

CONAGRA BRANDS INC.  
Form 10-Q  
April 02, 2019

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 February 24, 2019

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 (I.R.S. Employer  
incorporation or organization) Identification No.)

222 Merchandise Mart Plaza, Suite 1300 60654  
Chicago, Illinois  
(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  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

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

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

Number of shares outstanding of issuer's common stock, as of February 24, 2019, was 485,914,676.

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## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

Conagra Brands, Inc. and Subsidiaries

Condensed Consolidated Statements of Earnings

(in millions except per share amounts)

(unaudited)

	Thirteen weeks ended		Thirty-nine weeks ended	
	February 24, 2019	February 25, 2018	February 24, 2019	February 25, 2018
Net sales	\$2,707.1	\$ 1,994.5	\$6,925.2	\$ 5,972.1
Costs and expenses:				
Cost of goods sold	1,954.8	1,395.7	4,980.2	4,196.0
Selling, general and administrative expenses	334.1	352.1	1,078.7	936.5
Pension and postretirement non-service income	(9.8 )	(21.9 )	(29.7 )	(60.0 )
Interest expense, net	130.9	39.8	260.5	114.2
Income from continuing operations before income taxes and equity method investment earnings	297.1	228.8	635.5	785.4
Income tax expense (benefit)	67.2	(91.4 )	147.0	138.1
Equity method investment earnings	12.7	29.0	66.6	79.6
Income from continuing operations	242.6	349.2	555.1	726.9
Income (loss) from discontinued operations, net of tax	—	14.5	(1.9 )	14.6
Net income	\$242.6	\$ 363.7	\$553.2	\$ 741.5
Less: Net income attributable to noncontrolling interests	0.6	0.9	1.4	2.7
Net income attributable to Conagra Brands, Inc.	\$242.0	\$ 362.8	\$551.8	\$ 738.8
Earnings per share — basic				
Income from continuing operations attributable to Conagra Brands, Inc. common stockholders	\$0.50	\$ 0.87	\$1.28	\$ 1.78
Income from discontinued operations attributable to Conagra Brands, Inc. common stockholders	—	0.04	—	0.03
Net income attributable to Conagra Brands, Inc. common stockholders	\$0.50	\$ 0.91	\$1.28	\$ 1.81
Earnings per share — diluted				
Income from continuing operations attributable to Conagra Brands, Inc. common stockholders	\$0.50	\$ 0.87	\$1.28	\$ 1.76
Income (loss) from discontinued operations attributable to Conagra Brands, Inc. common stockholders	—	0.03	(0.01 )	0.04
Net income attributable to Conagra Brands, Inc. common stockholders	\$0.50	\$ 0.90	\$1.27	\$ 1.80

See Notes to the Condensed Consolidated Financial Statements.

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

	Thirteen weeks ended February 24, 2019			February 25, 2018		
	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Net income	\$309.8	\$ (67.2 )	\$ 242.6	\$257.8	\$ 105.9	\$ 363.7
Other comprehensive income:						
Derivative adjustments:						
Unrealized derivative adjustments	(1.8 )	)0.4	(1.4 )	1.2	(0.3 )	)0.9
Reclassification for derivative adjustments included in net income	(0.9 )	)0.3	(0.6 )	—	—	—
Unrealized gains on available-for-sale securities	—	—	—	0.7	(0.1 )	)0.6
Unrealized currency translation gains	7.4	—	7.4	5.1	(0.1 )	)5.0
Pension and post-employment benefit obligations:						
Reclassification for pension and post-employment benefit obligations included in net income	(0.1 )	)—	(0.1 )	(0.1 )	)—	(0.1 )
Comprehensive income	314.4	(66.5 )	247.9	264.7	105.4	370.1
Comprehensive income attributable to noncontrolling interests	0.4	(0.3 )	0.1	0.5	(0.3 )	0.2
Comprehensive income attributable to Conagra Brands, Inc.	\$314.0	\$ (66.2 )	\$ 247.8	\$264.2	\$ 105.7	\$ 369.9

	Thirty-nine weeks ended February 24, 2019			February 25, 2018		
	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Net income	\$703.0	\$ (149.8 )	\$ 553.2	\$865.2	\$ (123.7 )	\$ 741.5
Other comprehensive income:						
Derivative adjustments:						
Unrealized derivative adjustments	46.2	(11.6 )	34.6	2.2	(0.7 )	1.5
Reclassification for derivative adjustments included in net income	(1.1 )	)0.3	(0.8 )	0.1	—	0.1
Unrealized gains on available-for-sale securities	—	—	—	1.4	(0.4 )	)1.0
Unrealized currency translation gains (losses)	(11.3 )	)—	(11.3 )	25.0	(0.1 )	)24.9
Pension and post-employment benefit obligations:						
Unrealized pension and post-employment benefit obligations	(0.4 )	)—	(0.4 )	43.5	(16.6 )	)26.9
Reclassification for pension and post-employment benefit obligations included in net income	(0.5 )	)0.1	(0.4 )	(0.4 )	)0.1	(0.3 )
Comprehensive income	735.9	(161.0 )	574.9	937.0	(141.4 )	795.6
Comprehensive income (loss) attributable to noncontrolling interests	(1.4 )	)0.9	(2.3 )	2.9	(0.9 )	2.0
	\$737.3	\$ (160.1 )	\$ 577.2	\$934.1	\$ (140.5 )	\$ 793.6

Comprehensive income attributable to Conagra Brands,  
Inc.  
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)

	February 24, 2019	May 27, 2018
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 282.2	\$ 128.0
Receivables, less allowance for doubtful accounts of \$3.1 and \$1.7	870.2	569.4
Inventories	1,638.6	988.7
Prepaid expenses and other current assets	107.6	184.9
Current assets held for sale	47.5	67.9
Total current assets	2,946.1	1,938.9
Property, plant and equipment	4,887.9	4,008.5
Less accumulated depreciation	(2,529.3	) (2,419.0
Property, plant and equipment, net	2,358.6	1,589.5
Goodwill	11,349.8	4,487.4
Brands, trademarks and other intangibles, net	4,962.0	1,282.8
Other assets	951.0	906.3
Noncurrent assets held for sale	159.1	184.6
	\$ 22,726.6	\$ 10,389.5
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Notes payable	\$ —	\$ 277.3
Current installments of long-term debt	19.9	307.0
Accounts payable	1,189.2	905.3
Accrued payroll	166.9	161.7
Other accrued liabilities	851.8	671.0
Current liabilities held for sale	13.9	13.9
Total current liabilities	2,241.7	2,336.2
Senior long-term debt, excluding current installments	10,911.8	3,035.6
Subordinated debt	195.9	195.9
Other noncurrent liabilities	1,918.8	1,060.8
Noncurrent liabilities held for sale	6.9	4.4
Total liabilities	15,275.1	6,632.9
Common stockholders' equity		
Common stock of \$5 par value, authorized 1,200,000,000 shares; issued 584,219,229	2,921.2	2,839.7
Additional paid-in capital	2,277.2	1,180.0
Retained earnings	5,025.3	4,744.9
Accumulated other comprehensive loss	(85.7	) (110.5
Less treasury stock, at cost, 98,304,553 and 177,078,193 common shares	(2,765.0	) (4,977.9
Total Conagra Brands, Inc. common stockholders' equity	7,373.0	3,676.2
Noncontrolling interests	78.5	80.4
Total stockholders' equity	7,451.5	3,756.6
	\$ 22,726.6	\$ 10,389.5

See Notes to the Condensed Consolidated Financial Statements.





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

	Thirty-nine weeks ended	
	February 25, 2019	February 25, 2018
Cash flows from operating activities:		
Net income	\$553.2	\$ 741.5
Income (loss) from discontinued operations	(1.9 )	14.6
Income from continuing operations	555.1	726.9
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:		
Depreciation and amortization	232.6	193.4
Asset impairment charges	3.0	9.4
Gain on divestiture	(13.2 )	—
Earnings of affiliates in excess of distributions	(23.4 )	(53.1 )
Stock-settled share-based payments expense	22.5	26.7
Contributions to pension plans	(11.5 )	(9.7 )
Pension benefit	(21.0 )	(38.7 )
Lease cancellation expense	—	48.2
Proceeds from settlement of interest rate swaps	47.5	—
Novation of a legacy guarantee	(27.3 )	—
Other items	25.4	(31.0 )
Change in operating assets and liabilities excluding effects of business acquisitions and dispositions:		
Receivables	(108.4 )	(25.8 )
Inventories	13.0	(89.8 )
Deferred income taxes and income taxes payable, net	39.3	(10.2 )
Prepaid expenses and other current assets	(20.0 )	(5.5 )
Accounts payable	(15.6 )	101.2
Accrued payroll	(9.0 )	(30.9 )
Other accrued liabilities	56.1	(3.0 )
Net cash flows from operating activities — continuing operations	745.1	808.1
Net cash flows from operating activities — discontinued operations	11.2	34.2
Net cash flows from operating activities	756.3	842.3
Cash flows from investing activities:		
Additions to property, plant and equipment	(236.1 )	(175.9 )
Sale of property, plant and equipment	18.7	7.5
Purchase of businesses, net of cash acquired	(5,119.2 )	(337.1 )
Proceeds from divestiture	32.2	—
Other items	0.1	4.3
Net cash flows from investing activities	(5,304.3 )	(501.2 )
Cash flows from financing activities:		
Net short-term borrowings (repayments)	(278.3 )	324.1
Issuance of long-term debt	8,310.5	500.0
Repayment of long-term debt	(3,517.1 )	(170.1 )

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Debt issuance costs and bridge financing fees	(95.2 )	(2.9 )
Payment of intangible asset financing arrangement	(14.0 )	(14.4 )
Issuance of Conagra Brands, Inc. common shares, net	555.7	—
Repurchase of Conagra Brands, Inc. common shares	—	(860.0 )
Cash dividends paid	(253.0 )	(257.7 )
Exercise of stock options and issuance of other stock awards, including tax withholdings	(4.1 )	13.0
Other items	0.9	—
Net cash flows from financing activities	4,705.4	(468.0 )
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(3.2 )	8.4
Net change in cash and cash equivalents and restricted cash	154.2	(118.5 )
Cash and cash equivalents and restricted cash at beginning of period	129.0	252.4
Cash and cash equivalents and restricted cash at end of period	\$283.2	\$ 133.9

See Notes to the Condensed Consolidated Financial Statements.

