CONSTELLATION BRANDS, INC.
Form 10-Q
June 29, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended May 31, 2018
or

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

For the transition period from to

Commission File Number: 001-08495
CONSTELLATION BRANDS, INC.
(Exact name of registrant as specified in its charter)

Delaware	16-0716709
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
207 High Point Drive, Building 100, Victor, New York	14564
(Address of principal executive offices)	(Zip Code)

(585) 678-7100
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý 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). ý 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 ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

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

Exchange Act. ¨

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

The number of shares outstanding with respect to each of the classes of common stock of Constellation Brands, Inc., as of June 25, 2018, is set forth below:

Class	Number of Shares Outstanding
Class A Common Stock, par value $.01 per share	167,864,014
Class B Common Stock, par value $.01 per share	23,324,443
Class 1 Common Stock, par value $.01 per share	7,088

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

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements.
CONSTELLATION BRANDS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions, except share and per share data)
(unaudited)

	May 31, 2018	February 28, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$210.0	$90.3
Accounts receivable	827.9	776.2
Inventories	2,068.4	2,084.0
Prepaid expenses and other	498.5	523.5
Total current assets	3,604.8	3,474.0
Property, plant and equipment	4,815.8	4,789.7
Goodwill	8,050.5	8,083.1
Intangible assets	3,301.6	3,304.8
Other assets	3,324.0	887.1
Total assets	$23,096.7	$20,538.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	$669.7	$746.8
Current maturities of long-term debt	20.9	22.3
Accounts payable	650.3	592.2
Other accrued expenses and liabilities	649.6	678.3
Total current liabilities	1,990.5	2,039.6
Long-term debt, less current maturities	9,416.4	9,417.6
Other liabilities	1,124.0	1,089.8
Total liabilities	12,530.9	12,547.0
Commitments and contingencies		
CBI stockholders' equity:		
Class A Common Stock, $.01 par value – Authorized, 322,000,000 shares; Issued, 258,940,446 shares and 258,718,356 shares, respectively	2.6	2.6
Class B Convertible Common Stock, $.01 par value – Authorized, 30,000,000 shares; Issued, 28,330,243 shares and 28,335,387 shares, respectively	0.3	0.3
Additional paid-in capital	2,834.8	2,825.3
Retained earnings	12,002.4	9,157.2
Accumulated other comprehensive loss	(378.6)	(202.9)
	14,461.5	11,782.5
Less: Treasury stock –		
Class A Common Stock, at cost, 91,111,003 shares and 90,743,239 shares, respectively	(3,902.9)	(3,805.2)
Class B Convertible Common Stock, at cost, 5,005,800 shares	(2.2)	(2.2)
	(3,905.1)	(3,807.4)
Total CBI stockholders' equity	10,556.4	7,975.1
Noncontrolling interests	9.4	16.6
Total stockholders' equity	10,565.8	7,991.7
Total liabilities and stockholders' equity	$23,096.7	$20,538.7

The accompanying notes are an integral part of these statements.

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

	For the Three Months Ended May 31,	
	2018	2017
Sales	$2,230.0	$2,108.3
Excise taxes	(182.9)	(179.8)
Net sales	2,047.1	1,928.5
Cost of product sold	(998.5)	(940.2)
Gross profit	1,048.6	988.3
Selling, general and administrative expenses	(423.2)	(427.2)
Operating income	625.4	561.1
Income from unconsolidated investments	364.4	0.4
Interest expense	(87.8)	(82.4)
Loss on extinguishment of debt	—	(6.7)
Income before income taxes	902.0	472.4
Provision for income taxes	(155.7)	(71.4)
Net income	746.3	401.0
Net income attributable to noncontrolling interests	(2.5)	(2.5)
Net income attributable to CBI	$743.8	$398.5
Comprehensive income	$560.9	$600.5
Comprehensive (income) loss attributable to noncontrolling interests	7.2	(14.5)
Comprehensive income attributable to CBI	$568.1	$586.0
Net income per common share attributable to CBI:		
Basic – Class A Common Stock	$3.93	$2.07
Basic – Class B Convertible Common Stock	$3.57	$1.88
Diluted – Class A Common Stock	$3.77	$1.98
Diluted – Class B Convertible Common Stock	$3.48	$1.83
Weighted average common shares outstanding:		
Basic – Class A Common Stock	168.063	171.555
Basic – Class B Convertible Common Stock	23.326	23.344
Diluted – Class A Common Stock	197.060	201.030
Diluted – Class B Convertible Common Stock	23.326	23.344
Cash dividends declared per common share:		
Class A Common Stock	$0.74	$0.52
Class B Convertible Common Stock	$0.67	$0.47

