MOLSON COORS BREWING CO
Form 10-Q
August 02, 2017
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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 June 30, 2017

OR

o 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	84-0178360
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1801 California Street, Suite 4600, Denver, Colorado, USA	80202
1555 Notre Dame Street East, Montréal, Québec, Canada	H2L 2R5
(Address of principal executive offices)	(Zip Code)

303-927-2337 (Colorado)
514-521-1786 (Québec)
(Registrant's telephone number, including area 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 ý No o

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 ý No o

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 ý	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o
	(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. o

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of July 28, 2017:
Class A Common Stock— 2,560,918 shares
Class B Common Stock—195,153,420 shares

Exchangeable shares:
As of July 28, 2017, the following number of exchangeable shares were outstanding for Molson Coors Canada, Inc.:
Class A Exchangeable shares—2,878,935 shares
Class B Exchangeable shares—14,724,131 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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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 2017" 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, debt service capabilities, 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 Securities and Exchange Commission ("SEC"), including in our Annual Report on Form 10-K for the year ended December 31, 2016. 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. Although we believe these sources to be reliable, we have not independently verified the accuracy or completeness of the information.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Sales	$3,793.1	$1,407.0	$6,706.9	$2,357.8
Excise taxes	(701.8)	(420.8)	(1,166.9)	(714.4)
Net sales	3,091.3	986.2	5,540.0	1,643.4
Cost of goods sold	(1,756.1)	(562.2)	(3,129.0)	(976.2)
Gross profit	1,335.2	424.0	2,411.0	667.2
Marketing, general and administrative expenses	(781.2)	(313.6)	(1,484.0)	(564.5)
Special items, net	(16.5)	(34.5)	(20.3)	74.1
Equity income in MillerCoors	—	191.9	—	334.3
Operating income (loss)	537.5	267.8	906.7	511.1
Interest income (expense), net	(89.2)	(40.5)	(185.8)	(87.8)
Other income (expense), net	1.5	(30.4)	1.9	(45.7)
Income (loss) from continuing operations before income taxes	449.8	196.9	722.8	377.6
Income tax benefit (expense)	(123.0)	(21.2)	(187.6)	(37.9)
Net income (loss) from continuing operations	326.8	175.7	535.2	339.7
Income (loss) from discontinued operations, net of tax	1.6	(1.8)	1.0	(2.3)
Net income (loss) including noncontrolling interests	328.4	173.9	536.2	337.4
Net (income) loss attributable to noncontrolling interests	(5.1)	(1.6)	(11.6)	(2.4)
Net income (loss) attributable to Molson Coors Brewing Company	$323.3	$172.3	$524.6	$335.0
Basic net income (loss) attributable to Molson Coors Brewing Company per share:				
From continuing operations	$1.49	$0.81	$2.43	$1.61
From discontinued operations	0.01	(0.01)	0.01	(0.01)
Basic net income (loss) attributable to Molson Coors Brewing Company per share	$1.50	$0.80	$2.44	$1.60
Diluted net income (loss) attributable to Molson Coors Brewing Company per share:				
From continuing operations	$1.49	$0.81	$2.42	$1.60
From discontinued operations	—	(0.01)	—	(0.01)
Diluted net income (loss) attributable to Molson Coors Brewing Company per share	$1.49	$0.80	$2.42	$1.59
Weighted-average shares—basic	215.4	214.7	215.3	209.2
Weighted-average shares—diluted	216.4	216.0	216.4	210.5
Amounts attributable to Molson Coors Brewing Company				
Net income (loss) from continuing operations	$321.7	$174.1	$523.6	$337.3
Income (loss) from discontinued operations, net of tax	1.6	(1.8)	1.0	(2.3)
Net income (loss) attributable to Molson Coors Brewing Company	$323.3	$172.3	$524.6	$335.0

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		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net income (loss) including noncontrolling interests	$328.4	$173.9	$536.2	$337.4
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	310.5	(153.2)	392.1	113.7
Unrealized gain (loss) on derivative and non-derivative financial instruments	(68.6)	(6.9)	(77.2)	(26.6)
Reclassification of derivative (gain) loss to income	(0.4)	(0.7)	(0.4)	(3.1)
Amortization of net prior service (benefit) cost and net actuarial (gain) loss to income	6.7	7.0	8.3	14.0
Ownership share of unconsolidated subsidiaries' other comprehensive income (loss)	0.9	16.6	2.0	21.4
Total other comprehensive income (loss), net of tax	249.1	(137.2)	324.8	119.4
Comprehensive income (loss)	577.5	36.7	861.0	456.8
Comprehensive (income) loss attributable to noncontrolling interests	(6.3)	(0.4)	(13.2)	(0.8)
Comprehensive income (loss) attributable to Molson Coors Brewing Company	$571.2	$36.3	$847.8	$456.0