Conagra Brands, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

For the Thirty-nine Weeks ended February 24, 2019 and February 25, 2018

(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. (the "Company", "Conagra Brands", "we", "us", or "our") Annual Report on Form 10-K for the fiscal year ended May 27, 2018.

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 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.

**Revenue Recognition** — Our revenues primarily consist of the sale of food products which are sold to retailers and foodservice customers through direct sales forces, broker, and distributor arrangements. These revenue contracts generally have single performance obligations. Revenue, which includes shipping and handling charges billed to the customer, is reported net of variable consideration and consideration payable to our customers, including applicable discounts, returns, allowances, trade promotion, consumer coupon redemption, unsaleable product, and other costs. Amounts billed and due from our customers are classified as receivables and require payment on a short-term basis and, therefore, we do not have any significant financing components.

We recognize revenue when (or as) performance obligations are satisfied by transferring control of the goods to customers. Control is transferred upon delivery of the goods to the customer. Shipping and/or handling costs that occur before the customer obtains control of the goods are deemed to be fulfillment activities and are accounted for as fulfillment costs. We assess the goods and services promised in our customers' purchase orders and identify a performance obligation for each promise to transfer a good or service (or bundle of goods or services) that is distinct. We offer various forms of trade promotions and the methodologies for determining these provisions are dependent on local customer pricing and promotional practices, which range from contractually fixed percentage price reductions to provisions based on actual occurrence or performance. Our promotional activities are conducted either through the retail trade or directly with consumers and include activities such as in-store displays and events, feature price discounts, consumer coupons, and loyalty programs. The costs of these activities are recognized at the time the related revenue is recorded, which normally precedes the actual cash expenditure. The recognition of these costs therefore requires management judgment regarding the volume of promotional offers that will be redeemed by either the retail trade or consumer. These estimates are made using various techniques including historical data on performance of similar promotional programs. Differences between estimated expense and actual redemptions are recognized as a change in management estimate in a subsequent period.

**Comprehensive Income** — Comprehensive income includes net income, currency translation adjustments, certain derivative-related activity, changes in the value of available-for-sale investments (prior to the adoption of Accounting Standards Update ("ASU") 2016-01), 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. On foreign investments we deem to be essentially permanent in nature, we do not provide for taxes on currency translation adjustments arising from converting an 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.



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The following table details the accumulated balances for each component of other comprehensive income, net of tax:

	February 24, 2019	May 27, 2018
Currency translation losses, net of reclassification adjustments	\$(102.3)	\$(94.7 )
Derivative adjustments, net of reclassification adjustments	34.8	1.0
Unrealized gains on available-for-sale securities	—	0.6
Pension and post-employment benefit obligations, net of reclassification adjustments	(18.2 )	(17.4 )
Accumulated other comprehensive loss <sup>1</sup>	\$(85.7 )	\$(110.5)

<sup>1</sup> Net of unrealized gains on available-for-sale securities of \$0.6 million reclassified to retained earnings as a result of the adoption of ASU 2016-01.

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

	Thirteen weeks ended February 24, 2019	February 25, 2018	Affected Line Item in the Condensed Consolidated Statement of Earnings <sup>1</sup>
Net derivative adjustment, net of tax:			
Cash flow hedges	\$(0.9) \$ —	—	Interest expense, net
	(0.9 ) —		Total before tax
	0.3 —		Income tax expense
	\$(0.6) \$ —		Net of tax
Pension and postretirement liabilities:			
Net prior service cost (benefit)	\$0.2 \$ (0.1 )		Pension and postretirement non-service income
Net actuarial gain	(0.3 ) —		Pension and postretirement non-service income
	(0.1 ) (0.1 )		Total before tax
	— —		Income tax expense
	\$(0.1) \$ (0.1 )		Net of tax
	Thirty-nine weeks ended February 24, 2019	February 25, 2018	Affected Line Item in the Condensed Consolidated Statement of Earnings <sup>1</sup>
Net derivative adjustment, net of tax:			
Cash flow hedges	\$(1.1) \$ 0.1	0.1	Interest expense, net
	(1.1 ) 0.1		Total before tax
	0.3 —		Income tax expense
	\$(0.8) \$ 0.1		Net of tax
Pension and postretirement liabilities:			
Net prior service cost (benefit)	\$0.6 \$ (0.4 )		Pension and postretirement non-service income
Net actuarial gain	(1.1 ) —		Pension and postretirement non-service income
	(0.5 ) (0.4 )		Total before tax
	0.1 0.1		Income tax expense
	\$(0.4) \$ (0.3 )		Net of tax

<sup>1</sup> Amounts in parentheses indicate income recognized in the Condensed Consolidated Statements of Earnings.

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.

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. generally accepted accounting principles ("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 May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers ("Topic 606"), which replaces most existing revenue recognition guidance in U.S. GAAP, including industry-specific requirements. Topic 606 provides companies with a single revenue recognition model for recognizing revenue with customers; specifically requiring 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.

We utilized a comprehensive approach to evaluate and document the impact of the guidance on our current accounting policies and practices in order to identify material differences, if any, that would result from applying the new requirements to our revenue contracts. We did not identify any material differences resulting from applying the new requirements to our revenue contracts. In addition, we did not identify any significant changes to our business processes, systems, and controls to support recognition and disclosure requirements under the new guidance. We adopted the provisions of Topic 606 in fiscal 2019 utilizing the modified retrospective method. We recorded a \$0.5 million cumulative effect adjustment, net of tax, to the opening balance of fiscal 2019 retained earnings, a decrease to receivables of \$7.6 million, an increase to inventories of \$2.8 million, an increase to prepaid expenses and other current assets of \$6.9 million, an increase to other accrued liabilities of \$1.4 million, and an increase to other noncurrent liabilities of \$0.2 million. The adjustments primarily related to the timing of recognition of certain customer charges, trade promotional expenditures, and volume discounts.

The effect of the changes made to our Condensed Consolidated Balance Sheet as of February 24, 2019 for the adoption of Topic 606 was as follows:

	As Reported	Adjustments	Balances without Adoption of Topic 606
Current assets			
Receivables, less allowance for doubtful accounts	\$ 870.2	\$ 9.6	\$ 879.8
Inventories	1,638.6	(4.4 )	1,634.2
Prepaid expenses and other current assets	107.6	(7.1 )	100.5
Current liabilities			
Other accrued liabilities	851.8	(1.1 )	850.7
Other noncurrent liabilities	1,918.8	(0.2 )	1,918.6

The effect of the changes made to our Condensed Consolidated Statement of Earnings for the adoption of Topic 606 was as follows:

	Thirteen weeks ended February 24, 2019		
	As Reported	Adjustments	Balances without Adoption of Topic 606
Net sales	\$2,707.1	\$ 11.6	\$2,718.7
Cost of goods sold	1,954.8	8.4	1,963.2
Income from continuing operations before income taxes and equity method investment earnings	297.1	3.2	300.3
	Thirty-nine weeks ended February 24, 2019		
	As Reported	Adjustments	Balances without Adoption

			of Topic 606
Net sales	\$6,925.2	\$ 18.9	\$6,944.1
Cost of goods sold	4,980.2	21.2	5,001.4
Income from continuing operations before income taxes and equity method investment earnings	635.5	(2.3 )	633.2

In January 2016, the FASB issued ASU 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. We adopted this ASU in fiscal 2019. The adoption of this guidance did not have a material impact to our consolidated financial statements.

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. We adopted



this ASU retrospectively in fiscal 2019. The adoption of this guidance did not have a material impact to 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. We adopted this ASU retrospectively in fiscal 2019. The adoption of this guidance did not have a material impact to our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations: Clarifying the Definition of a Business, which provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. We adopted this ASU prospectively in fiscal 2019. The adoption of this guidance did not have a material impact to our consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires companies to present the service cost component of net benefit cost in the same line items in which they report compensation cost. Companies are required to present all other components of net benefit cost outside operating income, if this subtotal is presented. In addition, the new standard requires that only the service cost component of net periodic benefit expense is eligible for capitalization. The new standard requires retrospective adoption of the presentation of net periodic benefit expense and prospective application of the capitalization of the service cost component. We adopted this ASU in fiscal 2019. As a result, the following amounts were reclassified in the third quarter and first three quarters of fiscal 2018 to correspond to the current year presentation:

	Thirteen weeks ended February 25, 2018	Thirty-nine weeks ended February 25, 2018
Reclassified from Selling, general and administrative expense	\$ 21.9	\$ 60.0
Reclassified to Pension and postretirement non-service income	\$ 21.9	\$ 60.0

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities, which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and make certain targeted improvements to simplify the application of the hedge accounting guidance in current U.S. GAAP. The amendments in this update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. The effective date for the standard is for fiscal years beginning after December 15, 2018. We elected to early adopt this ASU in fiscal 2019. The adoption of this guidance did not have a material impact to our consolidated financial statements. See Note 8 for a discussion of our derivatives.

