

MOLSON COORS BREWING CO

Form 10-Q

November 01, 2017

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

FORM 10-Q

(Mark One)

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

For the Quarterly period ended September 30, 2017

OR

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

For the transition period from _____ to _____ .

Commission File Number: 1-14829

Molson Coors Brewing Company

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

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

1555 Notre Dame Street East, Montréal, Québec, Canada

(Address of principal executive offices)

303-927-2337 (Colorado)

514-521-1786 (Québec)

(Registrant's telephone number, including area code)

84-0178360

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

80202

H2L 2R5

(Zip Code)

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

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

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

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

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

(Do not check if a smaller reporting company)

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of October 27, 2017:

Class A Common Stock— 2,560,568 shares

Class B Common Stock—195,243,251 shares

Exchangeable shares:

As of October 27, 2017, the following number of exchangeable shares were outstanding for Molson Coors Canada, Inc.:

Class A Exchangeable shares—2,878,535 shares

Class B Exchangeable shares—14,719,836 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.

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

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|---------------|-------------------|---------------|
| | September 30, | September 30, | September 30, | September 30, |
| | 2017 | 2016 | 2017 | 2016 |
| Sales | \$3,552.9 | \$ 1,337.7 | \$10,259.8 | \$ 3,695.5 |
| Excise taxes | (669.7) | (390.1) | (1,836.6) | (1,104.5) |
| Net sales | 2,883.2 | 947.6 | 8,423.2 | 2,591.0 |
| Cost of goods sold | (1,589.6) | (541.3) | (4,718.6) | (1,517.5) |
| Gross profit | 1,293.6 | 406.3 | 3,704.6 | 1,073.5 |
| Marketing, general and administrative expenses | (782.8) | (278.9) | (2,266.8) | (843.4) |
| Special items, net | (4.1) | 4.9 | (24.4) | 79.0 |
| Equity income in MillerCoors | — | 156.9 | — | 491.2 |
| Operating income (loss) | 506.7 | 289.2 | 1,413.4 | 800.3 |
| Interest income (expense), net | (72.6) | (66.6) | (258.4) | (154.4) |
| Other income (expense), net | (2.5) | 0.8 | (0.6) | (44.9) |
| Income (loss) from continuing operations before income taxes | 431.6 | 223.4 | 1,154.4 | 601.0 |
| Income tax benefit (expense) | (145.3) | (19.6) | (332.9) | (57.5) |
| Net income (loss) from continuing operations | 286.3 | 203.8 | 821.5 | 543.5 |
| Income (loss) from discontinued operations, net of tax | (0.2) | — | 0.8 | (2.3) |
| Net income (loss) including noncontrolling interests | 286.1 | 203.8 | 822.3 | 541.2 |
| Net (income) loss attributable to noncontrolling interests | (6.1) | (1.3) | (17.7) | (3.7) |
| Net income (loss) attributable to Molson Coors Brewing Company | \$280.0 | \$ 202.5 | \$804.6 | \$ 537.5 |
| Basic net income (loss) attributable to Molson Coors Brewing Company per share: | | | | |
| From continuing operations | \$1.30 | \$ 0.94 | \$3.73 | \$ 2.56 |
| From discontinued operations | — | — | 0.01 | (0.01) |
| Basic net income (loss) attributable to Molson Coors Brewing Company per share | \$1.30 | \$ 0.94 | \$3.74 | \$ 2.55 |
| Diluted net income (loss) attributable to Molson Coors Brewing Company per share: | | | | |
| From continuing operations | \$1.29 | \$ 0.94 | \$3.71 | \$ 2.54 |
| From discontinued operations | — | — | 0.01 | (0.01) |
| Diluted net income (loss) attributable to Molson Coors Brewing Company per share | \$1.29 | \$ 0.94 | \$3.72 | \$ 2.53 |
| Weighted-average shares—basic | 215.5 | 214.8 | 215.4 | 211.1 |
| Weighted-average shares—diluted | 216.5 | 216.3 | 216.5 | 212.6 |
| Amounts attributable to Molson Coors Brewing Company | | | | |
| Net income (loss) from continuing operations | \$280.2 | \$ 202.5 | \$803.8 | \$ 539.8 |
| Income (loss) from discontinued operations, net of tax | (0.2) | — | 0.8 | (2.3) |
| Net income (loss) attributable to Molson Coors Brewing Company | \$280.0 | \$ 202.5 | \$804.6 | \$ 537.5 |

See notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|---------------|-------------------|---------------|
| | September 30, | September 30, | September 30, | September 30, |
| | 2017 | 2016 | 2017 | 2016 |
| Net income (loss) including noncontrolling interests | \$286.1 | \$ 203.8 | \$822.3 | \$ 541.2 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | 214.9 | (57.8 |) 607.0 | 55.9 |
| Unrealized gain (loss) on derivative and non-derivative financial instruments | (38.9 |) (8.8 |) (116.1 |) (35.4 |
| Reclassification of derivative (gain) loss to income | 0.9 | — | 0.5 | (3.1 |
| Amortization of net prior service (benefit) cost and net actuarial (gain) loss to income | 6.7 | 6.9 | 15.0 | 20.9 |
| Ownership share of unconsolidated subsidiaries' other comprehensive income (loss) | 0.9 | 0.3 | 2.9 | 21.7 |
| Total other comprehensive income (loss), net of tax | 184.5 | (59.4 |) 509.3 | 60.0 |
| Comprehensive income (loss) | 470.6 | 144.4 | 1,331.6 | 601.2 |
| Comprehensive (income) loss attributable to noncontrolling interests | (6.9 |) (1.3 |) (20.1 |) (2.1 |
| Comprehensive income (loss) attributable to Molson Coors Brewing Company | \$463.7 | \$ 143.1 | \$1,311.5 | \$ 599.1 |

See notes to unaudited condensed consolidated financial statements.

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

| | As of | |
|--|-----------------------|----------------------|
| | September 30, 2017 | December 31, 2016 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$971.3 | \$ 560.9 |
| Accounts receivable, net | 833.4 | 669.5 |
| Other receivables, net | 197.9 | 135.8 |
| Inventories, net | 636.0 | 592.7 |
| Other current assets, net | 277.8 | 210.7 |
| Total current assets | 2,916.4 | 2,169.6 |
| Properties, net | 4,590.2 | 4,507.4 |
| Goodwill | 8,346.9 | 8,250.1 |
| Other intangibles, net | 14,315.8 | 14,031.9 |
| Other assets | 508.4 | 382.5 |
| Total assets | \$30,677.7 | \$ 29,341.5 |
| Liabilities and equity | | |
| Current liabilities: | | |
| Accounts payable and other current liabilities | \$2,506.1 | \$ 2,467.7 |
| Current portion of long-term debt and short-term borrowings | 1,745.0 | 684.8 |
| Discontinued operations | 5.1 | 5.0 |
| Total current liabilities | 4,256.2 | 3,157.5 |
| Long-term debt | 10,574.2 | 11,387.7 |
| Pension and postretirement benefits | 895.5 | 1,196.0 |
| Deferred tax liabilities | 1,932.4 | 1,699.0 |
| Other liabilities | 309.9 | 267.0 |
| Discontinued operations | 12.9 | 12.6 |
| Total liabilities | 17,981.1 | 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: 204.7 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) | 553.2 | 571.2 |
| Paid-in capital | 6,676.6 | 6,635.3 |
| Retained earnings | 6,658.7 | 6,119.0 |
| Accumulated other comprehensive income (loss) | (1,038.6) | (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 | 12,488.2 | 11,418.7 |
| Noncontrolling interests | 208.4 | 203.0 |

| | | |
|------------------------------|------------|-------------|
| Total equity | 12,696.6 | 11,621.7 |
| Total liabilities and equity | \$30,677.7 | \$ 29,341.5 |

See notes to unaudited condensed consolidated financial statements.

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

| | Nine Months Ended | |
|---|-----------------------|-----------------------|
| | September 30, 2017 | September 30, 2016 |
| Cash flows from operating activities: | | |
| Net income (loss) including noncontrolling interests | \$822.3 | \$ 541.2 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 604.3 | 204.3 |
| Amortization of debt issuance costs and discounts | 17.6 | 63.2 |
| Share-based compensation | 46.2 | 17.6 |
| (Gain) loss on sale or impairment of properties and other assets, net | (9.6) | (89.4) |
| Equity income in MillerCoors | — | (478.9) |
| Distributions from MillerCoors | — | 478.9 |
| Unrealized (gain) loss on foreign currency fluctuations and derivative instruments, net | (83.7) | (19.6) |
| Income tax (benefit) expense | 332.9 | 57.5 |
| Income tax (paid) received | 15.9 | (152.2) |
| Interest expense, excluding interest amortization | 259.3 | 170.9 |
| Interest paid | (299.0) | (105.8) |
| Pension expense (benefit) | (20.5) | 6.4 |
| Pension contributions paid | (307.7) | (10.1) |
| Change in current assets and liabilities (net of impact of business combinations) and other | (231.8) | (56.1) |
| (Gain) loss from discontinued operations | (0.8) | 2.3 |
| Net cash provided by (used in) operating activities | 1,145.4 | 630.2 |
| Cash flows from investing activities: | | |
| Additions to properties | (466.0) | (188.9) |
| Proceeds from sales of properties and other assets | 56.9 | 155.4 |
| Investment in MillerCoors | — | (1,253.7) |
| Return of capital from MillerCoors | — | 1,089.7 |
| Other | 11.1 | 8.6 |
| Net cash provided by (used in) investing activities | (398.0) | (188.9) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock, net | — | 2,525.6 |
| Exercise of stock options under equity compensation plans | 3.6 | 8.2 |
| Dividends paid | (264.9) | (264.6) |
| Debt issuance costs | (7.0) | (60.2) |
| Payments on debt and borrowings | (2,601.5) | (23.3) |
| Proceeds on debt and borrowings | 1,536.0 | 6,971.9 |
| Net proceeds from (payments on) revolving credit facilities and commercial paper | 999.7 | 1.6 |
| Change in overdraft balances and other | (33.7) | (39.1) |
| Net cash provided by (used in) financing activities | (367.8) | 9,120.1 |
| Cash and cash equivalents: | | |
| Net increase (decrease) in cash and cash equivalents | 379.6 | 9,561.4 |
| Effect of foreign exchange rate changes on cash and cash equivalents | 30.8 | (10.8) |
| Balance at beginning of year | 560.9 | 430.9 |
| Balance at end of period | \$971.3 | \$ 9,981.5 |
| See notes to unaudited condensed consolidated financial statements. | | |