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 June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$502.9	$ 560.9
Accounts receivable, net	962.9	669.5
Other receivables, net	113.8	135.8
Inventories, net	633.7	592.7
Other current assets, net	275.7	210.7
Total current assets	2,489.0	2,169.6
Properties, net	4,585.2	4,507.4
Goodwill	8,391.2	8,250.1
Other intangibles, net	14,199.6	14,031.9
Other assets	453.6	382.5
Total assets	$30,118.6	$ 29,341.5
Liabilities and equity		
Current liabilities:		
Accounts payable and other current liabilities	$2,616.6	$ 2,467.7
Current portion of long-term debt and short-term borrowings	686.6	684.8
Discontinued operations	4.9	5.0
Total current liabilities	3,308.1	3,157.5
Long-term debt	11,185.1	11,387.7
Pension and postretirement benefits	1,124.8	1,196.0
Deferred tax liabilities	1,865.2	1,699.0
Other liabilities	317.2	267.0
Discontinued operations	12.4	12.6
Total liabilities	17,812.8	17,719.8
Commitments and contingencies (Note 16)		
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: 204.6 shares and 203.7 shares, respectively)	2.0	2.0
Class A exchangeable shares, no par value (issued and outstanding: 2.9 shares and 2.9 shares, respectively)	107.7	108.1
Class B exchangeable shares, no par value (issued and outstanding: 14.7 shares and 15.2 shares, respectively)	554.4	571.2
Paid-in capital	6,658.5	6,635.3
Retained earnings	6,467.0	6,119.0
Accumulated other comprehensive income (loss)	(1,222.3)	(1,545.5)
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	12,095.9	11,418.7
Noncontrolling interests	209.9	203.0

Total equity	12,305.8	11,621.7
Total liabilities and equity	$30,118.6	$ 29,341.5

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)

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities:		
Net income (loss) including noncontrolling interests	$536.2	$337.4
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	396.0	137.7
Amortization of debt issuance costs and discounts	11.2	35.5
Share-based compensation	31.6	11.5
(Gain) loss on sale or impairment of properties and other assets, net	(4.3)	(79.8)
Equity income in MillerCoors	—	(323.2)
Distributions from MillerCoors	—	323.2
Equity in net (income) loss of other unconsolidated affiliates	4.7	2.4
Unrealized (gain) loss on foreign currency fluctuations and derivative instruments, net	(40.5)	(5.2)
Income tax (benefit) expense	187.6	37.9
Income tax (paid) received	23.5	(109.1)
Interest expense, excluding interest amortization	177.6	95.5
Interest paid	(175.4)	(95.1)
Pension expense (benefit)	(14.1)	4.0
Pension contributions paid	(72.1)	(10.4)
Change in current assets and liabilities (net of impact of business combinations) and other	(242.5)	(82.2)
(Gain) loss from discontinued operations	(1.0)	2.3
Net cash provided by (used in) operating activities	818.5	282.4
Cash flows from investing activities:		
Additions to properties	(354.0)	(121.6)
Proceeds from sales of properties and other assets	46.1	144.6
Investment in MillerCoors	—	(810.6)
Return of capital from MillerCoors	—	731.1
Other	6.0	(4.1)
Net cash provided by (used in) investing activities	(301.9)	(60.6)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	—	2,525.9
Exercise of stock options under equity compensation plans	1.1	5.4
Dividends paid	(176.6)	(176.5)
Debt issuance costs	(4.6)	(15.0)
Payments on debt and borrowings	(2,201.5)	(17.9)
Proceeds on debt and borrowings	1,536.0	31.7
Net proceeds from (payments on) revolving credit facilities and commercial paper	282.0	2.5
Change in overdraft balances and other	(29.6)	(17.5)
Net cash provided by (used in) financing activities	(593.2)	2,338.6
Cash and cash equivalents:		
Net increase (decrease) in cash and cash equivalents	(76.6)	2,560.4
Effect of foreign exchange rate changes on cash and cash equivalents	18.6	(1.0)
Balance at beginning of year	560.9	430.9
Balance at end of period	$502.9	$2,990.3

See notes to unaudited condensed consolidated financial statements.