Recently Issued Accounting Standards — In February 2016, the FASB issued ASU 2016-02, Leases, Topic 842, 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 this standard will have on our consolidated financial statements and related disclosures. We have identified an accounting system to support the future state lease accounting process and have begun to develop the future state process design as part of the overall system implementation. We have begun populating the accounting system with lease data and validating the completeness and accuracy of such data. We expect the adoption of this standard to have a material impact to our balance sheets; however, we are not able, at this time, to reasonably estimate the expected increase in assets and liabilities in our condensed consolidated balance sheet upon adoption. The standard can be applied using the modified retrospective method or entities may also elect the optional transition method provided under ASU 2018-11, Leases, Topic 842: Targeted Improvement, issued in July 2018, allowing for application of the standard at the adoption date, with recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We will adopt this ASU on the first day of our fiscal year 2020 using the optional transition method.

In August 2018, the FASB issued ASU No. 2018-14, Compensation—Retirement Benefits—Defined Benefit Plans—General (Topic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans, which modifies the disclosure requirements for defined benefit pension plans and other post-retirement plans. The effective date for this standard is for fiscal years beginning after December 15, 2020, with early adoption permitted. We do not expect ASU 2018-14 to have a material impact to our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements

for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The effective date for the standard is for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted. The amendments in this ASU should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We do not expect ASU 2018-15 to have a material impact to our consolidated financial statements and related disclosures.

## 2. ACQUISITIONS

On October 26, 2018, we acquired Pinnacle Foods Inc. ("Pinnacle"), a branded packaged foods company specializing in shelf-stable and frozen foods, which is now a wholly-owned subsidiary of the Company. Pursuant to the Agreement and Plan of Merger, dated as of June 26, 2018 (the "Merger Agreement"), among the Company, Pinnacle, and Patriot Merger Sub Inc., a wholly-owned subsidiary of the Company that ceased to exist at the effective time of the merger, each outstanding share of Pinnacle common stock was converted into the right to receive \$43.11 per share in cash and 0.6494 shares of common stock, par value \$5.00 per share, of the Company ("Company Shares") (together, the "Merger Consideration"), with cash payable in lieu of fractional shares of Company Shares. The total amount of consideration paid in connection with the acquisition was approximately \$8.03 billion and consisted of: (1) cash of \$5.17 billion (\$5.12 billion net of cash acquired); (2) 77.5 million Company Shares, with an approximate value of \$2.82 billion, issued out of the Company's treasury; and (3) replacement awards issued to former Pinnacle employees representing the fair value attributable to pre-combination service (see Note 9) of \$51.1 million.

In connection with the acquisition, we issued long-term debt of \$8.33 billion (see Note 5) (which includes funding under the new term loan agreement) and received cash proceeds of \$575.0 million (\$555.7 million net of related fees) from the issuance of common stock in an underwritten public offering. We used such proceeds for the payment of the cash portion of the Merger Consideration, the repayment of Pinnacle debt acquired, the refinancing of certain Conagra Brands debt, and the payment of related fees and expenses.

The following table summarizes our current allocation of the total purchase consideration to the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

	October 26, 2018
Cash and cash equivalents	\$47.2
Receivables	203.6
Inventories	653.8
Prepaid expenses and other current assets	14.9
Property, plant and equipment	724.6
Goodwill	6,865.6
Brands, trademarks and other intangibles	3,715.2
Other assets	23.3
Current liabilities	(605.9 )
Senior long-term debt, excluding current installments	(2,671.3 )
Noncurrent deferred tax liabilities	(862.5 )
Other noncurrent liabilities	(74.6 )
Total assets acquired and liabilities assumed	\$8,033.9

During the third quarter of fiscal 2019, we made adjustments to our initial allocations, which resulted in an increase to goodwill of \$203.6 million. This goodwill increase resulted primarily from reductions in values of brands, trademarks and other intangibles of \$159.9 million and, property, plant and equipment of \$17.4 million, and an increase to deferred tax liabilities of \$16.1 million as we refine our fair value estimates. These changes did not have a significant impact on our net income for the thirteen and thirty-nine weeks ended February 24, 2019.

Goodwill represents the excess of the consideration transferred over the preliminary estimate of fair values of the assets acquired and liabilities assumed and is primarily attributable to synergies and intangible assets such as assembled workforce which are not separately recognizable. Of the total goodwill, \$236.7 million is deductible for tax

purposes. Amortizable brands, trademarks and other intangibles totaled \$679.6 million and have a weighted average estimated useful life of 25 years. We are currently completing our fair value assessment of the acquired assets and liabilities with the assistance of third-party valuation specialists and any adjustments identified in the measurement period, which will not exceed one year from the acquisition date, will be accounted for prospectively. Until we complete our fair value assessments and further integration activities and organizational structural changes occur, our Pinnacle business is considered a separate reportable segment and all goodwill was preliminarily allocated to reporting units within this segment.

The results of operations of Pinnacle are reported in the Company's condensed consolidated financial statements from the date of acquisition and include \$712.3 million and \$971.1 million of total net sales and \$101.6 million and \$130.3 million of operating profit for the third quarter and first three quarters of fiscal 2019, respectively, which are included in the Pinnacle Foods segment's financial results.

The following unaudited pro forma financial information presents the combined results of operations as if the acquisition of Pinnacle had occurred on May 29, 2017, the beginning of fiscal year 2018. These unaudited pro forma results may not necessarily reflect the actual results of operations that would have been achieved, nor are they necessarily indicative of future results of operations.

	Thirteen weeks ended		Thirty-nine weeks ended	
	February 24, 2019	February 25, 2018	February 24, 2019	February 25, 2018
Pro forma net sales	\$2,707.1	\$2,757.8	\$8,174.9	\$8,291.8
Pro forma net income from continuing operations attributable to Conagra Brands, Inc.	\$263.1	\$703.0	\$675.4	\$996.3

The pro forma results include adjustments for amortization of acquired intangible assets, depreciation, interest expense on debt issued to finance the acquisition and incremental common shares issued in connection with the acquisition as well as the related income taxes. The pro forma results also include the following material nonrecurring adjustments, along with the related income tax effect of the adjustments:

Acquisition related costs incurred by the Company of \$1.2 million and \$62.1 million for the third quarter and first three quarters of fiscal 2019, respectively, were excluded and assumed to have been incurred at the beginning of fiscal 2018 and included in the results for the first three quarters of fiscal 2018. Acquisition related costs incurred by Pinnacle of \$66.8 million for the first three quarters of fiscal 2019 were excluded from the pro forma results.

Non-recurring expense of \$26.9 million and \$51.3 million for the third quarter and first three quarters of fiscal 2019, respectively, related to the fair value adjustment to acquisition-date inventory estimated to have been sold was removed and \$52.7 million of expense was included in the results for the first three quarters of fiscal 2018.

Non-recurring expense of \$45.7 million for the first three quarters of fiscal 2019 related to securing bridge financing for the acquisition were excluded and assumed to have been incurred at the beginning of fiscal 2018 and included in the results for the first three quarters of fiscal 2018.

In February 2018, we acquired the Sandwich Bros. of Wisconsin® business, maker of frozen breakfast and entree flatbread pocket sandwiches, for a cash purchase price of \$87.3 million, net of cash acquired, including working capital adjustments. Approximately \$57.8 million has been classified as goodwill, and \$9.7 million and \$7.1 million have been classified as non-amortizing and amortizing intangible assets, respectively. The amount allocated to goodwill is deductible for tax purposes. The business is included in the Refrigerated & Frozen segment.

In October 2017, we acquired Angie's Artisan Treats, LLC, maker of Angie's® BOOMCHICKAPOP® ready-to-eat popcorn, for a cash purchase price of \$249.8 million, net of cash acquired, including working capital adjustments. Approximately \$156.7 million has been classified as goodwill, of which \$95.4 million is deductible for income tax purposes. Approximately \$73.8 million and \$10.3 million of the purchase price have been allocated to non-amortizing and amortizing intangible assets, respectively. The business is primarily included in the Grocery & Snacks segment, and to a lesser extent within the International segment.

The acquisitions of Sandwich Bros. of Wisconsin® and Angie's® BOOMCHICKAPOP® collectively contributed \$41.6 million and \$116.7 million to net sales during the third quarter and first three quarters of fiscal 2019, respectively, and \$31.4 million and \$41.4 million during the third quarter and first three quarters of fiscal 2018, respectively.

For each of these acquisitions, the amounts allocated to goodwill were primarily attributable to anticipated synergies, product portfolios, and other intangibles that do not qualify for separate recognition.

Under the acquisition method of accounting, the assets acquired and liabilities assumed in these acquisitions were recorded at their respective estimated fair values at the date of acquisition.

## 3. DISCONTINUED OPERATIONS AND OTHER DIVESTITURES

## Lamb Weston Spinoff

On November 9, 2016, we completed the spinoff of our Lamb Weston business (the "Spinoff"). As of such date, we did not beneficially own any equity interest in Lamb Weston and no longer consolidated Lamb Weston into our financial results. We reflected the results of this business as discontinued operations for all periods presented.

	Thirteen weeks ended	Thirty-nine weeks ended	February 25, 2018	February 24, 2019	February 25, 2018
Loss from discontinued operations before income taxes	\$ —	\$ —	\$ (0.3 )		
Income tax expense (benefit)	(14.5 )	2.8	(14.6 )		
Income (loss) from discontinued operations, net of tax	\$ 14.5	\$ (2.8)	\$ 14.3		

We entered into a transition services agreement in connection with the Spinoff and recognized \$0.1 million and \$2.2 million of income for the performance of services during the third quarter and first three quarters of fiscal 2018, respectively, classified within selling, general and administrative ("SG&A") expenses.

## 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. In the first three quarters of fiscal 2019 and 2018, we recognized income of \$0.9 million and \$0.2 million, respectively, within discontinued operations. We entered into a transition services agreement with TreeHouse Foods, Inc. and recognized \$2.2 million of income for the performance of services during the first three quarters of fiscal 2018 classified within SG&A expenses.

