold as required.

During the three and nine months ended September 30, 2018, adjustments to revenue from performance obligations satisfied in the prior period due to changes in estimates in variable consideration were immaterial.

Significant Financing Component and Costs to Obtain Contracts

In certain of our businesses where such practices are legally permitted, we make loans or advanced payments to retail outlets that sell our brands. For arrangements that do not span greater than one year, we apply the practical expedient available under ASC 606 and do not adjust the transaction price for the effects of a potential significant financing component. We further analyze arrangements that span greater than one year on an ongoing basis to determine whether a significant financing component exists. No such arrangements existed during the nine months ended September 30, 2018.

Advance payments to customers, where legally permitted, are deferred and amortized as a reduction to revenue over the expected period of benefit and tested for recoverability as appropriate. All other costs to obtain contracts and fulfill are expensed as incurred based on the nature, significance and expected benefit of these costs relative to the contract.

Contract Assets and Liabilities

We continually evaluate whether our revenue generating activities and advanced payment arrangements with customers result in the recognition of contract assets or liabilities. No such assets or liabilities existed as of September 30, 2018, or December 31, 2017. Separately, trade accounts receivable, including affiliate receivables, approximates receivables from contracts with customers.

Shipping and Handling

Freight costs billed to customers for shipping and handling are recorded as revenue. Shipping and handling expense related to costs incurred to deliver product are recognized within cost of goods sold. We account for shipping and handling activities that occur after control has transferred as a fulfillment cost as opposed to a separate performance obligation, and the costs of shipping and handling are recognized concurrently with the related revenue.

Excise Tax

Excise tax remitted to tax authorities are government-imposed excise taxes on beer. Excise taxes are shown in a separate line item in the unaudited condensed consolidated statements of operations as a reduction of sales. Excise taxes are recognized as a current liability within accounts payable and other current liabilities on the unaudited condensed consolidated balance sheets, with the liability subsequently reduced when the taxes are remitted to the tax authority.

Net Periodic Pension Cost Revised Accounting Policy

The following table presents the impacts to our quarterly information resulting from the retrospective application of our change in accounting policy for calculating the market-related value of pension plan assets used to determine net periodic pension cost effective in the fourth quarter of 2017 as discussed in Note 1 of the Notes of our Annual Report. The below "As Adjusted" amounts have been further adjusted to reflect the adoption of the accounting standard on the presentation of net periodic pension and postretirement benefit cost. See [Note 2, "New Accounting Pronouncements"](#).

	Three Months Ended March 31, 2017		Three Months Ended June 30, 2017		Three Months Ended September 30, 2017		Three Months Ended December 31, 2017	
	As Reported	As Adjusted	As Reported	As Adjusted	As Reported	As Adjusted	Under Prior Method	As Adjusted
(In millions)								
Unaudited Condensed Consolidated Statements of Operations:								
Cost of goods sold	\$(1,372.9)	\$(1,367.7)	\$(1,756.1)	\$(1,750.7)	\$(1,589.6)	\$(1,584.1)	\$(1,520.3)	\$(1,514.7)
Marketing, general and administrative expenses	\$(702.8)	\$(699.5)	\$(781.2)	\$(777.8)	\$(782.8)	\$(779.2)	\$(779.4)	\$(775.9)
Special items, net	\$(3.8)	\$(3.8)	\$(16.5)	\$(16.5)	\$(4.1)	\$(4.1)	\$(3.7)	\$(3.7)
Income tax benefit (expense)	\$(64.6)	\$(65.9)	\$(123.0)	\$(125.2)	\$(145.3)	\$(147.4)	\$392.4	\$391.7
Net income (loss) attributable to MCBC	\$201.3	\$208.5	\$323.3	\$329.9	\$280.0	\$287.0	\$580.4	\$588.8
Basic net income (loss) attributable to MCBC per share	\$0.94	\$0.97	\$1.50	\$1.53	\$1.30	\$1.33	\$2.69	\$2.73
Diluted net income (loss) attributable to MCBC per share	\$0.93	\$0.96	\$1.49	\$1.52	\$1.29	\$1.33	\$2.68	\$2.72

2. New Accounting Pronouncements

New Accounting Pronouncements Recently Adopted

Pension and Other Postretirement Benefit Plans

In March 2017, the FASB issued authoritative guidance intended to improve the consistency, transparency and usefulness of financial information related to defined benefit pension or other postretirement plans. Under the new guidance, an employer must disaggregate the service cost component from the other components of net benefit cost within the statements of operations. Specifically, the new guidance requires us to report only the service cost component in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period; while the other components of net benefit cost are now presented in the unaudited condensed consolidated statements of operations separately from the service cost component and outside of operating income. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable. We have also determined that only service cost will be reported within each operating segment and all other components will be reported within the Corporate segment. The guidance related to the income statement presentation of service costs and other pension and postretirement benefit costs is applied retrospectively, while the capitalization of service costs component is applied prospectively. We adopted this guidance as of January 1, 2018, which was a classification adjustment only and had no impact to our consolidated net income. The adoption of this guidance resulted in the following retrospective adjustments within our unaudited condensed consolidated results of operations:

