CONAGRA BRANDS INC.
Form 10-Q
January 04, 2017

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 27, 2016

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: 1-7275

CONAGRA BRANDS, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 47-0248710 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 222 W. Merchandise Mart Plaza, Suite 1300 Chicago, Illinois | 60654 |
| (Address of principal executive offices) | (Zip Code) |

(312) 549-5000
(Registrant’s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large accelerated filer x | Accelerated filer ¨ |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company ¨ |

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

Number of shares outstanding of issuer’s common stock, as of November 27, 2016, was 435,212,410.

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PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
Conagra Brands, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(in millions except per share amounts)
(unaudited)

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | November 27, 2016 | November 29, 2015 | November 27, 2016 | November 29, 2015 |
| Net sales | $2,088.4 | $ 2,358.8 | $3,984.0 | $ 4,411.8 |
| Costs and expenses: | | | | |
| Cost of goods sold | 1,440.9 | 1,690.8 | 2,791.9 | 3,182.5 |
| Selling, general and administrative expenses | 417.9 | 483.2 | 649.6 | 846.0 |
| Interest expense, net | 54.1 | 79.2 | 112.3 | 159.3 |
| Income from continuing operations before income taxes and equity method investment earnings | 175.5 | 105.6 | 430.2 | 224.0 |
| Income tax expense | 78.4 | 43.1 | 247.6 | 92.4 |
| Equity method investment earnings | 17.2 | 17.6 | 30.3 | 42.1 |
| Income from continuing operations | 114.3 | 80.1 | 212.9 | 173.7 |
| Income (loss) from discontinued operations, net of tax | 11.6 | 79.2 | 103.0 | (1,166.8) |
| Net income (loss) | $125.9 | $ 159.3 | $315.9 | $ (993.1) |
| Less: Net income attributable to noncontrolling interests | 3.8 | 4.4 | 7.6 | 6.1 |
| Net income (loss) attributable to Conagra Brands, Inc. | $122.1 | $ 154.9 | $308.3 | $ (999.2) |
| Earnings (loss) per share — basic | | | | |
| Income from continuing operations attributable to Conagra Brands, Inc. common stockholders | $0.26 | $ 0.18 | $0.48 | $ 0.40 |
| Income (loss) from discontinued operations attributable to Conagra Brands, Inc. common stockholders | 0.02 | 0.18 | 0.22 | (2.71) |
| Net income (loss) attributable to Conagra Brands, Inc. common stockholders | $0.28 | $ 0.36 | $0.70 | $ (2.31) |
| Earnings (loss) per share — diluted | | | | |
| Income from continuing operations attributable to Conagra Brands, Inc. common stockholders | $0.26 | $ 0.18 | $0.48 | $ 0.40 |
| Income (loss) from discontinued operations attributable to Conagra Brands, Inc. common stockholders | 0.02 | 0.17 | 0.22 | (2.69) |
| Net income (loss) attributable to Conagra Brands, Inc. common stockholders | $0.28 | $ 0.35 | $0.70 | $ (2.29) |
| Cash dividends declared per common share | $0.25 | $ 0.25 | $0.50 | $ 0.50 |

See notes to the condensed consolidated financial statements.

Conagra Brands, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income (Loss)
(in millions)
(unaudited)

| | Thirteen weeks ended November 27, 2016 | | | November 29, 2015 | | |
|---|---|---|---|---|---|---|
| | Pre-Tax Amount | Tax (Expense) Benefit | After-Tax Amount | Pre-Tax Amount | Tax (Expense) Benefit | After-Tax Amount |
| Net income | $243.2 | $(117.3) | $125.9 | $248.3 | $(89.0) | $159.3 |
| Other comprehensive income: | | | | | | |
| Unrealized derivative adjustments | 2.2 | (0.9) | 1.3 | — | — | — |
| Unrealized gains on available-for-sale securities | 0.2 | — | 0.2 | — | — | — |
| Unrealized currency translation losses | (14.1) | — | (14.1) | (18.4) | — | (18.4) |
| Pension and post-employment benefit obligations: | | | | | | |
| Unrealized pension and post-employment benefit obligations | 66.8 | (25.6) | 41.2 | — | — | — |
| Reclassification for pension and post-employment benefit obligations included in net income | (0.9) | 0.4 | (0.5) | (1.3) | 0.5 | (0.8) |
| Comprehensive income | 297.4 | (143.4) | 154.0 | 228.6 | (88.5) | 140.1 |
| Comprehensive income attributable to noncontrolling interests | 2.2 | (0.1) | 2.1 | 3.7 | (0.2) | 3.5 |
| Comprehensive income attributable to Conagra Brands, Inc. | $295.2 | $(143.3) | $151.9 | $224.9 | $(88.3) | $136.6 |