## Other Divestitures

During the first quarter of fiscal 2019, we completed the sale of our Del Monte® processed fruit and vegetable business in Canada, which was included in our International segment, to Bonduelle Group for combined proceeds of \$42.4 million Canadian dollars, which was equivalent to approximately \$32.2 million U.S. dollars at the exchange rates on the closing date of the transaction and the final settlement of the working capital adjustments. We recognized a gain on the sale of \$13.2 million recognized within SG&A expenses. The assets of this business have been reclassified as assets held for sale within our Condensed Consolidated Balance Sheets for periods prior to the divestiture.

The assets classified as held for sale reflected in our Condensed Consolidated Balance Sheets related to the Del Monte® processed fruit and vegetable business in Canada were as follows:

	May 27, 2018
Current assets	\$ 6.1
Noncurrent assets (including goodwill of \$5.8 million)	11.5

On February 25, 2019, subsequent to the end of the third quarter of fiscal 2019, we completed the sale of our Wesson® oil business, for net proceeds of \$167.1 million, subject to final working capital adjustments. The business is primarily included in our Grocery & Snacks segment.

The assets and liabilities classified as held for sale reflected in our Condensed Consolidated Balance Sheets related to the Wesson® oil business were as follows:

	February 24, 2019	May 27, 2018
Current assets	\$ 27.9	\$ 37.7
Noncurrent assets (including goodwill of \$74.5 million)	104.2	101.0
Current liabilities	0.3	—





The Company expects to sell its Italian-based frozen pasta business, Gelit, headquartered in Doganella di Ninfa, Italy, within the next twelve months.

The assets and liabilities classified as held for sale reflected in our Condensed Consolidated Balance Sheets related to the Gelit business were as follows:

	February 24, 2019	May 27, 2018
Current assets	\$ 19.6	\$ 23.5
Noncurrent assets (including goodwill of \$15.1 million)	43.3	43.3
Current liabilities	13.6	13.9
Noncurrent liabilities	6.9	4.4

In addition, we are actively marketing certain other assets totaling \$11.6 million and \$29.4 million at February 24, 2019, and May 27, 2018, respectively. These assets have been reclassified as assets held for sale within our Condensed Consolidated Balance Sheets for all periods presented.

#### 4. RESTRUCTURING ACTIVITIES

##### Pinnacle Integration Restructuring Plan

In December 2018, our Board of Directors (the "Board") approved a restructuring and integration plan related to the ongoing integration of the recently acquired operations of Pinnacle (the "Pinnacle Integration Restructuring Plan") for the purpose of achieving significant cost synergies between the companies. We expect to incur material charges for exit and disposal activities under U.S. GAAP. Although we remain unable to make good faith estimates relating to the entire Pinnacle Integration Restructuring Plan, we are reporting on actions initiated through the end of the third quarter of fiscal 2019, 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. We expect to incur up to \$360.0 million (\$285.0 million of cash charges and \$75.0 million of non-cash charges) in relation to operational expenditures under the Pinnacle Integration Restructuring Plan. We have incurred or expect to incur approximately \$255.6 million of charges (\$253.7 million of cash charges and \$1.9 million of non-cash charges) for actions identified to date under the Pinnacle Integration Restructuring Plan. We expect to incur costs related to the Pinnacle Integration Restructuring Plan over a three-year period.

We anticipate that we will recognize the following pre-tax expenses in association with the Pinnacle Integration Restructuring Plan (amounts include charges recognized from plan inception through the third quarter of fiscal 2019):

	International	Pinnacle Foods	Corporate	Total
Other cost of goods sold	\$ —	\$ 4.9	\$ —	\$ 4.9
Total cost of goods sold	—	4.9	—	4.9
Severance and related costs	0.7	0.6	118.5	119.8
Accelerated depreciation	—	—	1.9	1.9
Contract/lease termination	—	0.8	20.2	21.0
Consulting/professional fees	—	—	94.0	94.0
Other selling, general and administrative expenses	—	2.4	11.6	14.0
Total selling, general and administrative expenses	0.7	3.8	246.2	250.7
Consolidated total	\$ 0.7	\$ 8.7	\$ 246.2	\$ 255.6

During the third quarter of fiscal 2019, we recognized the following pre-tax expenses for the Pinnacle Integration Restructuring Plan:

	International	Pinnacle Foods	Corporate	Total
Other cost of goods sold	\$ —	\$ 3.0	\$ —	\$ 3.0
Total cost of goods sold	—	3.0	—	3.0
Severance and related costs	0.7	0.6	11.9	13.2
Accelerated depreciation	—	—	1.0	1.0
Contract/lease termination	—	0.8	—	0.8
Consulting/professional fees	—	—	15.1	15.1
Other selling, general and administrative expenses	—	2.4	1.4	3.8
Total selling, general and administrative expenses	0.7	3.8	29.4	33.9
Consolidated total	\$ 0.7	\$ 6.8	\$ 29.4	\$ 36.9

Included in the above results are \$35.9 million of charges that have resulted or will result in cash outflows and \$1.0 million in non-cash charges.

During the first three quarters of fiscal 2019, we recognized the following pre-tax expenses for the Pinnacle Integration Restructuring Plan:

	International	Pinnacle Foods	Corporate	Total
Other cost of goods sold	\$ —	\$ 3.0	\$ —	\$ 3.0
Total cost of goods sold	—	3.0	—	3.0
Severance and related costs	0.7	0.6	104.9	106.2
Accelerated depreciation	—	—	1.3	1.3
Contract/lease termination	—	0.8	—	0.8
Consulting/professional fees	—	—	24.2	24.2
Other selling, general and administrative expenses	—	2.4	1.6	4.0
Total selling, general and administrative expenses	0.7	3.8	132.0	136.5
Consolidated total	\$ 0.7	\$ 6.8	\$ 132.0	\$ 139.5

Included in the above results are \$138.2 million of charges that have resulted or will result in cash outflows and \$1.3 million in non-cash charges.

Liabilities recorded for the Pinnacle Integration Restructuring Plan and changes therein for the first three quarters of fiscal 2019 were as follows:

	Balance at May 27, 2018	Costs Incurred and Charged to Expense	Costs Paid or Otherwise Settled	Changes in Estimates	Balance at February 24, 2019
Severance and related costs	\$ —	—\$ 109.2	\$ (29.6 )	\$ (3.0 )	\$ 76.6
Contract/lease termination	—	0.8	—	—	0.8
Consulting/professional fees	—	24.2	(4.6 )	—	19.6
Other costs	—	7.0	(6.6 )	—	0.4
Total	\$ —	—\$ 141.2	\$ (40.8 )	\$ (3.0 )	\$ 97.4

#### Conagra Restructuring Plan

In the third quarter of fiscal 2019, management initiated a new restructuring plan (the "Conagra Restructuring Plan") for costs in connection with actions taken to improve SG&A effectiveness and efficiencies and to optimize our supply chain network. We have incurred or expect to incur \$4.3 million of charges (\$2.4 million of cash charges and \$1.9 million of non-cash charges) for actions identified to date under the Conagra Restructuring Plan. We are unable to quantify the scope of the entire Conagra Restructuring Plan at this time. In the third quarter and first three quarters of

fiscal 2019, we recognized charges of \$1.0 million (\$0.7 million of cash charges and \$0.3 million in non-cash charges) in association with the Conagra Restructuring Plan.

#### Supply Chain and Administrative Efficiency Plan

As of February 24, 2019, we have substantially completed our restructuring activities related to our Supply Chain and Administrative Efficiency Plan (the "SCAE Plan"). In the third quarter and first three quarters of fiscal 2019, we recognized charges of \$3.5 million and \$8.6 million, respectively, in connection with the SCAE Plan. In the third quarter and first three quarters of fiscal 2018, we recognized charges of \$14.7 million and \$33.2 million, respectively, in connection with the SCAE Plan.

We have recognized \$468.9 million in pre-tax expenses (\$103.2 million in cost of goods sold, \$363.4 million in SG&A expenses, and \$2.3 million in pension and postretirement non-service income) from the inception of the SCAE Plan through February 24, 2019, related to our continuing operations. Included in these results were \$318.9 million of cash charges and \$150.0 million of non-cash charges. Our total pre-tax expenses for the SCAE Plan related to our continuing operations are expected to be \$472.7 million (\$322.7 million of cash charges and \$150.0 million of non-cash charges).

#### 5. LONG-TERM DEBT AND REVOLVING CREDIT FACILITY

##### Revolving Credit Facility

At February 24, 2019, we had a revolving credit facility (the "Revolving Credit Facility") with a syndicate of financial institutions providing for a maximum aggregate principal amount outstanding at any one time of \$1.6 billion (subject to increase to a maximum aggregate principal amount of \$2.1 billion with the consent of the lenders). The Revolving Credit Facility matures on July 11, 2023 and is unsecured. The term of the Revolving Credit Facility may be extended for additional one-year or two-year periods from the then-applicable maturity date on an annual basis. As of February 24, 2019, there were no outstanding borrowings under the Revolving Credit Facility.

##### Pinnacle Acquisition Financing

In the first quarter of fiscal 2019, in connection with the announcement of the Pinnacle acquisition, we secured \$9.0 billion in fully committed bridge financing. Prior to the acquisition, we capitalized financing costs related to the bridge financing of \$45.7 million to be amortized over the commitment period. Our net interest expense included \$11.9 million for the first three quarters of fiscal 2019 as a result of this amortization. The bridge facility was terminated in connection with the acquisition, and we recognized \$33.8 million of expense within SG&A expenses for the remaining unamortized financing costs.

Also in the first quarter of fiscal 2019, we entered a term loan agreement (the "Term Loan Agreement") with a syndicate of financial institutions providing for term loans to the Company in an aggregate principal amount of up to \$1.3 billion, as well as deal-contingent forward starting interest rate swap contracts (see Note 8) to hedge a portion of the interest rate risk related to our anticipated issuance of long-term debt to help finance the acquisition of Pinnacle.