The accompanying notes are an integral part of these statements.

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

	For the Three Months Ended May 31,	
	2018	2017
Cash flows from operating activities:		
Net income	$746.3	$401.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealized gain on equity securities	(258.3)	—
Gain on sale of unconsolidated investment	(101.4)	—
Deferred tax provision (benefit)	116.2	(11.2)
Depreciation	84.2	70.1
Stock-based compensation	17.3	15.1
Loss on extinguishment of debt and amortization of debt issuance costs	3.0	9.8
Impairment and amortization of intangible assets	1.5	88.2
Change in operating assets and liabilities:		
Accounts receivable	(49.3)	(96.8)
Inventories	10.6	18.4
Prepaid expenses and other current assets	(54.1)	(36.0)
Accounts payable	14.9	(13.6)
Deferred revenue	47.3	42.4
Other accrued expenses and liabilities	(77.7)	(123.7)
Other	3.5	17.9
Total adjustments	(242.3)	(19.4)
Net cash provided by operating activities	504.0	381.6
Cash flows from investing activities:		
Purchases of property, plant and equipment	(168.2)	(217.1)
Proceeds from sale of unconsolidated investment	110.2	—
Other investing activities	4.5	(4.2)
Net cash used in investing activities	(53.5)	(221.3)
Cash flows from financing activities:		
Dividends paid	(140.5)	(100.5)
Purchases of treasury stock	(100.0)	—
Net proceeds from (repayments of) short-term borrowings	(77.5)	381.3
Payments of minimum tax withholdings on stock-based payment awards	(12.9)	(22.3)
Principal payments of long-term debt	(5.9)	(1,913.4)
Proceeds from shares issued under equity compensation plans	7.6	16.6
Payments of debt issuance costs	—	(11.8)
Proceeds from issuance of long-term debt	—	1,508.5
Net cash used in financing activities	(329.2)	(141.6)
Effect of exchange rate changes on cash and cash equivalents	(1.6)	3.0

Net increase in cash and cash equivalents	119.7	21.7
Cash and cash equivalents, beginning of period	90.3	177.4
Cash and cash equivalents, end of period	$210.0	$199.1
Supplemental disclosures of noncash investing and financing activities:		
Additions to property, plant and equipment	$138.5	$174.0

The accompanying notes are an integral part of these statements.

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CONSTELLATION BRANDS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2018
(unaudited)

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

Basis of presentation –
Unless the context otherwise requires, the terms “Company,” “CBI,” “we,” “our,” or “us” refer to Constellation Brands, Inc. an its subsidiaries. We have prepared the consolidated financial statements included herein, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission applicable to quarterly reporting on Form 10-Q and reflect, in our opinion, all adjustments necessary to present fairly our financial information. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures normally included in financial statements, prepared in accordance with generally accepted accounting principles, have been condensed or omitted as permitted by such rules and regulations. These consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended February 28, 2018 (the “2018 Annual Report”), and include the recently adopted accounting guidance described below and in Note 2 herein. Results of operations for interim periods are not necessarily indicative of annual results. During the three months ended May 31, 2018, we recorded an immaterial adjustment in selling, general and administrative expenses of $16.3 million related to prior periods. This adjustment was to correct for previously unrecognized deferred compensation costs associated with certain employment agreements.