| | Twenty-six weeks ended November 27, 2016 | | | November 29, 2015 | | |
|---|---|---|---|---|---|---|
| | Pre-Tax Amount | Tax (Expense) Benefit | After-Tax Amount | Pre-Tax Amount | Tax (Expense) Benefit | After-Tax Amount |
| Net income (loss) | $651.2 | $(335.3) | $315.9 | $(1,291.2) | $298.1 | $(993.1) |
| Other comprehensive income (loss): | | | | | | |
| Unrealized derivative adjustments | (5.8) | 2.2 | (3.6) | — | — | — |
| Unrealized gains on available-for-sale securities | 0.4 | (0.1) | 0.3 | — | — | — |
| Unrealized currency translation losses | (26.0) | 0.2 | (25.8) | (56.0) | — | (56.0) |
| Pension and post-employment benefit obligations: | | | | | | |
| Unrealized pension and post-employment benefit obligations | 64.7 | (25.5) | 39.2 | 6.6 | (1.6) | 5.0 |
| Reclassification for pension and post-employment benefit obligations included in net income | (1.8) | 0.7 | (1.1) | (2.6) | 1.0 | (1.6) |
| Comprehensive income (loss) | 682.7 | (357.8) | 324.9 | (1,343.2) | 297.5 | (1,045.7) |
| Comprehensive income attributable to noncontrolling interests | 6.0 | (0.2) | 5.8 | 2.6 | (0.5) | 2.1 |
| Comprehensive income (loss) attributable to Conagra Brands, Inc. | $676.7 | $(357.6) | $319.1 | $(1,345.8) | $298.0 | $(1,047.8) |

See notes to the condensed consolidated financial statements.

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Conagra Brands, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in millions except share data)
(unaudited)

| | November 27, 2016 | May 29, 2016 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 1,442.5 | $ 798.1 |
| Receivables, less allowance for doubtful accounts of $4.1 and $3.2 | 699.5 | 650.1 |
| Inventories | 1,113.7 | 1,083.2 |
| Prepaid expenses and other current assets | 89.3 | 148.6 |
| Current assets of discontinued operations | — | 779.7 |
| Current assets held for sale | — | 117.0 |
| Total current assets | 3,345.0 | 3,576.7 |
| Property, plant and equipment | 4,229.7 | 4,213.3 |
| Less accumulated depreciation | (2,560.4) | (2,511.7) |
| Property, plant and equipment, net | 1,669.3 | 1,701.6 |
| Goodwill | 4,248.7 | 4,396.2 |
| Brands, trademarks and other intangibles, net | 1,260.9 | 1,237.2 |
| Other assets | 899.4 | 905.5 |
| Noncurrent assets of discontinued operations | — | 1,339.3 |
| Noncurrent assets held for sale | 1.7 | 234.1 |
| | $ 11,425.0 | $ 13,390.6 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Notes payable | $ 6.7 | $ 13.9 |
| Current installments of long-term debt | 231.0 | 559.4 |
| Accounts payable | 784.1 | 706.7 |
| Accrued payroll | 124.9 | 220.8 |
| Other accrued liabilities | 598.7 | 567.7 |
| Current liabilities of discontinued operations | — | 409.2 |
| Current liabilities held for sale | — | 54.7 |
| Total current liabilities | 1,745.4 | 2,532.4 |
| Senior long-term debt, excluding current installments | 3,018.4 | 4,685.5 |
| Subordinated debt | 195.9 | 195.9 |
| Other noncurrent liabilities | 1,938.5 | 1,875.7 |
| Noncurrent liabilities of discontinued operations | — | 304.8 |
| Noncurrent liabilities held for sale | — | 1.5 |
| Total liabilities | 6,898.2 | 9,595.8 |
| Commitments and contingencies (Note 13) | | |
| Common stockholders' equity | | |
| Common stock of $5 par value, authorized 1,200,000,000 shares; issued 567,907,172 | 2,839.7 | 2,839.7 |
| Additional paid-in capital | 1,158.0 | 1,136.3 |
| Retained earnings | 4,077.3 | 3,218.3 |
| Accumulated other comprehensive loss | (333.7) | (344.5) |
| Less treasury stock, at cost, 132,694,762 and 129,842,206 common shares | (3,294.6) | (3,136.2) |

| | | |
|---|---|---|
| Total Conagra Brands, Inc. common stockholders' equity | 4,446.7 | 3,713.6 |
| Noncontrolling interests | 80.1 | 81.2 |
| Total stockholders' equity | 4,526.8 | 3,794.8 |
| | $ 11,425.0 | $13,390.6 |

See notes to the condensed consolidated financial statements.

Conagra Brands, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in millions)
(unaudited)