	Three Months Ended September 30, 2017	
	As	As Adjusted
	Adjusted - Pension Methodology ⁽¹⁾	Accounting Standard Update
	(In millions)	
Unaudited Condensed Consolidated Statement of Operations:		
Cost of goods sold	\$(1,584.1)	\$(1,589.1)
Marketing, general and administrative expenses	\$(779.2)	\$(783.8)
Operating income (loss)	\$515.8	\$506.2
Other pension and postretirement benefits (costs), net	\$—	\$9.6
	Nine Months Ended September 30, 2017	
	As	As Adjusted
	Adjusted - Pension Methodology ⁽¹⁾	Accounting Standard Update
	(In millions)	
Unaudited Condensed Consolidated Statement of Operations:		
Cost of goods sold	\$(4,702.5)	\$(4,716.9)
Marketing, general and administrative expenses	\$(2,256.5)	\$(2,271.5)
Special items, net	\$(24.4)	\$(27.3)
Operating income (loss)	\$1,439.8	\$1,407.5
Other pension and postretirement benefits (costs), net	\$—	\$32.3

As discussed in detail within [Note 1, "Basis of Presentation and Summary of Significant Accounting Policies"](#), our historical unaudited condensed consolidated financial statements have been revised to reflect the retrospective application of our change in accounting policy for calculating the market-related value of pension plan assets used to determine net periodic pension cost. The change was effective in the fourth quarter of 2017.

(1)

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The following table shows the (increase) decrease for the respective line item within the unaudited condensed consolidated statement of operations for segment reporting for the three months ended September 30, 2017:

	Corporate	Europe	U.S.	Canada
Cost of goods sold	\$ —	\$(7.1)	\$1.9	\$ 0.2
Marketing, general and administrative expenses	—	(4.6)	0.1	(0.1)
Other pension and postretirement benefits (costs), net	9.6	—	—	—
Total	\$ 9.6	\$(11.7)	\$2.0	\$ 0.1

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The following table shows the (increase) decrease for the respective line item within the unaudited condensed consolidated statement of operations for segment reporting for the nine months ended September 30, 2017:

	Corporate	Europe	U.S.	Canada
Cost of goods sold	\$ —	\$(20.4)	\$5.5	\$0.5
Marketing, general and administrative expenses	—	(13.9)	(0.7)	(0.4)
Special items, net	—	—	—	(2.9)
Other pension and postretirement benefits (costs), net	32.3	—	—	—
Total	\$ 32.3	\$(34.3)	\$4.8	\$(2.8)

Revenue Recognition

In May 2014, the FASB issued authoritative guidance related to new accounting requirements for the recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for the goods or services.

We adopted this guidance and related amendments as of January 1, 2018, applying the modified retrospective transition approach to all contracts. Based on our comprehensive assessment of the new guidance, including our evaluation of the five-step approach outlined within the guidance, we concluded that the adoption did not have a significant impact to our core revenue generating activities. However, the adoption resulted in a change in presentation of certain cash payments made to customers as well as the timing of recognition of certain promotional discounts. Specifically, certain cash payments to customers were previously recorded within marketing, general and administrative expenses in the unaudited condensed consolidated statements of operations. Upon the adoption of the new guidance, many of these cash payments did not meet the specific criteria within the new guidance of providing a “distinct” good or service, and therefore, were required to be presented as a reduction of revenue. Based on foreign exchange rates as of September 30, 2018, we currently anticipate that the impact of this change will result in a reduction of both revenue and marketing, general and administrative expenses by approximately \$60 million to \$65 million during 2018, primarily within our Canada segment, with no impact to full year net income. However, actual results may differ from these estimates. Furthermore, upon adoption of the new guidance, certain of our promotional discounts which are deemed variable consideration under the new guidance, are now recognized at the time of the related shipment of product, which is earlier than recognized under historical guidance. We anticipate that this change in recognition timing will shift financial statement recognition primarily amongst quarters, however, do not anticipate that the full-year impact will be significant to our financial results. We also evaluated the requirements of the new guidance on our other revenue generating activities such as contract brewing and license arrangements and concluded that no changes to our historical accounting treatment was required.

As a result of the cumulative impact of adopting the new guidance, we recorded a reduction to opening retained earnings of \$27.8 million as of January 1, 2018, with an offsetting increase primarily within accounts payable and other current liabilities and the related tax effects, related primarily to the accelerated recognition of certain promotional discounts. Results for reporting periods beginning after January 1, 2018, are presented under the new guidance, while prior period amounts have not been adjusted and continue to be reported in accordance with historical accounting guidance. The following tables provide a comparison of our current period results of operations and financial position under the new guidance, versus our financial statements if the historical guidance had continued to be applied:

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	As Under Historical Guidance	Reported Under New Guidance	Effect of Change	As Under Historical Guidance	Reported Under New Guidance	Effect of Change
(In millions, except per share data)						
Unaudited Condensed Consolidated Statement of Operations:						
Sales	\$3,637.8	\$3,625.1	\$(12.7)	\$10,367.1	\$10,313.6	\$(53.5)
Excise taxes	(690.9)	(690.9)	—	(1,962.7)	(1,962.7)	—
Net sales	2,946.9	2,934.2	(12.7)	8,404.4	8,350.9	(53.5)
Cost of goods sold	(1,714.0)	(1,714.0)	—	(4,988.8)	(4,988.8)	—
Gross profit	1,232.9	1,220.2	(12.7)	3,415.6	3,362.1	(53.5)
Marketing, general and administrative expenses	(733.3)	(713.9)	19.4	(2,185.2)	(2,139.7)	45.5
Special items, net	(36.6)	(36.6)	—	267.7	267.7	—
Operating income (loss)	463.0	469.7	6.7	1,498.1	1,490.1	(8.0)
Interest income (expense), net	(66.6)	(67.4)	(0.8)	(224.8)	(227.3)	(2.5)
Other pension and postretirement benefits (costs), net	7.6	7.6	—	27.5	27.5	—
Other income (expense), net	0.2	0.2	—	0.2	0.2	—
Income (loss) before income taxes	404.2	410.1	5.9	1,301.0	1,290.5	(10.5)
Income tax benefit (expense)	(63.6)	(64.5)	(0.9)	(233.7)	(231.6)	2.1
Net income (loss)	340.6	345.6	5.0	1,067.3	1,058.9	(8.4)
Net (income) loss attributable to noncontrolling interests	(7.3)	(7.3)	—	(18.4)	(18.4)	—
Net income (loss) attributable to MCBC	\$333.3	\$338.3	\$5.0	\$1,048.9	\$1,040.5	\$(8.4)
Basic net income (loss) attributable to MCBC per share	\$1.54	\$1.57	\$0.03	\$4.86	\$4.82	\$(0.04)
Diluted net income (loss) attributable to MCBC per share	\$1.54	\$1.56	\$0.02	\$4.84	\$4.80	\$(0.04)