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

As noted, the majority of our revenues are generated from the domestic sale of beer, wine and spirits to wholesale distributors in the U.S. Our other revenue generating activities include the export of certain of our products to select international markets, as well as the sale of our products through state alcohol beverage control agencies and on-premise, retail locations in certain markets. We have evaluated these other revenue generating activities under the disaggregation disclosure criteria outlined within the amended guidance and concluded that these other revenue generating activities are immaterial for separate disclosure. See Note 15 for disclosure of net sales by product type.

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

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estimates and assumptions that affect the timing and amounts of revenue and liabilities recorded. We estimate this variable consideration by taking into account factors such as the nature of the promotional activity, historical information and current trends, availability of actual results, and expectations of customer and consumer behavior.

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

2. ACCOUNTING GUIDANCE:

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

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

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

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

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	As Previously Reported	Revenue Recognition Adjustments	As Adjusted
(in millions, except per share data)			
Consolidated Statement of Comprehensive Income for the Three Months Ended May 31, 2017			
Sales	$2,115.3	$(7.0)	$2,108.3
Net sales	$1,935.5	$(7.0)	$1,928.5
Gross profit	$995.3	$(7.0)	$988.3
Operating income	$568.1	$(7.0)	$561.1
Income before income taxes	$479.4	$(7.0)	$472.4
Provision for income taxes	$(74.1)	$2.7	$(71.4)
Net income	$405.3	$(4.3)	$401.0
Net income attributable to CBI	$402.8	$(4.3)	$398.5
Comprehensive income attributable to CBI	$590.3	$(4.3)	$586.0
Net income per common share attributable to CBI:			
Basic – Class A Common Stock	$2.09	$(0.02)	$2.07
Basic – Class B Convertible Common Stock	$1.90	$(0.02)	$1.88
Diluted – Class A Common Stock	$2.00	$(0.02)	$1.98
Diluted – Class B Convertible Common Stock	$1.85	$(0.02)	$1.83

The adoption of the revenue recognition guidance had no impact to cash flows from operating, financing or investing activities in our consolidated statement of cash flows for the three months ended May 31, 2017.

Income taxes:
In October 2016, the FASB issued guidance that simplifies the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Under this guidance, an entity is required to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Prior guidance prohibited the recognition in earnings of current and deferred income taxes for an intra-entity asset transfer until the asset had been sold to an outside party or recovered through use.

We adopted this guidance on March 1, 2018, using the modified retrospective basis, which requires a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Based on our assessment of intra-entity asset transfers that are in scope and the related deferred income taxes, in the first quarter of fiscal 2019, we recognized a net increase in our March 1, 2018, opening retained earnings and deferred tax assets of $2.2 billion, primarily in connection with the intra-entity transfer of certain intellectual property related to our imported beer business for the year ended February 28, 2018.

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

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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:

(in millions)	May 31, 2018	February 28, 2018
Raw materials and supplies	$162.4	$ 160.8
In-process inventories	1,318.4	1,382.8
Finished case goods	587.6	540.4
	$2,068.4	$ 2,084.0

Related party transactions and arrangements –
We have an equally-owned glass production plant joint venture with Owens-Illinois. We have entered into various contractual arrangements with affiliates of Owens-Illinois primarily for the purchase of glass bottles used largely in our imported and craft beer portfolios. Amounts purchased under these arrangements for the three months ended May 31, 2018, and May 31, 2017, were $69.0 million and $97.2 million, respectively.

4. DERIVATIVE INSTRUMENTS:

Overview –
Our risk management and derivative accounting policies are presented in Notes 1 and 6 of our consolidated financial statements included in our 2018 Annual Report and have not changed significantly for the three months ended May 31, 2018.

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

(in millions)	May 31, 2018	February 28, 2018
Derivative instruments designated as hedging instruments		
Foreign currency contracts	$1,644.2	$ 1,465.4
Derivative instruments not designated as hedging instruments		
Foreign currency contracts	$428.9	$ 440.6
Commodity derivative contracts	$215.1	$ 177.5

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

In addition, our derivative instruments are not subject to credit rating contingencies or collateral requirements. As of May 31, 2018, the estimated fair value of derivative instruments in a net liability position due to counterparties was $42.5 million. If we were required to settle the net liability position under these derivative instruments on May 31, 2018, we would have had sufficient available liquidity on hand to satisfy this obligation.