| | Twenty-six weeks ended | |
|---|---|---|
| | November 27, 2016 | November 29, 2015 |
| Cash flows from operating activities: | | |
| Net income (loss) | $315.9 | $ (993.1 ) |
| Income (loss) from discontinued operations | 103.0 | (1,166.8 ) |
| Income from continuing operations | 212.9 | 173.7 |
| Adjustments to reconcile income from continuing operations to net cash flows from operating activities: | | |
| Depreciation and amortization | 133.5 | 141.2 |
| Asset impairment charges | 211.9 | 1.7 |
| Gain on divestitures | (197.5 ) | — |
| Loss on extinguishment of debt | 60.6 | — |
| Lease cancellation expense | — | 48.5 |
| Earnings of affiliates in excess of distributions | (23.4 ) | (41.6 ) |
| Share-based payments expense | 18.3 | 16.7 |
| Contributions to pension plans | (5.9 ) | (6.0 ) |
| Pension benefit | (20.6 ) | (7.9 ) |
| Other items | 23.9 | (13.7 ) |
| Change in operating assets and liabilities excluding effects of business acquisitions and dispositions: | | |
| Accounts receivable | (49.2 ) | (98.6 ) |
| Inventory | (32.2 ) | (165.0 ) |
| Deferred income taxes and income taxes payable, net | 183.5 | (100.2 ) |
| Prepaid expenses and other current assets | 0.2 | (2.3 ) |
| Accounts payable | 71.7 | (10.2 ) |
| Accrued payroll | (95.5 ) | (1.7 ) |
| Other accrued liabilities | (31.6 ) | 82.0 |
| Net cash flows from operating activities — continuing operations | 460.6 | 16.6 |
| Net cash flows from operating activities — discontinued operations | 81.6 | 335.5 |
| Net cash flows from operating activities | 542.2 | 352.1 |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | (118.3 ) | (110.4 ) |
| Sale of property, plant and equipment | 11.3 | 16.2 |
| Proceeds from divestitures | 489.1 | — |
| Purchase of business and intangible assets | (108.2 ) | (10.1 ) |
| Net cash flows from investing activities — continuing operations | 273.9 | (104.3 ) |
| Net cash flows from investing activities — discontinued operations | (123.7 ) | (132.7 ) |
| Net cash flows from investing activities | 150.2 | (237.0 ) |
| Cash flows from financing activities: | | |
| Net short-term borrowings | (7.2 ) | 177.3 |
| Repayment of long-term debt | (555.8 ) | (254.5 ) |
| Payment of intangible asset financing arrangement | (14.9 ) | — |
| Repurchase of Conagra Brands, Inc. common shares | (170.1 ) | — |

| | | |
|---|---|---|
| Cash dividends paid | (219.4) | (215.0) |
| Exercise of stock options and issuance of other stock awards | 47.4 | 119.2 |
| Net cash flows from financing activities — continuing operations | (920.0) | (173.0) |
| Net cash flows from financing activities — discontinued operations | 839.1 | 6.2 |
| Net cash flows from financing activities | (80.9) | (166.8) |
| Effect of exchange rate changes on cash and cash equivalents | (3.5) | (3.0) |
| Net change in cash and cash equivalents | 608.0 | (54.7) |
| Discontinued operations cash activity included above: | | |
| Add: Cash balance included in assets held for sale and discontinued operations at beginning of period | 36.4 | 49.0 |
| Less: Cash balance included in assets held for sale and discontinued operations at end of period | — | 56.4 |
| Cash and cash equivalents at beginning of period | 798.1 | 134.1 |
| Cash and cash equivalents at end of period | $1,442.5 | $ 72.0 |

See notes to the condensed consolidated financial statements.

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Conagra Brands, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
For the Twenty-six weeks ended November 27, 2016 and November 29, 2015
(columnar dollars in millions except per share amounts)
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
The unaudited financial information reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results of operations, financial position, and cash flows for the periods presented. The adjustments are of a normal recurring nature, except as otherwise noted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Conagra Brands, Inc. (formerly ConAgra Foods, Inc., the "Company", "we", "us", or "our") Annual Report on Form 10-K for the fiscal year ended May 29, 2016.
The results of operations for any quarter or a partial fiscal year period are not necessarily indicative of the results to be expected for other periods or the full fiscal year.
Basis of Consolidation — The condensed consolidated financial statements include the accounts of Conagra Brands, Inc. and all majority-owned subsidiaries. In addition, the accounts of all variable interest entities for which we have been determined to be the primary beneficiary are included in our condensed consolidated financial statements from the date such determination is made. All significant intercompany investments, accounts, and transactions have been eliminated.

On November 9, 2016, the Company completed the previously announced spinoff of Lamb Weston Holdings, Inc. (“Lamb Weston”) through a distribution of 100% of the Company’s interest in Lamb Weston to holders of shares of the Company’s common stock (the “Spinoff ”) as of November 1, 2016. In accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), the financial position and results of operations of the Lamb Weston operations are presented as discontinued operations and, as such, have been excluded from continuing operations and segment results for all periods presented (see Note 3 for additional discussion).
Comprehensive Income — Comprehensive income includes net income, currency translation adjustments, certain derivative-related activity, changes in the value of available-for-sale investments, and changes in prior service cost and net actuarial gains (losses) from pension (for amounts not in excess of the 10% corridor) and post-retirement health care plans. We generally deem our foreign investments to be essentially permanent in nature and we do not provide for taxes on currency translation adjustments arising from converting the investment denominated in a foreign currency to U.S. dollars. When we determine that a foreign investment, as well as undistributed earnings, are no longer permanent in nature, estimated taxes will be provided for the related deferred tax liability (asset), if any, resulting from currency translation adjustments.