As of September 30, 2018

	As Under Historical Guidance	Reported Under New Guidance	Effect of Change

(In millions)

Unaudited Condensed Consolidated Balance Sheet:

Assets			
Accounts receivable, net	\$933.2	\$933.4	\$0.2
Other current assets, net	\$306.3	\$312.7	\$6.4
Liabilities and equity			

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Accounts payable and other current liabilities	\$2,766.8	\$2,820.6	\$53.8
Deferred tax liabilities	\$1,864.7	\$1,853.6	\$(11.1)
Retained earnings	\$7,989.4	\$7,953.2	\$(36.2)
AOCI	\$(996.5)	\$(996.4)	\$0.1

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These changes are primarily driven by the reclassification of certain cash payments to customers from marketing, general and administrative expenses to a reduction of revenue, as well as the change in the timing of recognition of certain promotional discounts and cash payments to customers. This adoption had no impact to our cash flows from operating, investing or financing activities. See Note 1, "Basis of Presentation and Summary of Significant Accounting Policies" for further details on our significant accounting policies for revenue recognition pursuant to the new guidance.

Financial and Commodity Risks

In August 2017, the FASB issued authoritative guidance intended to refine and expand hedge accounting for both financial and commodity risks. The revised guidance will create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. In addition, this guidance makes certain targeted improvements to simplify the application of hedge accounting guidance. This guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. We early adopted this guidance during the second quarter of 2018. All transition requirements have been applied to hedging relationships existing on the date of adoption and the effect of the adoption is reflected as of January 1, 2018. The adoption of this guidance did not result in a cumulative adjustment to the opening balance of retained earnings as of January 1, 2018, and did not have any other material effect on our results of operations, financial position or cash flows. All required disclosures under the new guidance have been made in Note 12, "Derivative Instruments and Hedging Activities".

New Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued authoritative guidance intended to address a customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. This guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The guidance also requires presentation of the capitalized implementation costs in the statement of financial position in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented, and the expense related to the capitalized implementation costs to be presented in the same line item in the statement of operations as the fees associated with the hosting element (service) of the arrangement. This guidance is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods, with early adoption permitted. We are currently evaluating the potential impact on our financial position and results of operations upon adoption of this guidance.

In February 2018, the FASB issued authoritative guidance intended to improve the usefulness of financial information related to the enactment of the 2017 U.S. Tax Cuts and Jobs Act (the "2017 Tax Act"). This guidance provides an option to reclassify from accumulated other comprehensive income to retained earnings the stranded tax effects resulting from the change in the U.S. federal corporate income tax rate as a result of the 2017 Tax Act. This guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. We are currently evaluating the potential impact on our financial statements in order to determine whether to elect to make this reclassification upon adoption of this guidance.

In February 2016, the FASB issued authoritative guidance intended to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the new guidance, lessees will be required to recognize a right-of-use asset and a lease liability, measured on a discounted basis, at the commencement date for all leases with terms greater than twelve months. Additionally, this guidance will require disclosures to help investors and other financial statement users to better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. The guidance should be applied under a modified retrospective transition approach, with an option to apply the guidance either at the beginning of the earliest comparative period presented in the adoption-period financial statements, or to apply the new guidance at the adoption date. We currently anticipate that we will apply the guidance at the beginning of the period of adoption. We are currently evaluating the potential impact on our financial position and results of operations upon adoption of this

guidance. This guidance will result in our existing operating leases, for certain real estate and equipment, to be recognized on our balance sheet. We will further analyze our lease arrangements as we complete our assessment and implementation of this new guidance.

Other than the items noted above, there have been no new accounting pronouncements not yet effective or adopted in the current year that we believe have a significant impact, or potential significant impact, to our unaudited condensed consolidated interim financial statements.

3. Segment Reporting

Our reporting segments are based on the key geographic regions in which we operate, which are the basis on which our chief operating decision maker evaluates the performance of the business. Our reporting segments consist of the U.S., Canada, Europe and International. Corporate is not a segment and primarily includes interest and certain other general and administrative costs that are not allocated to any of the operating segments as well as the unrealized changes in fair value on our commodity swaps not designated in hedging relationships recorded within cost of goods sold, which are later reclassified when realized to the segment in which the underlying exposure resides. Additionally, only the service cost component of net periodic pension and OPEB cost are now reported within each operating segment, as discussed in Note 2, "New Accounting Pronouncements", and all other components are reported, retrospectively and prospectively, within the Corporate segment in accordance with how our chief operating decision maker evaluates the performance of our business.