During the second quarter of fiscal 2019, to finance a portion of our acquisition of Pinnacle, we (i) issued new senior unsecured notes in an aggregate principal amount of \$7.025 billion and (ii) borrowed \$1.30 billion under the Term Loan Agreement.

We issued the new senior unsecured notes in seven tranches: floating rate senior notes due October 22, 2020 in an aggregate principal amount of \$525.0 million with interest equal to three-month LIBOR plus 0.75%, 3.8% senior notes due October 22, 2021 in an aggregate principal amount of \$1.20 billion; 4.3% senior notes due May 1, 2024 in an aggregate principal amount of \$1.0 billion; 4.6% senior notes due November 1, 2025 in an aggregate principal amount of \$1.0 billion; 4.85% senior notes due November 1, 2028 in an aggregate principal amount of \$1.30 billion; 5.3% senior notes due November 1, 2038 in an aggregate principal amount of \$1.0 billion; and 5.4% senior notes due November 1, 2048 in an aggregate principal amount of \$1.0 billion.

Our \$1.30 billion of borrowings under the Term Loan Agreement consist of a \$650.0 million tranche of three-year term loans and a \$650.0 million tranche of five-year term loans. The three-year tranche loans mature on October 26, 2021 and the five-year tranche loans mature on October 26, 2023.

These term loans will bear interest at, at the Company's election, either (a) LIBOR plus a percentage spread (ranging from 1% to 1.625% for three-year tranche loans and 1.125% to 1.75% for five-year tranche loans) based on the Company's senior unsecured long-term indebtedness ratings or (b) the alternate base rate, described in the Term Loan

Agreement as the greatest of (i) Bank of America's prime rate, (ii) the federal funds rate plus 0.50%, and (iii) one-month LIBOR plus 1.00%, plus a percentage spread (ranging from 0% to 0.625% for three-year tranche loans and 0.125% to 0.75% for five-year tranche loans) based on the Company's senior unsecured long-term indebtedness ratings. The Company may voluntarily prepay term loans under the Term Loan Agreement, in whole or in part, without penalty, subject to certain conditions.

During the third quarter of fiscal 2019, we repaid \$450.0 million of our borrowings under the Term Loan Agreement, which repayment consisted of \$225.0 million of the three-year tranche loans and \$225.0 million of the five-year tranche loans. Subsequent to the end of

the third quarter of fiscal 2019, we repaid an additional \$125.0 million of the three-year tranche loans and \$125.0 million of the five-year tranche loans.

In the second quarter of fiscal 2019, in connection with the Pinnacle acquisition, we prepaid in full \$2.40 billion of obligations and liabilities of Pinnacle under or in respect of Pinnacle's credit agreement and other debt agreements. We also redeemed \$350.0 million in aggregate principal amount of Pinnacle's outstanding 5.875% senior notes due January 15, 2024 and recognized a charge of \$3.9 million as a cost of early retirement of debt.

Also, in connection with the financing for the Pinnacle acquisition, we capitalized \$49.6 million of debt issuance costs.

Our net interest expense was reduced by \$1.0 million and \$1.2 million during the third quarter and first three quarters of fiscal 2019, respectively, due to the impact of the interest rate swap contracts entered into in the first quarter of fiscal 2019. During the second quarter of fiscal 2019, we terminated the interest rate swap contracts and received proceeds of \$47.5 million. This gain was deferred in accumulated other comprehensive income and is being amortized as a reduction of interest expense over the lives of the related debt instruments.

#### Other Long-Term Debt

During the third quarter of fiscal 2018, we entered into a term loan agreement (the "Prior Term Loan Agreement") with a financial institution. The Prior Term Loan Agreement provided for term loans to the Company in an aggregate principal amount not to exceed \$300.0 million, maturing on February 26, 2019. During the fourth quarter of fiscal 2018, we borrowed the full amount of the \$300.0 million provided for under the Prior Term Loan Agreement. During the second quarter of fiscal 2019, we repaid in full the principal balance of all term loans outstanding under the Prior Term Loan Agreement. This did not result in a significant gain or loss.

During the fourth quarter of fiscal 2018, we repaid the remaining principal balance of \$70.0 million of our 2.1% senior notes on the maturity date of March 15, 2018.

During the third quarter of fiscal 2018, we repaid the remaining principal balance of \$119.6 million of our 1.9% senior notes on the maturity date of January 25, 2018.

During the third quarter of fiscal 2018, we repaid the remaining capital lease liability balance of \$28.5 million in connection with the early exit of an unfavorable lease contract.

During the second quarter of fiscal 2018, we issued \$500.0 million aggregate principal amount of floating rate notes due October 9, 2020. The notes bear interest at a rate equal to three-month LIBOR plus 0.50% per annum.

#### General

The Revolving Credit Facility and the Term Loan Agreement generally require our ratio of earnings before interest, taxes, depreciation and amortization ("EBITDA") to interest expense not to be less than 3.0 to 1.0 and our ratio of funded debt to EBITDA not to exceed certain decreasing specified levels, ranging from 5.875 through the first quarter of fiscal 2020 to 3.75 from the second quarter of fiscal 2023 and thereafter, with each ratio to be calculated on a rolling four-quarter basis. As of February 24, 2019, we were in compliance with all financial covenants under the Revolving Credit Facility and the Term Loan Agreement.

Net interest expense from continuing operations consists of:

	Thirteen weeks ended		Thirty-nine weeks ended	
	February 24, 2019	February 25, 2018	February 24, 2019	February 25, 2018
Long-term debt	\$ 133.4	\$ 40.9	\$ 252.5	\$ 118.4
Short-term debt	—	0.4	15.0	1.5
Interest income	(1.9 )	(0.8 )	(5.0 )	(2.8 )
Interest capitalized	(0.6 )	(0.7 )	(2.0 )	(2.9 )
	\$ 130.9	\$ 39.8	\$ 260.5	\$ 114.2

## 6. VARIABLE INTEREST ENTITIES

### Variable Interest Entities Not Consolidated

We lease a certain office building from an entity that we have determined to be a variable interest entity. The lease agreement with this entity includes a fixed-price purchase option for the asset being leased. The lease agreement also contains a contingent put option

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(the "lease put option") that allows the lessor to require us to purchase the building 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, this lease put option became exercisable. We are amortizing the difference between the put price and the estimated fair value (without a lease agreement in place) of the property over the remaining lease term within SG&A expenses. As of February 24, 2019 and May 27, 2018, the estimated amount by which the put option price exceeded the estimated fair value of the property was \$8.2 million, of which we had accrued \$1.5 million and \$1.2 million, respectively. This lease is accounted for as an operating lease, and accordingly, there are no material assets and liabilities, other than the accrued portion of the put price, associated with this entity included in the 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 this entity. In making this determination, we have considered, among other items, the terms of the lease agreement, the expected remaining useful life of the asset leased, and the capital structure of the lessor entity. During the third quarter of fiscal 2018, we purchased two buildings that were subject to lease put options and recognized net losses totaling \$48.2 million for the early exit of unfavorable lease contracts.

## 7. GOODWILL AND OTHER IDENTIFIABLE INTANGIBLE ASSETS

The change in the carrying amount of goodwill for the first three quarters of fiscal 2019 was as follows:

	Grocery & Snacks	Refrigerated & Frozen	International	Foodservice	Pinnacle Foods	Total
Balance as of May 27, 2018	\$2,592.8	\$ 1,080.6	\$ 242.9	\$ 571.1	\$—	\$4,487.4
Acquisitions	—	—	—	—	6,865.6	6,865.6
Purchase accounting adjustments	1.5	—	—	—	—	1.5
Currency translation	—	—	(4.8	) —	0.1	(4.7 )
Balance as of February 24, 2019	\$2,594.3	\$ 1,080.6	\$ 238.1	\$ 571.1	\$6,865.7	\$11,349.8

Other identifiable intangible assets were as follows:

	February 24, 2019		May 27, 2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-amortizing intangible assets	\$3,952.2	\$ —	\$918.3	\$ —
Amortizing intangible assets	1,255.7	245.9	576.6	212.1
	\$5,207.9	\$ 245.9	\$1,494.9	\$ 212.1

Non-amortizing intangible assets are comprised of brands and trademarks.

Amortizing intangible assets, carrying a remaining weighted average life of approximately 21 years, are principally composed of customer relationships, licensing arrangements, and acquired intellectual property. Amortization expense was \$14.9 million and \$34.0 million for the third quarter and first three quarters of fiscal 2019, respectively, and \$8.9 million and \$26.2 million for the third quarter and first three quarters of fiscal 2018, respectively. Based on amortizing assets recognized in our Condensed Consolidated Balance Sheet as of February 24, 2019, amortization expense is estimated to average \$59.0 million for each of the next five years.

## 8. DERIVATIVE FINANCIAL INSTRUMENTS

Our operations are exposed to market risks from adverse changes in commodity prices affecting the cost of raw materials and energy, foreign currency exchange rates, and interest rates. In the normal course of business, these risks are managed through a variety of strategies, including the use of derivatives.

Commodity and commodity index futures and option contracts are used from time to time to economically hedge commodity input prices on items such as natural gas, vegetable oils, proteins, packaging materials, dairy, grains, and electricity. Generally, we economically hedge a portion of our anticipated consumption of commodity inputs for



periods of up to 36 months. We may enter into longer-term economic hedges on particular commodities, if deemed appropriate. As of February 24, 2019, we had economically hedged certain portions of our anticipated consumption of commodity inputs using derivative instruments with expiration dates through December 2019.

In order to reduce exposures related to changes in foreign currency exchange rates, we enter into forward exchange, option, or swap contracts from time to time for transactions denominated in a currency other than the applicable functional currency. This includes, but is not limited to, hedging against foreign currency risk in purchasing inventory and capital equipment, sales of finished goods, and future

settlement of foreign-denominated assets and liabilities. As of February 24, 2019, we had economically hedged certain portions of our foreign currency risk in anticipated transactions using derivative instruments with expiration dates through November 2019.