The following table summarizes the reclassifications from accumulated other comprehensive income (loss) into operations:

| | Thirteen weeks ended November 27, 2016 | November 29, 2015 | Affected Line Item in the Condensed Consolidated Statement of Operations |
|---|---|---|---|
| Amortization of pension and postretirement liabilities: | | | |
| Net prior service benefit | $(0.9) | $ (1.3 ) | Selling, general and administrative expenses |
| | (0.9 ) | (1.3 ) | Total before tax |
| | 0.4 | 0.5 | Income tax expense |
| | $(0.5) | $ (0.8 ) | Net of tax |

| | Twenty-six weeks ended November 27, 2016 | November 29, 2015 | Affected Line Item in the Condensed Consolidated Statement of Operations |
|---|---|---|---|
| Amortization of pension and postretirement liabilities: | | | |
| Net prior service benefit | $(1.8) | $ (2.6 ) | Selling, general and administrative expenses |
| | (1.8 ) | (2.6 ) | Total before tax |
| | 0.7 | 1.0 | Income tax expense |
| | $(1.1) | $ (1.6 ) | Net of tax |

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Cash and cash equivalents — Cash and all highly liquid investments with an original maturity of three months or less at the date of acquisition, including short-term time deposits and government agency and corporate obligations, are classified as cash and cash equivalents.
As part of the consideration for the Spinoff, the Company received a cash payment from Lamb Weston in the amount of $823.5 million. In order to maintain the tax-free nature of the Spinoff, the Company must use the cash within twelve months of receiving the payment and may only use it in one or more of the following ways: to pay dividends on its common stock, to repay debt incurred prior to July 8, 2016, and to repurchase shares of its common stock. At November 27, 2016, we had approximately $753.4 million of the payment remaining.
Reclassifications and other changes — Certain prior year amounts have been reclassified to conform with current year presentation.
Use of Estimates — Preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect reported amounts of assets, liabilities, revenues, and expenses as reflected in the condensed consolidated financial statements. Actual results could differ from these estimates.
Accounting Changes — In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies the accounting for income taxes, among other changes, related to stock-based compensation. We elected to early adopt this ASU as of the beginning of fiscal 2017. Starting in the first quarter of fiscal 2017, we recognized all excess tax benefits and tax deficiencies as income tax expense or benefit as a discrete event. An income tax benefit of approximately $2.4 million and $14.0 million was recognized in the second quarter and first half of fiscal 2017, respectively, as a result of the adoption of ASU 2016-09. The treatment of forfeitures has changed as we have elected to discontinue our past process of estimating the number of forfeitures and now account for forfeitures as they occur. As such, this had a cumulative effect on retained earnings of $3.9 million, net of tax. We have elected to present the cash flow statement on a retrospective transition method and prior periods have been adjusted to present the excess tax benefits as part of cash flows from operating activities. This resulted in an increase in cash flows from operating activities and a decrease in cash flows from financing activities of $34.1 million in the first half of fiscal 2016.
Recently Issued Accounting Standards — In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP. On July 9, 2015, the FASB deferred the effective date of the new revenue recognition standard by one year. Based on the FASB's ASU, we will apply the new revenue standard in our fiscal year 2019. Early adoption in our fiscal year 2018 is permitted. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. The standard permits the use of either the retrospective or cumulative effect transition method.
In July 2015, the FASB issued ASU 2015-11, Inventory, which requires an entity to measure inventory within the scope at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The effective date for the standard is for fiscal years beginning after December 15, 2016. Early adoption is permitted. The standard is to be applied prospectively. We do not expect ASU 2015-11 to have a material impact to our consolidated financial statements.
In January 2016, the FASB issued 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The effective date for this standard is for fiscal years beginning after December 31, 2017. Early adoption is not permitted except for certain provisions. We do not expect ASU 2016-01 to have a material impact to our consolidated financial statements.
In February 2016, the FASB issued its final lease accounting standard, FASB Accounting Standard Codification ("ASC") Topic 842, Leases, which requires lessees to reflect most leases on their balance sheet as assets and obligations. The effective date for the standard is for fiscal years beginning after December 15, 2018. Early adoption

is permitted. We are evaluating the effect that ASC 842 will have on our consolidated financial statements and related disclosures. The standard is to be applied under the modified retrospective method, with elective reliefs, which requires application of the new guidance for all periods presented.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The effective date for the standard is for fiscal years beginning after December 15, 2017. Early adoption is permitted. We are currently evaluating the impact of our pending adoption of this standard on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows: Restricted Cash, which provides amendments to current guidance to address the classifications and presentation of changes in restricted cash in the statement of cash flows. The effective date for the standard is for fiscal years beginning after December 15, 2017. Early adoption is permitted. We are currently evaluating the impact of our pending adoption of this standard on our consolidated financial statements.

2. ACQUISITIONS

In September 2016, we acquired the operating assets of Frontera Foods, Inc. and Red Fork LLC, including the Frontera®, Red Fork®, and Salpica® brands. These businesses make authentic, gourmet Mexican food products and contemporary American cooking sauces. We acquired the businesses for $108.2 million in cash, net of cash acquired, and subject to working capital adjustments. Approximately $38.4 million has been classified as goodwill and $66.7 million has been classified as other intangible assets pending determination of the final purchase price allocation. The amount allocated to goodwill is deductible for tax purposes. These businesses are included in the Grocery & Snacks segment.

3. DISCONTINUED OPERATIONS AND OTHER DIVESTITURES

Lamb Weston Spinoff

On November 9, 2016, the Company completed the previously announced Spinoff of its Lamb Weston business. As of such date, the Company did not beneficially own any equity interest in Lamb Weston and no longer consolidates Lamb Weston into its financial results. We reflected the results of this business as discontinued operations for all periods presented. The assets and liabilities of the Lamb Weston business have been reclassified as assets and liabilities of discontinued operations within our Condensed Consolidated Balance Sheets for the period presented prior to the Spinoff.