No single customer accounted for more than 10% of our consolidated sales for the three and nine months ended September 30, 2018, or September 30, 2017. Consolidated net sales represent sales to third-party external customers less excise taxes. Inter-segment transactions impacting net sales revenues and income (loss) before income taxes eliminate in consolidation and are primarily related to U.S. segment sales to the other segments.

The following tables present net sales, income (loss) before income taxes and total assets by segment:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(In millions)			
U.S.	\$1,935.8	\$ 1,892.2	\$5,656.1	\$ 5,781.0
Canada	388.9	406.4	1,070.1	1,105.1
Europe	577.9	561.2	1,538.3	1,467.5
International	67.0	65.7	192.4	192.6
Corporate	0.2	0.3	0.7	0.9
Inter-segment net sales eliminations	(35.6)	(42.6)	(106.7)	(123.9)
Consolidated net sales	\$2,934.2	\$ 2,883.2	\$8,350.9	\$ 8,423.2
	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017 ⁽¹⁾	September 30, 2018	September 30, 2017 ⁽¹⁾
	(In millions)			
U.S.	\$374.2	\$ 367.1	\$1,081.4	\$1,170.2
Canada ⁽²⁾	77.5	77.2	147.9	167.8
Europe ⁽³⁾	96.0	94.9	152.9	191.8
International	(1.0)	(6.0)	4.0	(12.2)
Corporate ⁽⁴⁾	(136.6)	(92.7)	(95.7)	(336.0)
Consolidated income (loss) before income taxes	\$410.1	\$ 440.5	\$1,290.5	\$1,181.6

Segment results for the three and nine months ended September 30, 2017, have been adjusted to reflect the adoption of the new accounting pronouncement for pension and other postretirement benefit costs as well as the reclassification of all non-service cost components of pension and other postretirement costs to Corporate. See Note 2, "New Accounting Pronouncements" for further details.

(1) During the first quarter of 2017, we received payment and recorded a gain of CAD 10.6 million, or \$8.1 million, resulting from a purchase price adjustment related to the historical sale of Molson Inc.'s ownership interest in the Montreal Canadiens, which is considered an affiliate of MCBC.

(2) During the three months ended March 31, 2017, we recorded a provision for an estimate of uncollectible receivables of approximately \$11 million related to Agrokor, a large customer in Croatia. We have subsequently reduced this exposure and as of September 30, 2018, our estimated provision of uncollectible receivables from Agrokor totals approximately \$4 million. The settlement plan related to this matter was approved in October 2018,

and will not have a significant impact on our financial statements. Separately, during the first quarter of 2017, we released an indirect tax loss contingency, which was initially recorded in the fourth quarter of 2016, for a benefit of approximately \$50 million. See Note 14, "Commitments and Contingencies" for details.

During the three months ended March 31, 2018, we recorded a gain of \$328.0 million related to the Adjustment Amount as defined and further discussed in Note 6, "Special Items". Additionally, related to the unrealized (4) mark-to-market valuation on our commodity hedge positions, we recorded unrealized losses of \$23.2 million and \$62.8 million during the three and nine months ended September 30, 2018, respectively, compared to unrealized gains of \$45.3 million and \$85.0 million during the three and nine months ended September 30, 2017, respectively. Income (loss) before income taxes includes the impact of special items. Refer to Note 6, "Special Items" for further discussion.

	As of	
	September 30,	December 31,
	2018	2017
	(In millions)	
U.S.	\$19,304.5	\$ 19,353.6
Canada	4,851.1	4,835.7
Europe	5,612.3	5,522.0
International	277.9	294.8
Corporate	424.5	240.8
Consolidated total assets	\$30,470.3	\$ 30,246.9

4. Investments

Our investments include both equity method and consolidated investments. Those entities identified as VIEs have been evaluated to determine whether we are the primary beneficiary. The VIEs included under "Consolidated VIEs" below are those for which we have concluded that we are the primary beneficiary and accordingly, consolidate these entities. None of our consolidated VIEs held debt as of September 30, 2018, or December 31, 2017. We have not provided any financial support to any of our VIEs during the year that we were not previously contractually obligated to provide. Amounts due to and due from our equity method investments are recorded as affiliate accounts payable and affiliate accounts receivable.

Authoritative guidance related to the consolidation of VIEs requires that we continually reassess whether we are the primary beneficiary of VIEs in which we have an interest. As such, the conclusion regarding the primary beneficiary status is subject to change and we continually evaluate circumstances that could require consolidation or deconsolidation. As of September 30, 2018, and December 31, 2017, our consolidated VIEs were Cobra Beer Partnership, Ltd. ("Cobra U.K."), Grolsch U.K. Ltd. ("Grolsch"), Rocky Mountain Metal Container ("RMMC") and Rocky Mountain Bottle Company ("RMBC"). Our unconsolidated VIEs are Brewers Retail Inc. ("BRI") and Brewers' Distributor Ltd. ("BDL").

Both BRI and BDL have outstanding third party debt which is guaranteed by their respective shareholders. As a result, we have a guarantee liability of \$44.3 million and \$38.1 million recorded as of September 30, 2018, and December 31, 2017, respectively, which is presented within accounts payable and other current liabilities on the unaudited condensed consolidated balance sheets and represents our proportionate share of the outstanding balance of these debt instruments. The carrying value of the guarantee liability equals fair value, which considers an adjustment for our own non-performance risk and is considered a Level 2 measurement. The offset to the guarantee liability was recorded as an adjustment to our respective equity method investment within the unaudited condensed consolidated balance sheets. The resulting change in our equity method investments during the year due to movements in the guarantee represents a non-cash investing activity.