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

	MCBC Stockholders									
	Total	Retained earnings	Accumulated other comprehensive income (loss)	Common stock issued Class A	Common stock issued Class B	Common Stock held in treasury Class B	Exchangeable shares issued Class A	Exchangeable shares issued Class B	Paid-in-capital	Non controlling interests
Balance at December 31, 2015	$7,063.1	$4,496.0	$(1,694.9)	$—	$1.7	$(471.4)	$108.2	$603.0	$4,000.4	$20.1
Exchange of shares	—	—	—	—	—	—	(0.1)	(22.7)	22.8	—
Shares issued under equity compensation plan	(8.9)	—	—	—	—	—	—	—	(8.9)	—
Amortization of share-based compensation	13.1	—	—	—	—	—	—	—	13.1	—
Acquisition of business and purchase of noncontrolling interest	1.2	—	—	—	—	—	—	—	—	1.2
Net income (loss) including noncontrolling interests	337.4	335.0	—	—	—	—	—	—	—	2.4
Other comprehensive income (loss), net of tax	119.4	—	121.0	—	—	—	—	—	—	(1.6)
Issuance of common stock	2,525.6	—	—	—	0.3	—	—	—	2,525.3	—
Dividends declared and paid	(179.0)	(176.5)	—	—	—	—	—	—	—	(2.5)
Balance at June 30, 2016	$9,871.9	$4,654.5	$(1,573.9)	$—	$2.0	$(471.4)	$108.1	$580.3	$6,552.7	$19.6

	MCBC Stockholders									
	Total	Retained earnings	Accumulated other comprehensive income (loss)	Common stock issued Class A	Common stock issued Class B	Common Stock held in treasury Class B	Exchangeable shares issued Class A	Exchangeable shares issued Class B	Paid-in-capital	Non controlling interests
Balance at December 31, 2016	$11,621.7	$6,119.0	$(1,545.5)	$—	$2.0	$(471.4)	$108.1	$571.2	$6,635.3	$203.0
Exchange of shares	—	—	—	—	—	—	(0.4)	(16.8)	17.2	—

Shares issued under equity compensation plan	(24.7)	—	—	—	—	—	—	—	(24.7)	—
Amortization of share-based compensation	30.7	—	—	—	—	—	—	—	30.7	—
Acquisition of business and purchase of noncontrolling interest	1.6	—	—	—	—	—	—	—	—	1.6
Net income (loss) including noncontrolling interests	536.2	524.6	—	—	—	—	—	—	—	11.6
Other comprehensive income (loss), net of tax	324.8	—	323.2	—	—	—	—	—	—	1.6
Dividends declared and paid	(184.5)	(176.6)	—	—	—	—	—	—	—	(7.9)
Balance at June 30, 2017	$12,305.8	$6,467.0	$(1,222.3)	$—	$2.0	$(471.4)	$107.7	$554.4	$6,658.5	$209.9

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 ("U.S."); 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 ("U.K.") and various other European countries; and Molson Coors International ("MCI" or International segment), operating in various other countries.

On October 11, 2016, we completed the acquisition of SABMiller plc's ("SABMiller") 58% economic interest and 50% voting interest in 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 (the "Acquisition") from Anheuser-Busch InBev SA/NV ("ABI"), and MillerCoors, previously a joint venture between MCBC and SABMiller, became a wholly-owned subsidiary of MCBC. Accordingly, for periods prior to October 11, 2016, our 42% economic ownership interest in MillerCoors was accounted for under the equity method of accounting, and, therefore, its results of operations were reported as equity income in MillerCoors in the unaudited condensed consolidated statements of operations, and our 42% share of MillerCoors' net assets was reported as investment in MillerCoors in the unaudited condensed consolidated balance sheets. Beginning October 11, 2016, MillerCoors was fully consolidated and continues to be reported as our U.S. segment. Additionally, our unaudited condensed consolidated balance sheets as of June 30, 2017, and December 31, 2016, include our acquired assets and liabilities, which were recorded at their respective acquisition-date fair values upon completion of the Acquisition. See Note 4, "Acquisition and Investments" for further discussion.

Unless otherwise indicated, information in this report is presented in U.S. dollars ("USD" or "$") and comparisons are to comparable prior periods. Our primary operating currencies, other than USD, include the Canadian Dollar ("CAD"), the British Pound ("GBP"), and our Central European operating currencies such as the Euro ("EUR"), Czech Koruna ("CZK"), Croatian Kuna ("HRK") and Serbian Dinar ("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 accounting principles generally accepted in the U.S. ("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 U.S. Securities and Exchange Commission ("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, 2016 ("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. Our accounting policies did not change in the first half of 2017.