The summary comparative financial results of the Lamb Weston business through the date of the Spinoff, included within discontinued operations, were as follows:

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | November 27, 2016 | November 29, 2015 | November 27, 2016 | November 29, 2015 |
| Net sales | $636.0 | $ 735.2 | $1,407.9 | $ 1,477.1 |
| Income from discontinued operations before income taxes and equity method investment earnings | $46.3 | $ 118.4 | $175.1 | $ 215.5 |
| Income before income taxes and equity method investment earnings | 46.3 | 118.4 | 175.1 | 215.5 |
| Income tax expense | 39.1 | 40.3 | 88.6 | 76.0 |
| Equity method investment earnings | 5.3 | 7.8 | 15.9 | 20.2 |
| Income from discontinued operations, net of tax | 12.5 | 85.9 | 102.4 | 159.7 |
| Less: Net income attributable to noncontrolling interests | 3.2 | 3.7 | 6.8 | 5.2 |
| Net income from discontinued operations attributable to CAG | $9.3 | $ 82.2 | $95.6 | $ 154.5 |

For the second quarter and first half of fiscal 2017, we incurred $62.2 million and $72.0 million, respectively, of expenses in connection with the Spinoff primarily related to professional fees and contract services associated with preparation of regulatory filings and separation activities. These expenses are reflected in income from discontinued operations.

The assets and liabilities classified as assets and liabilities of discontinued operations reflected in our Condensed Consolidated Balance Sheets related to the Lamb Weston business were as follows:

| | May 29, 2016 |
|---|---|
| Cash and cash equivalents | $36.4 |
| Receivables, less allowance for doubtful accounts of $0.5 | 186.5 |
| Inventories | 498.9 |
| Prepaid expenses and other current assets | 57.9 |
| Total current assets of discontinued operations | $779.7 |
| Property, plant and equipment, net | $1,004.1 |
| Goodwill | 133.9 |
| Brands, trademarks and other intangibles, net | 39.6 |
| Other assets | 161.7 |
| Total noncurrent assets of discontinued operations | $1,339.3 |
| Notes payable | $24.9 |
| Current installments of long-term debt | 12.0 |
| Accounts payable | 238.7 |
| Accrued payroll | 50.3 |
| Other accrued liabilities | 83.3 |
| Total current liabilities of discontinued operations | $409.2 |
| Senior long-term debt, excluding current installments | $36.4 |
| Other noncurrent liabilities | 268.4 |
| Total noncurrent liabilities of discontinued operations | $304.8 |

In connection with the Spinoff, total assets of $2.28 billion (net of cash assumed of $23.4 million) and total liabilities of $2.98 billion (including debt of $2.46 billion) were transferred to Lamb Weston. As part of the consideration for the Spinoff, the Company received a cash payment from Lamb Weston in the amount of $823.5 million. See Note 5 for discussion of the related debt-for-debt exchange.

Private Brands Operations

On February 1, 2016, pursuant to the Stock Purchase Agreement, dated as of November 1, 2015, we completed the disposition of our Private Brands operations to TreeHouse Foods, Inc. for $2.6 billion in cash on a debt-free basis, subject to working capital and other adjustments.

As a result of the disposition, we recognized a pre-tax charge of $86.3 million ($79.0 million after-tax) and $1.90 billion ($1.42 billion after-tax) in the second quarter and first half of fiscal 2016, respectively, to write-down the goodwill and long-lived assets to the estimated sales price, less costs to sell. We reflected the results of this business as discontinued operations for all periods presented.

The summary comparative financial results of the Private Brands business, included within discontinued operations, were as follows:

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | November 27, 2016 | November 29, 2015 | November 27, 2016 | November 29, 2015 |
| Net sales | $(0.9) | $ 958.9 | $(0.9) | $1,850.7 |
| Gain (loss) on sale of businesses | $(0.5) | $ — | $1.0 | $— |
| Goodwill and long-lived asset impairment charges | — | (86.3) | — | (1,898.6) |
| Income (loss) from operations of discontinued operations before income taxes and equity method investment earnings | (0.6) | 85.3 | (1.3) | 105.7 |
| Loss before income taxes | (1.1) | (1.0) | (0.3) | (1,792.9) |

| | | | | |
|---|---|---|---|---|
| Income tax expense (benefit) | (0.2 ) | 5.7 | (0.9 ) | (466.4 ) |
| Income (loss) from discontinued operations, net of tax | $(0.9) | $ (6.7 ) | $0.6 | $(1,326.5) |

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Other Divestitures

During the first quarter of fiscal 2017, we completed the sales of our Spicetec Flavors & Seasonings business ("Spicetec") and our JM Swank business, each of which was part of our Commercial segment, for $327.0 million and $159.3 million, respectively, in cash, net of cash included in the dispositions. We recognized pre-tax gains from the sales of $144.8 million and $52.9 million, respectively. The assets and liabilities of these businesses have been reclassified as assets and liabilities held for sale within our Condensed Consolidated Balance Sheets for the period presented prior to the divestiture.