Consolidated VIEs

The following summarizes the assets and liabilities of our consolidated VIEs (including noncontrolling interests):

	As of			
	September 30,	December 31,		
	2018	2017		
	Total	Total	Total	Total
	Assets	Liabilities	Assets	Liabilities
	(In millions)			
Grolsch	\$4.9	\$ 0.2	\$ 4.8	\$ 0.2

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Cobra U.K.	\$16.9	\$ 0.7	\$ 20.2	\$ 2.1
RMMC	\$71.1	\$ 6.4	\$ 74.4	\$ 4.4
RMBC	\$96.6	\$ 6.9	\$ 56.2	\$ 4.6

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Additionally, on October 4, 2018, a wholly-owned subsidiary within our Canadian business completed the formation of an independent Canadian joint venture with Hexo Corp. ("HEXO") (f/k/a The Hydropothecary Corporation) to pursue opportunities to develop, produce and market non-alcoholic, cannabis-infused beverages once legal in Canada. The joint venture is structured as a standalone start-up company with its own board of directors and an independent management team. We maintain a 57.5% controlling interest in the joint venture, which is a VIE that will be consolidated. In connection with the formation of the joint venture, HEXO also issued warrants to our Canadian subsidiary, which are further discussed in Note 12, "Derivative Instruments and Hedging Activities".

5. Share-Based Payments

We have one share-based compensation plan, the MCBC Incentive Compensation Plan (the "Incentive Compensation Plan"), as of September 30, 2018, and all outstanding awards fall under this plan. During the three and nine months ended September 30, 2018, and September 30, 2017, we recognized share-based compensation expense related to the following Class B common stock awards to certain directors, officers and other eligible employees, pursuant to the Incentive Compensation Plan: RSUs, DSUs, PSUs and stock options.

	Three Months Ended		Nine Months Ended	
	September 30, 2018		September 30, 2017	
	2018	2017	2018	2017
	(In millions)			
Pretax compensation expense	\$8.7	\$ 14.6	\$33.8	\$ 46.2
Tax benefit	(1.5)	(5.1)	(5.2)	(15.9)
After-tax compensation expense	\$7.2	\$ 9.5	\$28.6	\$ 30.3

As of September 30, 2018, there was \$49.6 million of total unrecognized compensation expense from all share-based compensation arrangements granted under the Incentive Compensation Plan, related to unvested awards. This total compensation expense is expected to be recognized over a weighted-average period of 1.9 years.

	RSUs and DSUs		PSUs	
	Weighted-average		Weighted-average	
	Units grant date	fair value	Units grant date	fair value
	per unit		per unit	
	(In millions, except per unit amounts)			
Non-vested as of December 31, 2017	1.0	\$95.80	0.4	\$89.57
Granted	0.4	\$72.98	0.2	\$78.30
Vested	(0.3)	\$90.76	(0.1)	\$75.22
Forfeited	—	\$—	—	\$—
Non-vested as of September 30, 2018	1.1	\$89.04	0.5	\$86.87

The weighted-average fair value per unit for the non-vested PSUs is \$86.93 as of September 30, 2018.

	Stock options and SOSARs			
	Awards	Weighted-average exercise price per share	Weighted-average remaining contractual life (years)	Aggregate intrinsic value
	(In millions, except per share amounts and years)			
Outstanding as of December 31, 2017	1.5	\$63.60	4.6	\$ 31.3
Granted	0.2	\$78.79		
Exercised	(0.2)	\$50.09		
Forfeited	—	\$—		
Outstanding as of September 30, 2018	1.5	\$67.15	4.6	\$ 9.9
Expected to vest as of September 30, 2018	0.3	\$85.32	8.5	\$ —
Exercisable as of September 30, 2018	1.2	\$61.47	3.4	\$ 9.9

The total intrinsic values of stock options and SOSARs exercised during the nine months ended September 30, 2018, and September 30, 2017, were \$5.2 million and \$6.9 million, respectively. During the nine months ended September 30, 2018, and September 30, 2017, cash received from stock option exercises was \$6.7 million and \$3.6 million, respectively, and total tax benefits realized, including excess tax benefits, from share-based awards vested or exercised was \$6.1 million and \$20.0 million, respectively.

The fair value of each option granted in the first three quarters of 2018 and 2017 was determined on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Nine Months Ended	
	September 30, 2018	September 30, 2017
Risk-free interest rate	2.65%	2.04%
Dividend yield	2.08%	1.64%
Volatility range	22.36%-24.14%	22.40%-22.88%
Weighted-average volatility	22.81%	22.52%
Expected term (years)	5.3	5.1
Weighted-average fair market value	\$15.44	\$18.66

The risk-free interest rates utilized for periods throughout the contractual life of the stock options are based on a zero-coupon U.S. Treasury security yield at the time of grant. Expected volatility is based on a combination of historical and implied volatility of our stock. The expected term of stock options is estimated based upon observations of historical employee option exercise patterns and trends of those employees granted options in the respective year. The fair value of the market metric for each PSU granted in the first three quarters of 2018 and 2017 was determined on the date of grant using a Monte Carlo model to simulate total stockholder return for MCBC and peer companies with the following weighted-average assumptions:

	Nine Months Ended	
	September 30, 2018	September 30, 2017
Risk-free interest rate	2.34%	1.59%
Dividend yield	2.08%	1.64%
Volatility range	13.03%-81.87%	13.71%-80.59%
Weighted-average volatility	22.76%	24.24%
Expected term (years)	2.8	2.8
Weighted-average fair market value	\$78.30	\$97.13

The risk-free interest rates utilized for periods throughout the expected term of the PSUs are based on a zero-coupon U.S. Treasury security yield at the time of grant. Expected volatility is based on historical volatility of our stock as well as the stock of our peer firms, as shown within the volatility range above, for a period from the grant date consistent with the expected term. The expected term of PSUs is calculated based on the grant date to the end of the performance period.