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

| | MCBC Stockholders' Equity | | | | | | | | |
|---|---------------------------|--------------|--------------|---------|-----------------|-------------------|---|-------------------------------|---------------------------|
| | Total | Common stock | Exchangeable | | Paid-in-capital | Retained earnings | Accumulated other comprehensive income (loss) | Common Stock held in treasury | Non controlling interests |
| | | Class B | Class A | Class A | | | Class B | Class B | |
| Balance at December 31, 2015 | \$7,063.1 | \$ 1.7 | \$108.2 | \$603.0 | \$4,000.4 | \$4,496.0 | \$(1,694.9) | \$(471.4) | \$20.1 |
| Exchange of shares | — | — | (0.1) | (23.4) | 23.5 | — | — | — | — |
| Shares issued under equity compensation plan | (3.6) | — | — | — | (3.6) | — | — | — | — |
| Amortization of share-based compensation | 20.0 | — | — | — | 20.0 | — | — | — | — |
| Acquisition of business and purchase of noncontrolling interest | 1.2 | — | — | — | — | — | — | — | 1.2 |
| Net income (loss) including noncontrolling interests | 541.2 | — | — | — | — | 537.5 | — | — | 3.7 |
| Other comprehensive income (loss), net of tax | 60.0 | — | — | — | — | — | 61.6 | — | (1.6) |
| Issuance of common stock | 2,525.6 | 0.3 | — | — | 2,525.3 | — | — | — | — |
| Dividends declared and paid | (267.1) | — | — | — | — | (264.6) | — | — | (2.5) |
| Balance at September 30, 2016 | \$9,940.4 | \$ 2.0 | \$108.1 | \$579.6 | \$6,565.6 | \$4,768.9 | \$(1,633.3) | \$(471.4) | \$20.9 |

| | MCBC Stockholders' Equity | | | | | | | | |
|------------------------------|---------------------------|--------------|--------------|---------|-----------------|-------------------|---|-------------------------------|---------------------------|
| | Total | Common stock | Exchangeable | | Paid-in-capital | Retained earnings | Accumulated other comprehensive income (loss) | Common Stock held in treasury | Non controlling interests |
| | | Class A | Class B | Class A | | | Class B | Class B | |
| Balance at December 31, 2016 | \$11,621.7 | \$ 2.0 | \$108.1 | \$571.2 | \$6,635.3 | \$6,119.0 | \$(1,545.5) | \$(471.4) | \$203.0 |
| Exchange of shares | — | — | (0.4) | (18.0) | 18.4 | — | — | — | — |

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| | | | | | | | | | |
|---|------------|--------|---------|---------|-----------|-----------|--------------|-----------|---------|
| Shares issued under equity compensation plan | (22.4) | — | — | — | (22.4) | — | — | — | — |
| Amortization of share-based compensation | 45.3 | — | — | — | 45.3 | — | — | — | — |
| Acquisition of business and purchase of noncontrolling interest | 1.6 | — | — | — | — | — | — | — | 1.6 |
| Net income (loss) including noncontrolling interests | 822.3 | — | — | — | — | 804.6 | — | — | 17.7 |
| Other comprehensive income (loss), net of tax | 509.3 | — | — | — | — | — | 506.9 | — | 2.4 |
| Dividends declared and paid | (281.2) | — | — | — | — | (264.9) | — | — | (16.3) |
| Balance at September 30, 2017 | \$12,696.6 | \$-2.0 | \$107.7 | \$553.2 | \$6,676.6 | \$6,658.7 | \$(1,038.6) | \$(471.4) | \$208.4 |

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

2. New Accounting Pronouncements

New Accounting Pronouncements Recently Adopted

In January 2017, the Financial Accounting Standards Board ("FASB") issued authoritative guidance intended to simplify the subsequent measurement of goodwill by eliminating step two 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 one of our testing procedures.

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New Accounting Pronouncements Not Yet Adopted

In August 2017, the FASB issued authoritative guidance intended to refine and expand hedge accounting for both financial and commodity risks. The revised guidance will create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. In addition, this guidance makes certain targeted improvements to simplify the application of hedge accounting guidance. This guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. We are currently evaluating the potential impact on our financial position and results of operations upon adoption of this guidance.

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.