The results of operations for the three and six months ended June 30, 2017, are not necessarily indicative of the results that may be achieved for the full year.

2. New Accounting Pronouncements

New Accounting Pronouncements Previously Adopted

In March 2016, the Financial Accounting Standards Board ("FASB") issued authoritative guidance intended to simplify and improve several aspects of the accounting for share-based payment transactions. We early adopted this guidance in the third quarter of 2016. The adoption of this guidance impacted our previously reported unaudited condensed consolidated financial statements as follows:

	Six Months Ended June 30, 2016	
	As Reported	As Adjusted
	(In millions, except per share data)	
Unaudited Condensed Consolidated Statement of Operations:		
Income tax benefit (expense)	$(41.8)	$ (37.9)
Net income (loss) attributable to Molson Coors Brewing Company	$331.1	$ 335.0
Basic earnings per share	$1.58	$ 1.60
Diluted earnings per share	$1.58	$ 1.59
Diluted weighted-average shares outstanding	210.2	210.5

	Six Months Ended June 30, 2016	
	As Reported	As Adjusted
	(In millions)	
Unaudited Condensed Consolidated Statement of Cash Flows:		
Net cash provided by (used in) operating activities	$264.4	$282.4
Net cash provided by (used in) financing activities	$2,356.6	$2,338.6

	June 30, 2016	
	As Reported	As Adjusted
	(In millions)	
Unaudited Condensed Consolidated Balance Sheet:		
Paid-in capital	$6,556.6	$6,552.7
Retained earnings	$4,650.6	$4,654.5

New Accounting Pronouncements Recently Adopted

In January 2017, the FASB issued authoritative guidance intended to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the new guidance, the recognition of an impairment charge is calculated based on the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The guidance should be applied on a prospective basis and is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. We early adopted this guidance during the quarter ended March 31, 2017. The adoption of this guidance will impact our goodwill impairment testing on a prospective basis, to the extent that an impairment is identified in Step 1 of our testing procedures.

New Accounting Pronouncements Not Yet Adopted

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 income statement. Specifically, the new guidance will require us only to report 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 will now be presented in the income statement 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. This guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The guidance related to the income statement presentation of service costs and other pension and postretirement benefit costs should be applied retrospectively, while the capitalization of service costs component should be applied prospectively. These changes will impact the presentation of net periodic pension costs and net periodic postretirement benefit costs within our results of operations 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. The guidance should be applied under a modified retrospective transition approach for leases existing at the beginning of the earliest comparative period presented in the adoption-period financial statements. Any leases that expire before the initial application date will not require any accounting adjustment. This guidance is effective for annual reporting 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 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.

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. The guidance also includes enhanced disclosure requirements which are intended to help financial statement users better understand the nature, amount, timing and uncertainty of revenue being recognized. Subsequent to the release of this guidance, the FASB has issued additional updates intended to provide interpretive clarifications and to reduce the cost and complexity of applying the new revenue recognition standard both at transition and on an ongoing basis. The new standard and related amendments are effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods. Upon adoption of the new standard, the use of either a full retrospective or cumulative effect transition method is permitted. We currently anticipate that we will utilize the cumulative effect transition method, however, this expectation may change following the completion of our evaluation of the impact of this guidance on our financial statements.

We are currently in the process of evaluating the impact this new guidance will have on our financial statements and to our revenue recognition policies, controls and procedures. Based on the work completed to-date and our evaluation of the five-step approach outlined within the guidance, we do not believe that the new guidance will have a significant impact to our core revenue generating activities. However, we currently anticipate that the new standard may impact the 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 are currently recorded within marketing, general and administration expenses in the consolidated statements of operations. Upon adoption of the new guidance, we anticipate that many of these cash payments may not meet the specific criteria within the new guidance of providing a “distinct” good or service, and therefore, would be required to be presented as a reduction of revenue. Furthermore, upon adoption of the new guidance, certain of our promotional discounts, which are deemed variable consideration under the new guidance, will be recognized at the time of the related shipment of product, which is earlier than recognized under current 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 are continuing to evaluate the potential impact the new guidance will have on our financial statements. We have not fully completed this evaluation and therefore, we may identify further impacts in addition to those identified above. We have begun training related to the implications of the new guidance and commenced implementation efforts for areas of impact identified to-date. As we further complete our evaluation process, we will update our discussion of the anticipated impacts of the new standard as appropriate.