As of September 30, 2018, there were 3.9 million shares of the Company's Class B common stock available for issuance as awards under the Incentive Compensation Plan.

6. Special Items

We have incurred charges or realized benefits that either we do not believe to be indicative of our core operations, or we believe are significant to our current operating results warranting separate classification. As such, we have separately classified these charges (benefits) as special items.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(In millions)			
Employee-related charges				
Restructuring	\$28.7	\$ 0.8	\$33.6	\$ 2.1
Impairments or asset abandonment charges				
U.S. - Asset abandonment ⁽¹⁾	1.4	0.1	4.2	14.5
Canada - Asset abandonment ⁽²⁾	5.9	6.1	18.0	8.4
Europe - Asset abandonment ⁽³⁾	0.5	1.9	3.2	7.1
Termination fees and other (gains) losses				
International ⁽⁴⁾	0.1	—	1.3	—
Acquisition purchase price adjustment settlement gain ⁽⁵⁾	—	—	(328.0)	—
Europe - Gain on sale of asset ⁽⁶⁾	—	(4.8)	—	(4.8)
Total Special items, net	\$36.6	\$ 4.1	\$(267.7)	\$ 27.3

(1) Charges for the three and nine months ended September 30, 2018, relate to the planned closure of the Colfax, California cidery, and consist primarily of accelerated depreciation in excess of normal depreciation. Charges for the three and nine months ended September 30, 2017, relate to the closure of the Eden, North Carolina, brewery.

(2) For both the three and nine months ended September 30, 2018, and September 30, 2017, we incurred charges consisting primarily of accelerated depreciation in excess of normal depreciation related to the planned closures of the Vancouver and Montreal breweries, which are currently expected to occur in 2019 and 2021, respectively.

(3) For the three and nine months ended September 30, 2018, we incurred charges primarily related to the closure of the Alton brewery, which closed during the second quarter of 2015, and the closure of the Burton South brewery, which closed during the first quarter of 2018. For the three and nine months ended September 30, 2017, we incurred charges consisting primarily of accelerated depreciation in excess of normal depreciation related to the Burton South brewery closure.

(4) For the three and nine months ended September 30, 2018, we incurred charges related to the exit of our China business.

(5) On October 11, 2016, we completed the Acquisition for \$12.0 billion in cash, subject to a downward adjustment as described in the purchase agreement. This purchase price "Adjustment Amount," as defined in the purchase agreement, required payment to MCBC if the unaudited EBITDA for the Miller International Business for the twelve months prior to closing was below \$70 million.

Throughout the process outlined in the purchase agreement, significant uncertainty remained on the ultimate outcome of the Adjustment Amount. As a result, no adjustment to purchase accounting was made through the completion of the measurement period in October 2017. Subsequently, on January 21, 2018, MCBC and ABI entered into a settlement agreement related to the purchase price adjustment under the purchase agreement, and on January 26, 2018, pursuant to the settlement agreement, ABI paid to MCBC \$330.0 million, of which \$328.0 million constitutes the Adjustment Amount. As this settlement occurred following the finalization of purchase accounting, we recorded the settlement proceeds related to the Adjustment Amount as a gain within special items, net in our unaudited condensed consolidated statement of operations in our Corporate segment and within cash provided by operating activities within our unaudited condensed consolidated statement of cash flows for the nine months ended September 30, 2018. MCBC and ABI also agreed to certain mutual releases as further described in the settlement agreement which was filed as an exhibit to a Current Report on Form 8-K filed January 22, 2018.

(6) During the three and nine months ended September 30, 2017, we completed the sale of land related to our previously closed Plovdiv brewery and received net cash proceeds of \$8.2 million and recognized a gain of \$4.8

million within special items.

Restructuring Activities

Beginning in 2016, restructuring initiatives related to the integration of MillerCoors after the completion of the Acquisition were implemented in order to operate a more efficient business and achieve cost saving targets which to-date resulted in reduced employment levels by approximately 110 employees. Subsequently, during the third quarter of 2018, we initiated restructuring activities in the U.S. in order to align our cost base with our scale of business. As a result, we expect to reduce U.S. employment levels by approximately 350 employees in the fourth quarter of 2018. Severance costs related to these restructuring activities were recorded as special items within our unaudited condensed consolidated statements of operations. As we continually evaluate our cost structure and seek opportunities for further efficiencies and cost savings as part of these initiatives, we may incur additional restructuring related charges or adjustments to previously recorded charges in the future; however, we are unable to estimate the amount of charges at this time.

We have continued our ongoing assessment of our supply chain strategies across our segments in order to align with our cost saving objectives. As part of this strategic review, which began in 2014, we have had restructuring activities related to the closure or planned closure of breweries, as well as activities related to business efficiencies. As a result, we have reduced employment levels by a total of 456 employees. Consequently, we recognized severance and other employee-related charges, which we have recorded as special items within our unaudited condensed consolidated statements of operations. We will continue to evaluate our supply chain network and seek opportunities for further efficiencies and cost savings, and we therefore may incur additional restructuring related charges or adjustments to previously recorded charges in the future, however, we are unable to estimate the amount of charges at this time. The accrued restructuring balances represent expected future cash payments required to satisfy the remaining severance obligations to terminated employees, the majority of which we expect to be paid in the next 12 months.