From time to time, we may use derivative instruments, including interest rate swaps, to reduce risk related to changes in interest rates. This includes, but is not limited to, hedging against increasing interest rates prior to the issuance of long-term debt and hedging the fair value of our senior long-term debt.

#### Derivatives Designated as Cash Flow Hedges

During the first quarter of fiscal 2019, we entered into deal-contingent forward starting interest rate swap contracts to hedge a portion of the interest rate risk related to our issuance of long-term debt to help finance the acquisition of Pinnacle. We settled these contracts during the second quarter of fiscal 2019 and deferred a \$47.5 million gain in accumulated other comprehensive income. This gain will be amortized as a reduction of interest expense over the lives of the related debt instruments. The unamortized amount at February 24, 2019, was \$46.3 million.

#### Economic Hedges of Forecasted Cash Flows

Many of our derivatives do not qualify for, and we do not currently designate certain commodity or foreign currency derivatives to achieve, hedge accounting treatment. We reflect realized and unrealized gains and losses from derivatives used to economically hedge anticipated commodity consumption and to mitigate foreign currency cash flow risk in earnings immediately within general corporate expense (within cost of goods sold). The gains and losses are reclassified to segment operating results in the period in which the underlying item being economically hedged is recognized in cost of goods sold. In the event that management determines a particular derivative entered into as an economic hedge of a forecasted commodity purchase has ceased to function as an economic hedge, we cease recognizing further gains and losses on such derivatives in corporate expense and begin recognizing such gains and losses within segment operating results immediately.

#### Economic Hedges of Fair Values — Foreign Currency Exchange Rate Risk

We may use options and cross currency swaps to economically hedge the fair value of certain monetary assets and liabilities (including intercompany balances) denominated in a currency other than the functional currency. These derivatives are marked-to-market with gains and losses immediately recognized in SG&A expenses. These substantially offset the foreign currency transaction gains or losses recognized as values of the monetary assets or liabilities being economically hedged change.

All derivative instruments are recognized on our balance sheets at fair value (refer to Note 16 for additional information related to fair value measurements). The fair value of derivative assets is recognized within prepaid expenses and other current assets, while the fair value of derivative liabilities is recognized within other accrued liabilities. In accordance with U.S. GAAP, we offset certain derivative asset and liability balances, as well as certain amounts representing rights to reclaim cash collateral and obligations to return cash collateral, where master netting agreements provide for legal right of setoff. At February 24, 2019 and May 27, 2018, amounts representing obligations to return cash collateral of \$0.2 million and \$1.0 million, respectively, were included in prepaid expenses and other current assets in our Condensed Consolidated Balance Sheets.

Derivative assets and liabilities and amounts representing a right to reclaim cash collateral or an obligation to return cash collateral were reflected in our Condensed Consolidated Balance Sheets as follows:

	February 24, 2019	May 27, 2018
Prepaid expenses and other current assets	\$ 5.6	\$ 4.4
Other accrued liabilities	2.7	0.1

The following table presents our derivative assets and liabilities, at February 24, 2019, on a gross basis, prior to the setoff of \$2.3 million to total derivative assets and \$2.1 million to total derivative liabilities where legal right of setoff existed:

Derivative Assets Balance Sheet Location	Fair Value	Derivative Liabilities Balance Sheet Location	Fair Value
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Commodity contracts	Prepaid expenses and other current assets	\$ 7.5	Other accrued liabilities	\$ 3.2
Foreign exchange contracts	Prepaid expenses and other current assets	0.4	Other accrued liabilities	1.6
Total derivatives not designated as hedging instruments		\$ 7.9		\$ 4.8

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The following table presents our derivative assets and liabilities at May 27, 2018, on a gross basis, prior to the setoff of \$1.4 million to total derivative assets and \$0.4 million to total derivative liabilities where legal right of setoff existed:

	Derivative Assets		Derivative Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity contracts	Prepaid expenses and other current assets	\$ 3.7	Other accrued liabilities	\$ 0.4
Foreign exchange contracts	Prepaid expenses and other current assets	2.1	Other accrued liabilities	—
Other	Prepaid expenses and other current assets	—	Other accrued liabilities	0.1
Total derivatives not designated as hedging instruments		\$ 5.8		\$ 0.5

The location and amount of gains (losses) from derivatives not designated as hedging instruments in our Condensed Consolidated Statements of Earnings were as follows:

Derivatives Not Designated as Hedging Instruments	Location in Condensed Consolidated Statements of Earnings of Gains (Losses) Recognized on Derivatives	Gains (Losses) Recognized on Derivatives in Condensed Consolidated Statements of Earnings for the Thirteen Weeks Ended	
		February 24, 2019	February 25, 2018
Commodity contracts	Cost of goods sold	\$ 3.3	\$ —
Foreign exchange contracts	Cost of goods sold	(2.5 )	(0.5 )
Total gains (losses) from derivative instruments not designated as hedging instruments		\$ 0.8	\$ (0.5 )
Derivatives Not Designated as Hedging Instruments	Location in Condensed Consolidated Statements of Earnings of Gains (Losses) Recognized on Derivatives	Gains (Losses) Recognized on Derivatives in Condensed Consolidated Statements of Earnings for the Thirty-nine Weeks Ended	
		February 24, 2019	February 25, 2018
Commodity contracts	Cost of goods sold	\$ (3.3 )	\$ 1.4
Foreign exchange contracts	Cost of goods sold	(0.1 )	(6.3 )
Foreign exchange contracts	Selling, general and administrative expense	—	0.3
Total losses from derivative instruments not designated as hedging instruments		\$ (3.4 )	\$ (4.6 )

As of February 24, 2019, our open commodity contracts had a notional value (defined as notional quantity times market value per notional quantity unit) of \$240.8 million and \$98.5 million for purchase and sales contracts, respectively. As of May 27, 2018, our open commodity contracts had a notional value of \$100.0 million and \$34.2 million for purchase and sales contracts, respectively. The notional amount of our foreign currency forward contracts as of February 24, 2019 and May 27, 2018 was \$81.3 million and \$82.4 million, respectively.

We enter into certain commodity, interest rate, and foreign exchange derivatives with a diversified group of counterparties. We continually monitor our positions and the credit ratings of the counterparties involved and limit the amount of credit exposure to any one party. These transactions may expose us to potential losses due to the risk of

nonperformance by these counterparties. We have not incurred a material loss due to nonperformance in any period presented and do not expect to incur any such material loss. We also enter into futures and options transactions through various regulated exchanges.

At February 24, 2019, the maximum amount of loss due to the credit risk of the counterparties, had the counterparties failed to perform according to the terms of the contracts, was \$2.5 million.

#### 9. SHARE-BASED PAYMENTS

For the third quarter and first three quarters of fiscal 2019, we recognized total stock-based compensation income (including stock options, restricted stock units, cash-settled restricted stock units, performance shares, and cash-settled stock appreciation rights) of \$18.6 million and expense of \$16.6 million, respectively. For the third quarter and first three quarters of fiscal 2018, we recognized total stock-based compensation expense of \$11.1 million and \$29.8 million, respectively. Included in the total stock-based compensation for the

third quarter and first three quarters of fiscal 2019 is income of \$3.5 million and expense of \$16.7 million, respectively, for accelerated vesting of awards related to Pinnacle integration restructuring activities, net of the impact of marking-to-market these awards based on a lower market price of Conagra common shares. Also included in the total stock-based compensation expense for the third quarter and first three quarters of fiscal 2019 was expense of \$0.1 million and \$0.2 million, respectively, related to stock options granted by a subsidiary in the subsidiary's shares to the subsidiary's employees. The expense for these stock options for the third quarter and first three quarters of fiscal 2018 was income of \$0.1 million and expense of \$0.3 million, respectively. For the first three quarters of fiscal 2019, we granted 0.8 million restricted stock units at a weighted average grant date price of \$35.94 and 0.5 million performance shares at a weighted average grant date price of \$35.96. During the second quarter of fiscal 2019, the Company granted the following awards to Pinnacle employees in replacement of their unvested equity awards as of the closing date: (1) 2.0 million cash-settled restricted stock unit awards at a grant date price of \$36.37 and (2) 2.3 million cash-settled stock appreciation rights with a fair value estimated at closing date using a Black-Scholes option-pricing model and a grant date price of \$36.37. Approximately \$51.1 million of the fair value of the replacement awards granted to Pinnacle employees was attributable to pre-combination service and was included in the purchase price and established as a liability. As of February 24, 2019, the liability of the replacement awards was \$23.9 million, which includes post-combination service expense, the mark-to-market of the liability, and the impact of payouts since acquisition. Post-combination expense of approximately \$6.0 million, based on the market price of Conagra common shares as of February 24, 2019, is expected to be recognized related to the replacement awards over the remaining post-combination service period, approximately two years.

Performance shares are granted to selected executives and other key employees with vesting contingent upon meeting various Company-wide performance goals. The performance goal for one-third of the target number of performance shares for the three-year performance period ending in fiscal 2019 (the "2019 performance period") is based on our fiscal 2017 EBITDA return on capital, subject to certain adjustments. The fiscal 2017 EBITDA return on capital target, when set, excluded the results of Lamb Weston. The performance goal for the final two-thirds of the target number of performance shares granted for the 2019 performance period is based on our diluted earnings per share ("EPS") compound annual growth rate ("CAGR"), subject to certain adjustments, measured over the two-year period ending in fiscal 2019. In addition, for certain participants, all performance shares for the 2019 performance period are subject to an overarching EPS goal that must be met in each fiscal year of the 2019 performance period before any pay out can be made to such participants on the performance shares.