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Results of period derivative activity –

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

Assets	May 31, 2018	February 28, 2018	Liabilities	May 31, 2018	February 28, 2018
(in millions)					
Derivative instruments designated as hedging instruments					
Foreign currency contracts:					
Prepaid expenses and other	$ 8.2	$ 21.2	Other accrued expenses and liabilities	$ 26.9	$ 7.8
Other assets	$ 4.1	$ 17.0	Other liabilities	$ 34.7	$ 9.9
Derivative instruments not designated as hedging instruments					
Foreign currency contracts:					
Prepaid expenses and other	$ 1.1	$ 2.1	Other accrued expenses and liabilities	$ 3.1	$ 2.2
Commodity derivative contracts:					
Prepaid expenses and other	$ 14.1	$ 6.3	Other accrued expenses and liabilities	$ 0.7	$ 3.0
Other assets	$ 6.1	$ 2.8	Other liabilities	$ 2.1	$ 2.6

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

Derivative Instruments in Designated Cash Flow Hedging Relationships	Net Gain (Loss) Recognized in OCI	Location of Net Gain (Loss) Reclassified from AOCI to Income	Net Gain (Loss) Reclassified from AOCI to Income
(in millions)			
For the Three Months Ended May 31, 2018			
Foreign currency contracts	$ (41.9)	Sales	$ 0.1
		Cost of product sold	4.1
	$ (41.9)		$ 4.2
For the Three Months Ended May 31, 2017			
Foreign currency contracts	$ 38.6	Sales	$ 0.3
		Cost of product sold	(2.7)
Interest rate swap contracts	(2.0)	Interest expense	(0.1)
	$ 36.6		$ (2.5)

We expect $13.0 million of net losses, net of income tax effect, to be reclassified from accumulated other comprehensive income (loss) (“AOCI”) to our results of operations within the next 12 months.

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

Derivative Instruments Not Designated as Hedging Instruments	Location of Net Gain (Loss) Recognized in Income	Net Gain (Loss) Recognized in Income
(in millions)		
For the Three Months Ended May 31, 2018		
Commodity derivative contracts	Cost of product sold	$ 15.4
Foreign currency contracts	Selling, general and administrative expenses	(1.9)
		$ 13.5
For the Three Months Ended May 31, 2017		
Commodity derivative contracts	Cost of product sold	$ (3.1)
Foreign currency contracts	Selling, general and administrative expenses	4.7
		$ 1.6

5. FAIR VALUE OF FINANCIAL INSTRUMENTS:

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

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities;
- Level 2 inputs include data points that are observable such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) such as interest rates and yield curves that are observable for the asset and liability, either directly or indirectly; and
- Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

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

Foreign currency and commodity derivative contracts: The fair value is estimated using market-based inputs, obtained from independent pricing services, 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).

Equity securities: In November 2017, we acquired (i) a 9.9% investment in Ontario, Canada-based Canopy Growth Corporation, a public company and leading provider of medicinal cannabis products (the "Canopy Investment"), and (ii) warrants which give us the option to purchase an additional ownership interest in Canopy Growth Corporation (the "Canopy Warrants") for C$245.0 million, or $191.3 million. The Canopy Warrants expire in May 2020. For the three months ended May 31, 2018, we recognized an unrealized gain of $258.3 million from the changes in fair value of the Canopy Investment and the Canopy Warrants, which is included in income from unconsolidated investments. The fair value of the Canopy Investment is calculated by using the closing market price of the underlying equity security (Level 1 fair value measurement). The fair value of the Canopy Warrants is estimated using the Black-Scholes option-pricing model (Level 2 fair value measurement). The assumptions used to estimate the fair value of the Canopy Warrants as of May 31, 2018, are as follows:

Expected life (1)	1.9 years	
Expected volatility (2)	77.9	%
Risk-free interest rate (3)	1.9	%
Expected dividend yield (4)	0.0	%

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

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

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

(4) Based on historical dividend levels.