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 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, 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. Effective January 1, 2017, European markets including Sweden, Spain, Germany, Ukraine and Russia, which were previously reported under our International segment, are reported within our Europe segment. Additionally, effective January 1, 2017, the results of the MillerCoors Puerto Rico business, which were previously reported as part of the U.S. segment, are reported within the International segment. We have not recast historical results for these changes on the basis of immateriality.

No single customer accounted for more than 10% of our consolidated sales for the three and six months ended June 30, 2017, and June 30, 2016, respectively. Consolidated net sales represent sales to third-party external customers less excise taxes. Inter-segment transactions impacting net sales revenues and income (loss) from continuing operations before income taxes eliminate in consolidation.

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

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(In millions)			
U.S.(1)	$2,138.9	$—	$3,888.8	$—
Canada	407.6	425.9	698.7	693.9
Europe	524.7	522.1	906.3	880.8
International	65.1	39.2	126.9	70.2
Corporate	0.3	0.2	0.6	0.6
Eliminations(2)	(45.3)	(1.2)	(81.3)	(2.1)
Consolidated net sales	$3,091.3	$986.2	$5,540.0	$1,643.4

(1) Prior to October 11, 2016, MCBC's 42% share of MillerCoors' results of operations was reported as equity income in MillerCoors in the unaudited condensed consolidated statements of operations. As a result of the Acquisition, beginning October 11, 2016, MillerCoors' results were fully consolidated into MCBC's consolidated financial statements.

(2) Eliminations reflect gross inter-segment sales which are eliminated in the consolidated totals.

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(In millions)			
U.S.(1)	$484.7	$191.9	$800.3	$334.3
Canada	68.7	88.5	91.8	235.1
Europe(2)	73.3	59.0	103.9	57.8
International	(7.7)	(33.4)	(6.2)	(35.7)
Corporate	(169.2)	(109.1)	(267.0)	(213.9)
Consolidated income (loss) from continuing operations before income taxes	$449.8	$196.9	$722.8	$377.6

(1) Prior to October 11, 2016, MCBC's 42% share of MillerCoors' results of operations was reported as equity income in MillerCoors in the unaudited condensed consolidated statements of operations. As a result of the Acquisition, beginning October 11, 2016, MillerCoors' results were fully consolidated into MCBC's consolidated financial statements.

(2) In the first quarter of 2017, the largest food and retail company in Croatia, Agrokor, announced that it was facing significant financial difficulties that raised doubt about the collectibility of certain of our outstanding receivables with its direct subsidiaries. These subsidiaries are customers of ours within the Europe segment and, therefore, we are closely monitoring the situation. Specifically, Agrokor has entered into active discussions with local regulators, financial institutions and other creditors to stabilize and restructure its business and sustain ongoing operations. Our exposure related to Agrokor, as of June 30, 2017, was approximately $17 million, based on foreign

exchange rates as of June 30, 2017. Based on the facts and circumstances known at this time, we recorded a provision for an estimate of uncollectible receivables of approximately $11 million in the first quarter of 2017, and this allowance, in local currency, remains at June 30, 2017. Separately, we released an indirect tax loss contingency, which was initially recorded in the fourth quarter of 2016, for a benefit of approximately $50 million during the first quarter of 2017; see Note 16, "Commitments and Contingencies" for details.

Income (loss) from continuing operations before income taxes includes the impact of special items. Refer to Note 6, "Special Items" for further discussion. Additionally, various costs associated with the Acquisition, including its related financing, were recorded for the three and six months ended June 30, 2017, and June 30, 2016. Refer to Note 4, "Acquisition and Investments" for further details.

	As of	
	June 30, 2017	December 31, 2016(1)
	(In millions)	
U.S.	$19,936.1	$19,844.7
Canada	4,388.7	4,206.8
Europe	5,191.7	4,673.7
International	317.0	302.8
Corporate	285.1	313.5
Consolidated total assets	$30,118.6	$29,341.5

(1) The allocation of total assets by segment as of December 31, 2016, has been adjusted for a reclassification between Corporate and International to reflect certain assets acquired in the Acquisition that have been subsequently allocated to International for segment reporting.

4. Acquisition and Investments

Acquisition

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. Prior to the Acquisition, MCBC owned a 50% voting and 42% economic interest in MillerCoors and MillerCoors was accounted for under the equity method of accounting. Following the completion of the Acquisition, MillerCoors, which was previously a joint venture between MCBC and SABMiller, became a wholly-owned subsidiary of MCBC and its results were fully consolidated by MCBC prospectively beginning on October 11, 2016.