The performance goals for the three-year performance periods ending in fiscal 2020 and 2021 are based on our diluted EPS CAGR, subject to certain adjustments, measured over the defined performance periods. In addition, for certain participants, all performance shares for the 2020 performance period are subject to an overarching EPS goal that must be met in each fiscal year of the 2020 performance period before any pay out can be made to such participants on the performance shares.

Awards, if earned, will be paid in shares of our common stock. Subject to limited exceptions set forth in the performance share plan, any shares earned will be distributed after the end of the performance period, and only if the participant continues to be employed with the Company through the date of distribution. For awards where performance against the performance target has not been certified, the value of the performance shares is adjusted based upon the market price of our common stock and current forecasted performance against the performance targets at the end of each reporting period and amortized as compensation expense over the vesting period. Forfeitures are accounted for as they occur.

## 10. EARNINGS PER SHARE

Basic earnings per share is calculated on the basis of weighted average outstanding shares of common stock. Diluted earnings per share is computed on the basis of basic weighted average outstanding shares of common stock adjusted for the dilutive effect of stock options, restricted stock unit awards, and other dilutive securities. During the second quarter of fiscal 2019, we issued 77.5 million shares of our common stock out of treasury to the former shareholders of Pinnacle pursuant to the terms of the Merger Agreement. In addition, we issued 16.3 million shares of our common

stock, par value \$5.00 per share, in an underwritten public offering in connection with the financing of the Pinnacle acquisition, with net proceeds of \$555.7 million (see Note 2).

The following table reconciles the income and average share amounts used to compute both basic and diluted earnings per share:

	Thirteen weeks ended		Thirty-nine weeks ended	
	February 24, 2019	February 25, 2018	February 24, 2019	February 25, 2018
Net income attributable to Conagra Brands, Inc. common stockholders:				
Income from continuing operations attributable to Conagra Brands, Inc. common stockholders	\$ 242.0	\$ 348.3	\$ 553.7	\$ 724.2
Income (loss) from discontinued operations, net of tax, attributable to Conagra Brands, Inc. common stockholders	—	14.5	(1.9 )	14.6
Net income attributable to Conagra Brands, Inc. common stockholders	\$ 242.0	\$ 362.8	\$ 551.8	\$ 738.8
Weighted average shares outstanding:				
Basic weighted average shares outstanding	486.2	399.1	431.3	407.3
Add: Dilutive effect of stock options, restricted stock unit awards, and other dilutive securities	1.2	3.4	1.8	3.8
Diluted weighted average shares outstanding	487.4	402.5	433.1	411.1

For the third quarter and first three quarters of fiscal 2019, there were 3.5 million and 1.8 million stock options outstanding, respectively, that were excluded from the computation of diluted weighted average shares because the effect was antidilutive. For the third quarter and first three quarters of fiscal 2018, there were 1.2 million and 1.3 million stock options outstanding, respectively, that were excluded from the calculation.

## 11. INVENTORIES

The major classes of inventories were as follows:

	February 24, 2019	May 27, 2018
Raw materials and packaging	\$ 280.8	\$ 202.9
Work in process	184.5	91.8
Finished goods	1,103.3	647.8
Supplies and other	70.0	46.2
Total	\$ 1,638.6	\$ 988.7

## 12. INCOME TAXES

Income tax expense from continuing operations for the third quarter of fiscal 2019 and 2018 was \$67.2 million and a benefit of \$91.4 million, respectively. Income tax expense from continuing operations for the first three quarters of fiscal 2019 and 2018 was \$147.0 million and \$138.1 million, respectively. The effective tax rate (calculated as the ratio of income tax expense to pre-tax income from continuing operations, inclusive of equity method investment earnings) from continuing operations was 21.7% and (35.5)% for the third quarter of fiscal 2019 and 2018, respectively. The effective tax rate from continuing operations was 20.9% and 16.0% for the first three quarters of fiscal 2019 and 2018, respectively.

The effective tax rate in the third quarter of fiscal 2019 reflects the following:

- a benefit recognized due to the non-taxability of the novation of a legacy guarantee,
- a benefit recognized due to a reduction in the fair value of equity awards subject to limitations on deductibility that were issued to Pinnacle executives as replacement awards at the time of the acquisition, and
- an increase to the deemed repatriation tax liability.

The effective tax rate for the first three quarters of fiscal 2019 reflects the above-cited items, as well as the impact of foreign restructuring resulting in a benefit related to undistributed foreign earnings for which the indefinite reinvestment assertion is no longer made, additional tax expense on the repatriation of foreign earnings, an adjustment



of valuation allowance associated with the expected

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capital gains from the planned divestiture of the Wesson<sup>®</sup> oil business, additional tax expense on non-deductible facilitative costs associated with the acquisition of Pinnacle, and additional income tax expense related to state taxes. The effective tax rate in the third quarter of fiscal 2018 reflects the following:

- the impact of U.S. tax reform,
- an adjustment of valuation allowance associated with the termination of the sales agreement for the Wesson<sup>®</sup> oil business,
- an indirect cost of pension contribution made on February 26, 2018,
- a reserve for the effect of a law change in Mexico, and
- an income tax benefit allowed upon the vesting/exercise of employee stock compensation awards by our employees, beyond that which is attributable to the original fair value of the awards upon the date of grant.

The effective tax rate for the first three quarters of fiscal 2018 reflects the above-cited items, as well as additional expense related to undistributed foreign earnings for which the indefinite reinvestment assertion is no longer made.

The amount of gross unrecognized tax benefits for uncertain tax positions was \$49.4 million as of February 24, 2019 and \$32.5 million as of May 27, 2018. Included in the balance as of February 24, 2019 was \$1.0 million for tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The May 27, 2018 balance had no tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The gross unrecognized tax benefits excluded related liabilities for gross interest and penalties of \$11.5 million and \$7.7 million as of February 24, 2019 and May 27, 2018, respectively.

The net amount of unrecognized tax benefits at February 24, 2019 and May 27, 2018 that, if recognized, would impact the Company's effective tax rate was \$42.6 million and \$27.8 million, respectively. Included in those amounts is \$9.3 million and \$6.7 million, respectively, that would be reported in discontinued operations. Recognition of these tax benefits would have a favorable impact on the Company's effective tax rate.

We estimate that it is reasonably possible that the amount of gross unrecognized tax benefits will decrease by up to \$16.6 million over the next twelve months due to various federal, state, and foreign audit settlements and the expiration of statutes of limitations.

As of February 24, 2019 and May 27, 2018, we had a deferred tax asset of \$721.9 million and \$721.6 million, respectively, that was generated from the capital loss realized on the sale of the Private Brands operations with corresponding valuation allowances of \$697.7 million and \$721.6 million, respectively, to reflect the uncertainty regarding the ultimate realization of the tax asset. During the first three quarters of fiscal 2019, the valuation allowance was adjusted by \$24.2 million due to expected capital gains from the planned divestiture of the Wesson<sup>®</sup> oil business.

Historically, we have not provided U.S. deferred taxes on the cumulative undistributed earnings of our foreign subsidiaries. We have determined that previously undistributed earnings of certain foreign subsidiaries no longer meet the requirements for indefinite reinvestment under applicable accounting guidance and, therefore, recognized \$0.5 million of income tax expense in the first three quarters of fiscal 2019. We believe our subsidiaries have invested or will invest the remaining undistributed earnings indefinitely, or the earnings will be remitted in a tax-neutral transaction.

### 13. CONTINGENCIES

#### Litigation Matters

We are a party to certain litigation matters relating to our acquisition of Beatrice Company ("Beatrice") in fiscal 1991, including litigation proceedings related to businesses divested by Beatrice prior to our acquisition of the company. These proceedings include suits against a number of lead paint and pigment manufacturers, including ConAgra Grocery Products Company, LLC, a wholly owned subsidiary of the Company ("ConAgra Grocery Products") as alleged successor to W. P. Fuller & Co., a lead paint and pigment manufacturer owned and operated by a predecessor to Beatrice from 1962 until 1967. These lawsuits generally seek damages for personal injury, property damage, economic loss, and governmental expenditures allegedly caused by the use of lead-based paint, and/or injunctive relief for inspection and abatement. Although decisions favorable to us have been rendered in Rhode Island, New Jersey, Wisconsin, and Ohio, we remain a defendant in active suits in Illinois and California. ConAgra Grocery Products has denied liability in both suits, both on the merits of the claims and on the basis that we do not believe it to be the successor to any liability attributable to W. P. Fuller & Co. The California suit is discussed in the following paragraph. The Illinois suit seeks class-wide relief for reimbursement of costs associated with the testing of lead levels in blood. We do not believe it is probable that we have incurred any liability with respect to the Illinois case, nor is it possible to estimate any potential exposure.