	U.S.	Canada	Europe	International	Corporate	Total
	(In millions)					
As of December 31, 2017	\$0.6	\$ 4.3	\$ 1.8	\$ 0.2	\$	—\$6.9
Charges incurred and changes in estimates	30.3	(0.8)	2.2	1.9	—	33.6
Payments made	(1.2)	(1.8)	(2.6)	(0.8)	—	(6.4)
Foreign currency and other adjustments	—	(0.1)	(0.1)	—	—	(0.2)
As of September 30, 2018	\$29.7	\$ 1.6	\$ 1.3	\$ 1.3	\$	—\$33.9
	U.S.	Canada	Europe	International	Corporate	Total
	(In millions)					
As of December 31, 2016	\$5.1	\$ 5.9	\$ 2.8	\$ 0.2	\$ 0.7	\$14.7
Charges incurred and changes in estimates	0.7	(0.3)	0.1	1.5	0.1	2.1
Payments made	(5.1)	(1.4)	(1.2)	(0.8)	(0.7)	(9.2)
Foreign currency and other adjustments	—	0.4	0.2	—	—	0.6
As of September 30, 2017	\$0.7	\$ 4.6	\$ 1.9	\$ 0.9	\$ 0.1	\$8.2

7. Income Tax

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Effective tax rate	16 %	33 %	18 %	29 %

The decrease in the effective tax rate during the third quarter and first three quarters of 2018 versus 2017, is primarily driven by the reduction of the statutory U.S. federal corporate income tax rate from 35% to 21% as a result of the 2017 Tax Act. Our effective tax rates were also affected by the impact of discrete items. Specifically, during the third quarter and first three quarters of 2018, we recognized a net discrete tax benefit of \$11.9 million and \$7.6 million, respectively. During the third quarter and first three quarters of 2017, we recognized net discrete tax expense of \$29.5 million and \$19.8 million, respectively. The net discrete tax benefit recognized in 2018 was driven primarily by the release of uncertain tax positions during the third quarter related to finalizing our bilateral advanced pricing agreement with the Canadian Revenue Agency and U.S. Internal Revenue Service covering tax years 2014 through December 31, 2021. The net discrete tax expense recognized during the third

quarter of 2017 was primarily driven by certain acquisition-related permanent items. The net discrete tax expense recognized during the first three quarters of 2017 was driven by the above mentioned acquisition-related permanent items, partially offset by the release of valuation allowances in certain jurisdictions and excess tax benefits from share-based compensation.

Our tax rate is volatile and may increase or decrease with changes in, among other things, the amount and source of income or loss, our ability to utilize foreign tax credits, excess tax benefits or deficiencies from share-based compensation, changes in tax laws, and the movement of liabilities established pursuant to accounting guidance for uncertain tax positions as statutes of limitations expire, positions are effectively settled, or when additional information becomes available. There are proposed or pending tax law changes in various jurisdictions and other changes to regulatory environments in countries in which we do business that, if enacted, may have an impact on our effective tax rate.

Additionally, we continue to evaluate the impacts of the 2017 Tax Act. As we further understand its implications, as well as the related, and yet to be issued, regulations and interpretations, our effective tax rate could be impacted. For example, subsequent to the enactment, the FASB staff concluded that companies should make an accounting policy election to account for the tax effects of the global intangible low-taxed income ("GILTI") either as a component of income tax expense in the future period the tax arises, or as a component of deferred taxes on the related investments in foreign subsidiaries. We are currently evaluating the GILTI provisions of the 2017 Tax Act and the related implications and have not finalized our accounting policy election, however, have preliminarily concluded that we will record as a periodic expense as incurred, and therefore, have not recorded deferred taxes for GILTI. We will continue to evaluate in future periods and will finalize our accounting policy election at that time.

We did not make any material adjustments to the amounts recorded as of December 31, 2017, as a result of the 2017 Tax Act, however, we continue to consider these amounts provisional for the reasons discussed above. Additional impacts from the 2017 Tax Act will be recorded as they are identified during the measurement period pursuant to SEC Staff Accounting Bulletin No. 118 ("SAB 118"). Our determination of the tax effects of the 2017 Tax Act will be completed no later than one year from the enactment date as permitted under SAB 118. Any adjustments to provisional amounts that are identified during the measurement period will be recorded and disclosed in the reporting period in which the adjustment is determined. The complexity of the 2017 Tax Act could necessitate the need to use the full one year measurement period to adequately interpret, analyze and conclude upon the tax effects of the 2017 Tax Act as of the enactment date.

8. Goodwill and Intangible Assets

	U.S.	Canada	Europe	International	Consolidated
	(In millions)				
Changes in Goodwill:					
As of December 31, 2017	\$5,928.5	\$932.1	\$1,538.0	\$ 6.9	\$ 8,405.5
Business acquisition ⁽¹⁾	—	—	9.8	—	9.8
Adjustments to preliminary purchase price allocation ⁽²⁾	—	(2.9)	—	—	(2.9)
Foreign currency translation	—	(24.3)	(54.3)	(0.8)	(79.4)
As of September 30, 2018	\$5,928.5	\$904.9	\$1,493.5	\$ 6.1	\$ 8,333.0

During the first quarter of 2018, we completed the acquisition of Aspull Cyder Limited, an established premium cider business in the U.K. As part of the preliminary purchase price accounting in the first quarter of 2018, (1) goodwill generated in conjunction with this acquisition has been recorded within our Europe segment, subject to normal purchase accounting adjustments.