The assets and liabilities classified as held for sale reflected in our Condensed Consolidated Balance Sheets related to the Spicetec and JM Swank businesses were as follows:

| | May 29, 2016 |
|---|---|
| Spicetec: | |
| Current assets | $ 43.3 |
| Noncurrent assets (including goodwill of $104.7 million) | 148.3 |
| Current liabilities | 10.3 |
| Noncurrent liabilities | 1.2 |
| JM Swank: | |
| Current assets | $ 73.7 |
| Noncurrent assets (including goodwill of $53.8 million) | 74.3 |
| Current liabilities | 44.3 |
| Noncurrent liabilities | 0.4 |

In addition, we are actively marketing certain other long-lived assets. These assets have been reclassified as assets held for sale within our condensed consolidated balance sheets for all periods presented. The balance of these noncurrent assets classified as held for sale was $1.7 million in our Corporate segment at November 27, 2016 and $6.8 million and $4.7 million in our Corporate and Grocery & Snacks segments at May 29, 2016, respectively.

4. RESTRUCTURING ACTIVITIES

Supply Chain and Administrative Efficiency Plan

We previously announced a plan for the integration and restructuring of the operations of Ralcorp Holdings, Inc. ("Ralcorp"), optimization of the entire Company's supply chain network, manufacturing assets, and dry distribution and mixing centers, and improvement of selling, general and administrative effectiveness and efficiencies, which we refer to as the Supply Chain and Administrative Efficiency Plan (the "SCAE Plan"). The SCAE Plan also includes plans announced in the second quarter of fiscal 2016 to realize efficiency benefits through a combination of reductions in selling, general and administrative expenses and enhancements to trade spend processes and tools. Although the divestiture of the Private Brands business was completed in the third quarter of fiscal 2016, resulting in the sale of substantially all the Ralcorp operations, we will continue to implement the SCAE Plan, including work related to optimizing our supply chain network, the pursuit of cost reductions through our selling, general and administrative functions, enhancements to trade spend processes and tools, and productivity improvements.

Although we remain unable to make good faith estimates relating to the entire SCAE Plan, we are reporting on actions initiated through the end of the second quarter of fiscal 2017, including the estimated amounts or range of amounts for each major type of costs expected to be incurred, and the charges that have resulted or will result in cash outflows. As of November 27, 2016, our Board of Directors has approved the incurrence of up to $739.0 million of expenses in connection with the SCAE Plan, including expenses allocated for the Private Brands and Lamb Weston operations. We have incurred or expect to incur approximately $432.8 million of charges ($292.4 million of cash charges and $140.4 million of non-cash charges) for actions identified to date under the SCAE Plan related to our continuing operations. In the second quarter and first half of fiscal 2017 we recognized charges of $19.8 million and $33.9 million, respectively, in relation to the SCAE Plan related to our continuing operations. In the second quarter and first half of fiscal 2016 we recognized charges of $133.0 million and $150.4 million, respectively, in relation to the SCAE

Plan related to our continuing operations. We expect to incur costs related to the SCAE Plan over a multi-year period.

We anticipate that we will recognize the following pre-tax expenses in association with the SCAE Plan related to our continuing operations (amounts include charges recognized from plan inception through the first half of fiscal 2017):

| | Grocery & Snacks | Refrigerated & Frozen | International | Foodservice | Corporate | Total |
|---|---|---|---|---|---|---|
| Multi-employer pension costs | $ 29.8 | $ 1.5 | $ — | $ — | $ — | $ 31.3 |
| Accelerated depreciation | 36.6 | 18.6 | — | — | 1.2 | 56.4 |
| Other cost of goods sold | 5.5 | 2.1 | — | — | — | 7.6 |
| Total cost of goods sold | 71.9 | 22.2 | — | — | 1.2 | 95.3 |
| Severance and related costs, net | 22.4 | 10.4 | 2.4 | 7.9 | 98.9 | 142.0 |
| Fixed asset impairment (Net of gains on disposal) | 6.9 | 8.2 | — | — | 4.4 | 19.5 |
| Accelerated depreciation | — | — | — | — | 1.8 | 1.8 |
| Contract/Lease cancellation expenses | 0.9 | 0.5 | — | — | 73.8 | 75.2 |
| Consulting/Professional fees | 0.6 | 0.4 | 0.1 | — | 52.0 | 53.1 |
| Other selling, general and administrative expenses | 11.6 | 3.5 | — | — | 30.8 | 45.9 |
| Total selling, general and administrative expenses | 42.4 | 23.0 | 2.5 | 7.9 | 261.7 | 337.5 |
| Consolidated total | $ 114.3 | $ 45.2 | $ 2.5 | $ 7.9 | $ 262.9 | $ 432.8 |