Debt securities, Available-for-sale ("AFS"): The fair value is estimated by discounting cash flows using market-based inputs (Level 3 fair value measurement) (see Note 8).

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 ratio (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 and accounts receivable securitization facilities, are variable interest rate bearing notes for which the carrying value approximates the fair value.

Long-term debt: The term loan under our senior credit facility is a variable interest rate bearing note which includes a fixed margin which is adjustable based upon our debt ratio. The fair value of the term loan 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 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 May 31, 2018, and February 28, 2018, due to the relatively short maturity of these instruments. As of May 31, 2018, the carrying amount of long-term debt, including the current portion, was $9,437.3 million, compared with an estimated fair value of $9,308.2 million. As of February 28, 2018, the carrying amount of long-term debt, including the current portion, was $9,439.9 million, compared with an estimated fair value of $9,398.4 million.

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Recurring basis measurements –

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

(in millions)	Fair Value Measurements Using Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
May 31, 2018				
Assets:				
Foreign currency contracts	$—	$ 13.4	$ —	$13.4
Commodity derivative contracts	$—	$ 20.2	$ —	$20.2
Equity securities	$535.2	$ 378.7	$ —	$913.9
Liabilities:				
Foreign currency contracts	$—	$ 64.7	$ —	$64.7
Commodity derivative contracts	$—	$ 2.8	$ —	$2.8
February 28, 2018				
Assets:				
Foreign currency contracts	$—	$ 40.3	$ —	$40.3
Commodity derivative contracts	$—	$ 9.1	$ —	$9.1
Equity securities	$402.4	$ 253.2	$ —	$655.6
Debt securities, AFS	$—	$ —	$ 16.6	$16.6
Liabilities:				
Foreign currency contracts	$—	$ 19.9	$ —	$19.9
Commodity derivative contracts	$—	$ 5.6	$ —	$5.6

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:

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

For the first quarter of fiscal 2018, we identified certain negative trends within our Beer segment's Ballast Point craft beer portfolio which, when combined with the then-recent negative craft beer industry trends, indicated that it was more likely than not that the fair value of our indefinite lived intangible asset associated with the craft beer trademarks might be below its carrying value. Accordingly, we performed a quantitative assessment for impairment of the craft beer trademark asset. As a result of this assessment, the craft beer trademark asset with a carrying value of $222.8

million was written down to its estimated fair value of $136.0 million, resulting in an impairment of $86.8 million. This impairment is included in selling, general and administrative expenses.

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Subsequent event –
In June 2018, we acquired convertible debt securities issued by Canopy Growth Corporation for C$200.0 million, or $153.0 million. We have elected the fair value option to account for these debt securities, which will be recognized in other assets with unrealized holding gains and losses recognized in income from unconsolidated investments. The convertible 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 convertible debt securities can be settled at the option of the issuer, in cash, equity shares of the issuer, or a combination thereof.

6. GOODWILL:

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

	Beer	Wine and Spirits	Consolidated
(in millions)			
Balance, February 28, 2017	$5,053.0	$2,867.5	$ 7,920.5
Purchase accounting allocations [1]	63.9	56.2	120.1
Foreign currency translation adjustments	40.7	1.8	42.5
Balance, February 28, 2018	5,157.6	2,925.5	8,083.1
Purchase accounting allocations	—	0.5	0.5
Foreign currency translation adjustments	(29.3)	(3.8)	(33.1)
Balance, May 31, 2018	$5,128.3	$2,922.2	$ 8,050.5

(1) Purchase accounting allocations associated primarily with the acquisitions of a brewery operation business in Obregon, Sonora, Mexico (the "Obregon Brewery") (Beer) ($13.8 million) and the Schrader Cellars, LLC business (Wine and Spirits), and preliminary purchase accounting allocations associated with the acquisition of the Funky Buddha Brewery LLC business (Beer).

7. INTANGIBLE ASSETS:

The major components of intangible assets are as follows:

	May 31, 2018		February 28, 2018	
	Gross Carrying Amount	Net Carrying Amount	Gross Carrying Amount	Net Carrying Amount
(in millions)				
Amortizable intangible assets				