(2) During the second quarter of 2018, we recorded adjustments to the preliminary purchase price allocation related to our acquisition of Le Trou du Diable, which was completed in the fourth quarter of 2017.

The following table presents details of our intangible assets, other than goodwill, as of September 30, 2018:

	Useful life (Years)	Gross (In millions)	Accumulated amortization	Net
Intangible assets subject to amortization:				
Brands	10 - 50	\$5,115.6	\$ (647.9)	\$4,467.7
License agreements and distribution rights	15 - 28	223.1	(97.7)	125.4
Other	2 - 40	129.4	(29.0)	100.4
Intangible assets not subject to amortization:				
Brands	Indefinite	8,181.6	—	8,181.6
Distribution networks	Indefinite	783.7	—	783.7
Other	Indefinite	337.6	—	337.6
Total		\$14,771.0	\$ (774.6)	\$13,996.4

The following table presents details of our intangible assets, other than goodwill, as of December 31, 2017:

	Useful life (Years)	Gross (In millions)	Accumulated amortization	Net
Intangible assets subject to amortization:				
Brands	10 - 50	\$5,215.3	\$ (516.0)	\$4,699.3
License agreements and distribution rights	15 - 28	236.3	(103.9)	132.4
Other	2 - 40	148.3	(42.4)	105.9
Intangible assets not subject to amortization:				
Brands	Indefinite	8,216.6	—	8,216.6
Distribution networks	Indefinite	804.7	—	804.7
Other	Indefinite	337.6	—	337.6
Total		\$14,958.8	\$ (662.3)	\$14,296.5

The changes in the gross carrying amounts of intangibles from December 31, 2017, to September 30, 2018, are primarily driven by the impact of foreign exchange rates, as a significant amount of intangibles are denominated in foreign currencies.

Based on foreign exchange rates as of September 30, 2018, the estimated future amortization expense of intangible assets is as follows:

Fiscal year	Amount (In millions)
2018 - remaining	\$ 55.9
2019	\$ 223.4
2020	\$ 222.4
2021	\$ 216.1
2022	\$ 211.5

Amortization expense of intangible assets was \$55.8 million for each of the three months ended September 30, 2018, and September 30, 2017, and \$168.6 million and \$166.1 million for the nine months ended September 30, 2018, and September 30, 2017, respectively. This expense is primarily presented within marketing, general and administrative expenses on the unaudited condensed consolidated statements of operations.

Annual Goodwill Impairment Testing

We completed our required annual goodwill and indefinite-lived intangible impairment testing as of October 1, 2017, the first day of our fourth quarter, and concluded there were no impairments of goodwill within our reporting units or our indefinite-lived intangible assets.

Key Assumptions

Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions and factors. The key assumptions used to derive the estimated fair values of our reporting units and indefinite-lived intangibles are discussed in Part II—Item 8 Financial Statements, Note 11, "Goodwill and Intangible Assets" in our Annual Report.

Based on known facts and circumstances, we evaluate and consider recent events and uncertain items, as well as related potential implications, as part of our annual assessment and incorporate into the analyses as appropriate. These facts and circumstances are subject to change and may impact future analyses. For example, subsequent to the completion of our annual impairment testing, we considered the implications of the enactment of the 2017 Tax Act on our U.S. reporting unit and indefinite-lived brand valuations. The results of our preliminary analysis indicated that the implications are expected to be favorable, keeping all other assumptions constant. Separately, the recent interest rate environment has resulted in an increase in the risk-free rate expected to be included in our current year discount rate calculations. Additionally, recent changes in market conditions may result in lower earnings multiples of comparable public companies within our market-based valuations. These factors, which are utilized within our annual impairment testing, could adversely impact the results of our analyses that are currently in progress.

While historical performance and current expectations have resulted in fair values of our reporting units and indefinite-lived intangible assets in excess of carrying values, if our assumptions are not realized, it is possible that an impairment charge may need to be recorded in the future.

Indefinite and Definite-Lived Intangibles

Regarding indefinite and definite-lived intangibles, we continuously monitor the performance of the underlying assets for potential triggering events suggesting an impairment review should be performed. No such triggering events were identified in the first three quarters of 2018 that resulted in an impairment.

9. Debt

Debt obligations

As of
 September 30, 2017
 October 31, 2018
 (In millions)

Long-term debt:

CAD 400 million 2.25% notes due 2018	\$ —	\$ 318.2
CAD 500 million 2.75% notes due 2020	387.3	397.7
CAD 500 million 2.84% notes due 2023	387.3	397.7
CAD 500 million 3.44% notes due 2026	387.3	397.7
\$500 million 1.45% notes due 2019	500.0	500.0
\$500 million 1.90% notes due 2019 ⁽¹⁾	499.4	498.5
\$500 million 2.25% notes due 2020 ⁽¹⁾⁽²⁾	498.4	498.2
\$1.0 billion 2.10% notes due 2021	1,000.0	1,000.0
\$500 million 3.5% notes due 2022 ⁽¹⁾	510.5	512.2
\$2.0 billion 3.0% notes due 2026	2,000.0	2,000.0
\$1.1 billion 5.0% notes due 2042	1,100.0	1,100.0
\$1.8 billion 4.2% notes due 2046	1,800.0	1,800.0
EUR 500 million notes due 2019	580.2	