During the second quarter of fiscal 2017, we recognized the following pre-tax expenses for the SCAE Plan related to our continuing operations:

| | Grocery & Snacks | Refrigerated & Frozen | International | Foodservice | Corporate | Total |
|---|---|---|---|---|---|---|
| Accelerated depreciation | $ 1.9 | $ — | $ — | $ — | $ — | $ 1.9 |
| Other cost of goods sold | (0.1) | — | — | — | — | (0.1) |
| Total cost of goods sold | 1.8 | — | — | — | — | 1.8 |
| Severance and related costs, net | 0.8 | (0.2) | 0.3 | — | 2.1 | 3.0 |
| Fixed asset impairment (Net of gains on disposal) | (2.7) | 2.0 | — | — | 2.9 | 2.2 |
| Accelerated depreciation | — | — | — | — | 0.3 | 0.3 |
| Contract/Lease cancellation expenses | — | — | 0.1 | — | 8.9 | 9.0 |
| Consulting/Professional fees | — | — | — | — | 0.2 | 0.2 |
| Other selling, general and administrative expenses | 1.5 | 0.4 | — | — | 1.4 | 3.3 |
| Total selling, general and administrative expenses | (0.4) | 2.2 | 0.4 | — | 15.8 | 18.0 |
| Consolidated total | $ 1.4 | $ 2.2 | $ 0.4 | $ — | $ 15.8 | $ 19.8 |

Included in the above table are $15.4 million of charges that have resulted or will result in cash outflows and $4.4 million in non-cash charges.

During the first half of fiscal 2017, we recognized the following pre-tax expenses for the SCAE Plan related to our continuing operations:

| | Grocery & Snacks | Refrigerated & Frozen | International | Foodservice | Corporate | Total |
|---|---|---|---|---|---|---|
| Accelerated depreciation | $ 3.7 | $ 1.2 | $ — | $ — | $ — | $4.9 |
| Other cost of goods sold | 1.9 | 0.2 | — | — | — | 2.1 |
| Total cost of goods sold | 5.6 | 1.4 | — | — | — | 7.0 |
| Severance and related costs, net | 0.6 | (0.2) | 0.5 | 1.8 | 2.1 | 4.8 |
| Fixed asset impairment (Net of gains on disposal) | (2.1) | 4.6 | — | — | 2.9 | 5.4 |
| Accelerated depreciation | — | — | — | — | 0.5 | 0.5 |
| Contract/Lease cancellation expenses | — | — | 0.1 | — | 7.4 | 7.5 |
| Consulting/Professional fees | — | — | — | — | 0.3 | 0.3 |
| Other selling, general and administrative expenses | 2.2 | 1.4 | — | — | 4.8 | 8.4 |
| Total selling, general and administrative expenses | 0.7 | 5.8 | 0.6 | 1.8 | 18.0 | 26.9 |
| Consolidated total | $ 6.3 | $ 7.2 | $ 0.6 | $ 1.8 | $ 18.0 | $33.9 |

Included in the above table are $20.9 million of charges that have resulted or will result in cash outflows and $13.0 million in non-cash charges.

We recognized the following cumulative (plan inception to November 27, 2016) pre-tax expenses related to the SCAE Plan related to our continuing operations in our Condensed Consolidated Statements of Operations:

| | Grocery & Snacks | Refrigerated & Frozen | International | Foodservice | Corporate | Total |
|---|---|---|---|---|---|---|
| Multi-employer pension costs | $ 29.8 | $ 1.5 | $ — | $ — | $ — | $31.3 |
| Accelerated depreciation | 25.1 | 18.6 | — | — | 1.2 | 44.9 |
| Other cost of goods sold | 3.8 | 2.1 | — | — | — | 5.9 |
| Total cost of goods sold | 58.7 | 22.2 | — | — | 1.2 | 82.1 |
| Severance and related costs, net | 21.2 | 10.3 | 2.7 | 7.9 | 98.5 | 140.6 |
| Fixed asset impairment (Net of gains on disposal) | 5.1 | 8.2 | — | — | 3.7 | 17.0 |
| Accelerated depreciation | — | — | — | — | 1.8 | 1.8 |
| Contract/Lease cancellation expenses | 0.8 | 0.5 | 0.1 | — | 69.1 | 70.5 |
| Consulting/Professional fees | 0.6 | 0.4 | 0.1 | — | 51.1 | 52.2 |
| Other selling, general and administrative expenses | 7.6 | 3.0 | — | — | 17.8 | 28.4 |
| Total selling, general and administrative expenses | 35.3 | 22.4 | 2.9 | 7.9 | 242.0 | 310.5 |
| Consolidated total | $ 94.0 | $ 44.6 | $ 2.9 | $ 7.9 | $ 243.2 | $392.6 |

Included in the above table are $267.6 million of charges that have resulted or will result in cash outflows and $125.0 million in non-cash charges. Not included in the above table are $130.2 million of pre-tax expenses ($84.5 million of cash charges and $45.7 million of non-cash charges) related to the Private Brands operations which we sold in the third quarter of fiscal 2016 and $2.1 million of pre-tax expenses (all resulting in cash charges) related to Lamb Weston.