We have a downward purchase price adjustment, as described in the purchase agreement, if the unaudited U.S. GAAP earnings before interest, tax, depreciation and amortization ("EBITDA") for the Miller International Business for the twelve months prior to closing is below $70 million. The determination for the amount of the downward purchase price adjustment, if any, is ongoing pursuant to the terms of the purchase agreement.

Under the acquisition method of accounting, MCBC recorded all assets acquired and liabilities assumed at their respective acquisition-date fair values. The excess of total consideration, including the estimated fair value of our previously held equity interest in MillerCoors, over the net identifiable assets acquired and liabilities assumed was recorded as goodwill. The detailed valuation analyses necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed and goodwill recognized have been completed, however, the analyses are preliminary in nature and are subject to adjustment as additional information is obtained about the facts and circumstances that existed as of the Acquisition date. Therefore, there may be adjustments to the valuation of our previously held equity interest, as well as to the assigned values of acquired assets and assumed liabilities, including but not limited to brands and other intangible assets and property, plant and equipment that may give rise to increases or decreases in the amounts of depreciation and amortization expense.

During the second quarter of 2017, we recorded an adjustment to our preliminary purchase price allocation primarily related to certain accrued liabilities, resulting in an increase to goodwill of $18.5 million. There were no other changes to our allocated amounts during the first half of 2017. The final determination of the fair values will be completed within the measurement period of up to one year from the Acquisition date as permitted under U.S. GAAP and any adjustments to provisional amounts that are identified during the measurement period will be recorded in the reporting period in which the adjustment is determined. The size and complexity of the Acquisition could necessitate the need to use the full one year measurement period to adequately analyze and assess a number of the factors used in establishing the asset and liability fair values. Any potential adjustments made could be material in relation to these preliminary values.

Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information gives effect to the Acquisition and the completed financing as if they were completed on January 1, 2016, the first day of our 2016 fiscal year and the pro forma adjustments are based on items

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that are factually supportable, are directly attributable to the Acquisition and are expected to have a continuing impact on MCBC's results of operations. The unaudited pro forma financial information has been calculated after applying MCBC’s accounting policies and adjusting the results of MillerCoors to reflect the additional depreciation and amortization that would have been charged assuming the preliminary fair value adjustments to property, plant and equipment and intangible assets had been applied from January 1, 2016, together with the consequential tax effects. Pro forma adjustments have been made to remove non-recurring transaction-related costs included in historical results as well as to reflect the incremental interest expense to be prospectively incurred on the debt and term loans issued to finance the Acquisition, in addition to other pro forma adjustments. See the below table for significant non-recurring costs. Also, see Note 7, "Other Income and Expense" for details related to certain financing-related expenses incurred. Additionally, the following unaudited pro forma financial information does not reflect the impact of the acquisition of the Miller global brand portfolio and other assets primarily related to the Miller International Business as we are not able to estimate the historical results of operations from this business and have concluded, based on the limited information available to MCBC, that it is insignificant to the overall Acquisition. The preliminary purchase price allocation reflects the estimated value allocated to the Miller global brand portfolio reported within identifiable intangible assets subject to amortization. Based on the limited information regarding such brands received to date, this estimated value allocated to these brands remains subject to change as additional information, reflective of the performance of the brands as of the Acquisition date, becomes available.

The unaudited pro forma financial information below does not reflect the realization of any expected ongoing synergies relating to the integration of MillerCoors. Further, the unaudited pro forma financial information should not be considered indicative of the results that would have occurred if the Acquisition and related financing had been consummated on January 1, 2016, nor are they indicative of future results.

	Three Months Ended	Six Months Ended
	June 30, 2016	
	(in millions)	
Net sales	$3,109.2	$5,570.6
Net income from continuing operations attributable to MCBC	$309.3	$566.7
Net income attributable to MCBC	$307.5	$564.4
Net income from continuing operations attributable to MCBC per share:		
Basic	$1.44	$2.64
Diluted	$1.43	$2.62

For the three and six months ended June 30, 2016, the following non-recurring charges (benefits) directly attributable to the Acquisition were made as adjustments to our pro forma results to remove the impact from our historical operating results within the below noted line items.

	Three Months Ended	Six Months Ended	
	June 30, 2016		
	(In millions)		
Non-recurring charges (benefits)			Location
Other transaction-related costs	$ 19.6	$ 34.5	Marketing, general and administrative expenses
Bridge loan - amortization of financing costs	$		