Liabilities recorded for the SCAE Plan related to our continuing operations and changes therein for the first half of fiscal 2017 were as follows:

| | Balance at May 29, 2016 | Costs Incurred and Charged to Expense | Costs Paid or Otherwise Settled | Changes in Estimates | Balance at November 27, 2016 |
|---|---|---|---|---|---|
| Multi-employer pension costs | $ 40.7 | $ — | $ (10.9 ) | $ — | $ 29.8 |
| Severance | 47.2 | 6.5 | (31.3 ) | (1.7 ) | 20.7 |
| Consulting | 4.7 | 0.3 | (4.6 ) | — | 0.4 |
| Contract termination | 6.3 | 11.4 | (2.2 ) | (1.3 ) | 14.2 |
| Other costs | 0.5 | 8.5 | (7.9 ) | — | 1.1 |
| Total | $ 99.4 | $ 26.7 | $ (56.9 ) | $ (3.0 ) | $ 66.2 |

5. LONG-TERM DEBT AND REVOLVING CREDIT FACILITY

As of November 27, 2016, we were in compliance with all financial covenants with our revolving credit facility.

In connection with the Spinoff (see Note 3), Lamb Weston issued to us $1.54 billion aggregate principal amount of senior notes (the “Lamb Weston notes”). On November 9, 2016, we exchanged the Lamb Weston notes for $250.2 million aggregate principal amount of our 5.819% senior notes due 2017, $880.4 million aggregate principal amount of our 1.9% senior notes due 2018, $154.9 million aggregate principal amount of our 2.1% senior notes due 2018, $86.9 million aggregate principal amount of our 7.0% senior notes due 2019, and $71.1 million aggregate principal amount of our 4.95% senior notes due 2020 (the “Conagra notes”), which had been purchased in the open market by certain investment banks prior to the Spinoff. Following the exchange, we cancelled the Conagra notes. These actions resulted in a net loss of $60.6 million as a cost of early retirement of debt.

During the first quarter of fiscal 2017, we repaid the entire principal balance of $550.0 million of our floating rate notes on the maturity date of July 21, 2016.

During the second quarter of fiscal 2016, we repaid the entire principal balance of $250.0 million of our 1.35% senior notes on the maturity date of September 10, 2015.

Net interest expense from continuing operations consists of:

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|---|---|---|---|
| | November 27, 2016 | November 29, 2015 | November 27, 2016 | November 29, 2015 |
| Long-term debt | $56.6 | $ 80.2 | $117.5 | $ 162.2 |
| Short-term debt | 0.2 | 0.6 | 0.4 | 0.8 |
| Interest income | (0.8 ) | — | (1.5 ) | (0.1 ) |
| Interest capitalized | (1.9 ) | (1.6 ) | (4.1 ) | (3.6 ) |
| | $54.1 | $ 79.2 | $112.3 | $ 159.3 |

6. VARIABLE INTEREST ENTITIES

Variable Interest Entities Not Consolidated

We have variable interests in certain other entities that we have determined to be variable interest entities, but for which we are not the primary beneficiary. We do not consolidate the financial statements of these entities.

We lease certain office buildings from entities that we have determined to be variable interest entities. The lease agreements with these entities include fixed-price purchase options for the assets being leased. The lease agreements also contain contingent put options (the “lease put options”) that allow the lessors to require us to purchase the buildings at the greater of original construction cost, or fair market value, without a lease agreement in place (the “put price”) in certain limited circumstances. As a result of substantial impairment charges related to our divested Private Brands operations, these lease put options are exercisable now and remain exercisable until generally 30 days after the end of the respective lease agreements. We are amortizing the difference between the estimated put price and the estimated fair value (without a lease agreement in place) of each respective property over the remaining respective lease term within selling, general and administrative expenses. As of November 27, 2016, the estimated amount by which the put prices exceeded the fair values of the

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related properties was $58.5 million, of which we have accrued $12.9 million. As these buildings are worth considerably more when under lease agreements than when vacant, we may be able to mitigate some, or all, of the financial exposure created by the put options by maintaining active lease agreements and/or by subleasing the buildings to credit worthy tenants. We do not expect to ultimately incur material financial losses as a result of the potential exercise of the lease put options by the lessors. These leases are accounted for as operating leases, and accordingly, there are no material assets or liabilities, other than the accrued portion of the put price, associated with these entities included in our condensed consolidated balance sheets. We have determined that we do not have the power to direct the activities that most significantly impact the economic performance of these entities. In making this determination, we have considered, among other items, the terms of the lease agreements, the expected remaining useful lives of the assets leased, and the capital structure of the lessor entities.

## 7. GOODWILL AND OTHER IDENTIFIABLE INTANGIBLE ASSETS

The change in the carrying amount of goodwill for the first half of fiscal 2017 was as follows:

| | Grocery & Snacks | Refrigerated & Frozen | International | Foodservice | Total |
|---|---|---|---|---|---|
| Balance as of May 29, 2016 | $2,337.4 | $ 1,028.9 | $ 448.6 | $ 581.3 | $4,396.2 |
| Impairment | — | — | (183.1 ) | — | (183.1 ) |
| Acquisitions | 38.4 | — | | | 38.4 |
| Currency translation | — | (0.6 ) | (2.2 ) | — | (2.8 ) |
| Balance as of November 27, 2016 | $2,375.8 | $ 1,028.3 | $ 263.3 | $ 581.3 | $4,248.7 |

Other identifiable intangible assets were as follows:

| | November 27, 2016 | | May 29, 2016 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Non-amortizing intangible assets | $ 861.6 | $ — | $839.2 | $ — |
| Amortizing intangible assets | 563.1 | 163.8 | 543.9 | |