In California, a number of cities and counties joined in a consolidated action seeking abatement of an alleged public nuisance in the form of lead-based paint potentially present on the interior of residences, regardless of its condition. On September 23, 2013, a trial of the California case concluded in the Superior Court of California for the County of Santa Clara, and on January 27, 2014, the court entered a judgment (the "Judgment") against ConAgra Grocery Products and two other defendants ordering the creation of a California abatement fund in the amount of \$1.15 billion. Liability is joint and several. The Company appealed the Judgment, and on November 14, 2017 the California Court of Appeal for the Sixth Appellate District reversed in part, holding that the defendants were not liable to pay for abatement of homes built after 1950, but affirmed the Judgment as to homes built before 1951. The Court of Appeal remanded the case to the trial court with directions to recalculate the amount of the abatement fund estimated to be necessary to cover the cost of remediating pre-1951 homes, and to hold an evidentiary hearing regarding appointment of a suitable receiver. ConAgra Grocery Products and the other defendants petitioned the California Supreme Court for review of the decision, which we believe to be an unprecedented expansion of current California law. On February 14, 2018, the California Supreme Court denied the petition and declined to review the merits of the case, and the case was remanded to the trial court for further proceedings. ConAgra Grocery Products and the other defendants sought further review of certain issues from the Supreme Court of the United States, but on October 15, 2018, the Supreme Court declined to review the case. In light of the decision rendered by the California Appellate Court on November 14, 2017, and the California Supreme Court's decision on February 14, 2018 not to review the Appellate Court's decision, we have concluded that the liability has become probable as contemplated by Accounting Standards Codification Topic 450. On September 4, 2018, the trial court recalculated its estimate of the amount needed to remediate pre-1951 homes in the plaintiff jurisdictions to be \$409.0 million. However, uncertainties remain which make it difficult to estimate the ultimate potential liability, including (i) although liability is joint and several, it is unknown what amount each defendant may ultimately be required to pay or how allocation among the defendants (and other potentially responsible parties such as property owners who may have violated the applicable housing codes) will be determined; (ii) according to the trial court's original order, participation in the abatement program by eligible homeowners is voluntary and it is unknown what percentage of eligible homeowners will choose to participate or how such claims will be administered; (iii) the trial court's original order required that any amounts paid by the defendants into the fund that were not spent within four years would be returned to the defendants, and it is unknown whether this feature of the fund will be retained or, if it is retained, how much will be spent during that time period; and (iv) defendants will have a new right to appeal any new aspects of the judgment entered by the trial court upon remand, although it is unknown whether the court would stay execution of any new judgment while a subsequent appeal is pending.

While the ultimate amount of any loss and timing of payments related thereto remain uncertain and could change as further information is obtained, we have accrued \$136.0 million, within other accrued liabilities, for this matter as of February 24, 2019. The extent of insurance coverage is uncertain and the Company's carriers are on notice; however, any possible insurance recovery has not been considered for purposes of determining our liability. We cannot assure that the final resolution of these matters will not have a material adverse effect on our financial condition, results of operations, or liquidity.

In June 2009, an accidental explosion occurred at our manufacturing facility in Garner, North Carolina. This facility was the primary production facility for our Slim Jim® branded meat snacks. In June 2009, the U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives announced its determination that the explosion was the result of an accidental natural gas release and not a deliberate act. During the fourth quarter of fiscal 2011, we settled our property and business interruption claims related to the Garner accident with our insurance providers. During the fourth quarter of fiscal 2011, Jacobs Engineering Group Inc. ("Jacobs"), our engineer and project manager at the site, filed a declaratory judgment action against us seeking indemnity for personal injury claims brought against it as a result of the accident. During the first quarter of fiscal 2012, our motion for summary judgment was granted and the suit was dismissed without prejudice on the basis that the suit was filed prematurely. In the third quarter of fiscal 2014, Jacobs refiled its action seeking indemnity. On March 25, 2016, a Douglas County jury in Nebraska rendered a verdict in favor of Jacobs and against us in the amount of \$108.9 million plus post-judgment interest. We filed our Notice of Appeal in September 2016, and the appeal was heard by the Nebraska Supreme

Court in November 2017. On September 14, 2018, the Nebraska Supreme Court affirmed the jury verdict and the rulings of the trial court. As of November 6, 2018, the Company and its insurers satisfied the judgment in full. We are party to a number of putative class action lawsuits challenging various product claims made in the Company's product labeling. These matters include *Briseno v. ConAgra Foods, Inc.*, in which it is alleged that the labeling for Wesson® oils as 100% natural is false and misleading because the oils contain genetically modified plants and organisms. In February 2015, the U.S. District Court for the Central District of California granted class certification to permit plaintiffs to pursue state law claims. The Company appealed to the United States Court of Appeals for the Ninth Circuit, which affirmed class certification in January 2017. The Supreme Court of the United States declined to review the decision and the case has been remanded to the trial court for further proceedings. While we cannot predict with certainty the results of this or any other legal proceeding, we do not expect this matter to have a material adverse effect on our financial condition, results of operations, or business.

We are party to matters challenging the Company's wage and hour practices. These matters include a number of class actions consolidated under the caption *Negrete v. ConAgra Foods, Inc., et al.*, pending in the U.S. District Court for the Central District of California, in which the plaintiffs allege a pattern of violations of California and/or federal law at several current and former Company manufacturing facilities across the State of California. While we cannot predict with certainty the results of this or any other legal proceeding, we do not expect this matter to have a material adverse effect on our financial condition, results of operations, or business.

The Company, its directors, and several of its executive officers are defendants in several class actions alleging violations of federal securities laws. The lawsuits assert that the Company's officers made material misstatements and omissions that caused the market to have an unrealistically positive assessment of the Company's financial prospects in light of the acquisition of Pinnacle, thus causing the Company's securities to be overvalued prior to the release of the Company's consolidated financial results on December 20, 2018 for the second quarter of fiscal year 2019. The first of these lawsuits, captioned *West Palm Beach Firefighters' Pension Fund v. Conagra Brands, Inc., et al.*, with which subsequent lawsuits alleging similar facts will likely be consolidated, was filed February 22, 2019 in the U.S. District Court for the Northern District of Illinois. While we cannot predict with certainty the results of this or any other legal proceedings, we do not expect this matter to have a material adverse effect on our financial condition, results of operations, or business.

#### Litigation Related to the Merger

Certain litigation matters were filed in connection with our acquisition of Pinnacle (see Note 2). On August 7, 2018, a purported stockholder of Pinnacle filed a complaint in a putative class action in the United States District Court for the District of New Jersey, captioned *Alexander Rasmussen v. Pinnacle Foods Inc. et al.*, Case No. 2:18-cv-12501. On August 9, 2018, a purported stockholder of Pinnacle filed a complaint in a putative class action in the United States District Court for the District of New Jersey, captioned *Robert H. Paquette v. Pinnacle Foods Inc. et al.*, Case No. 2:18-cv-12578. On August 9, 2018, a purported stockholder of Pinnacle filed a complaint in a putative class action in the United States District Court for the District of New Jersey, captioned *Wesley Lindquist v. Pinnacle Foods Inc. et al.*, Case No. 2:18-cv-12610. On September 12, 2018, the Court consolidated the three New Jersey Actions (the "Consolidated Actions"), each of which alleged that Pinnacle's preliminary proxy statement, filed with the SEC on July 25, 2018, omitted material information with respect to the merger, rendering it false and misleading and thus that Pinnacle and the directors of Pinnacle violated Section 14(a) of the Exchange Act as well as Rule 14a-9 under the Exchange Act. The Consolidated Actions further alleged that the directors of Pinnacle violated Section 20(a) of the Exchange Act and sought to enjoin the transactions contemplated by the Merger Agreement unless Pinnacle disclosed the allegedly material information that was allegedly omitted from the proxy statement, an award of damages and an award of attorneys' fees and expenses. On September 27, 2018, Pinnacle filed a Form 8-K with the Securities and Exchange Commission containing supplemental disclosures that substantially mooted the claims raised in the Consolidated Actions regarding the sufficiency of the disclosures in the proxy statement. On October 4, 2018, the parties stipulated to dismissal of the Consolidated Actions.

On August 15, 2018, a purported stockholder of Pinnacle filed a complaint in a putative class action in the Court of Chancery of the State of Delaware, captioned *Jordan Rosenblatt v. Pinnacle Foods Inc. et al.*, Case No. 2018-0605

(the "Rosenblatt Action"). The Rosenblatt Action alleged that the directors of Pinnacle breached their fiduciary duty of disclosure by filing a preliminary proxy statement that contained materially incomplete and misleading information. The Rosenblatt Action further alleged that Pinnacle, Conagra, and Merger Sub aided and abetted the directors' alleged breach of fiduciary duty. The Rosenblatt Action sought, among other things, to enjoin the transactions contemplated by the merger agreement, rescission of the merger or an award of rescissory damages should the merger be consummated, an award of damages and an award of attorneys' fees and expenses. Conagra and Pinnacle maintained that the Rosenblatt Action was without merit and filed a motion to dismiss. Ultimately, the plaintiff chose not to pursue the Rosenblatt Action and filed a voluntary notice of dismissal without prejudice. On January 30, 2019, the Court dismissed the case.

#### Environmental Matters

We are a party to certain environmental proceedings relating to our acquisition of Beatrice in fiscal 1991. Such proceedings include proceedings related to businesses divested by Beatrice prior to our acquisition of Beatrice. The current environmental proceedings associated with Beatrice include litigation and administrative proceedings involving Beatrice's possible status as a potentially responsible

party at approximately 40 Superfund, proposed Superfund, or state-equivalent sites (the "Beatrice sites"). These sites involve locations previously owned or operated by predecessors of Beatrice that used or produced petroleum, pesticides, fertilizers, dyes, inks, solvents, PCBs, acids, lead, sulfur, tannery wastes, and/or other contaminants. Reserves for these Beatrice environmental proceedings have been established based on our best estimate of the undiscounted remediation liabilities, which estimates include evaluation of investigatory studies, extent of required clean-up, the known volumetric contribution of Beatrice and other potentially responsible parties, and its experience in remediating sites. The accrual for Beatrice-related environmental matters totaled \$53.0 million as of February 24, 2019, a majority of which relates to the Superfund and state-equivalent sites referenced above. During the third quarter of fiscal 2017, a final Remedial Investigation/Feasibility Study was submitted for the Southwest Properties portion of the Wells G&H Superfund site, which is one of the Beatrice sites. The U.S. Environmental Protection Agency (the "EPA") issued a Record of Decision (the "ROD") for the Southwest Properties portion of the site on September 29, 2017 and has entered into negotiations with potentially responsible parties to determine final responsibility for implementing the ROD.

#### Guarantees and Other Contingencies

In certain limited situations, we guarantee obligations of the Lamb Weston business pursuant to guarantee arrangements that existed prior to the Spinoff and remained in place following completion of the Spinoff until such guarantee obligations are substituted for guarantees issued by Lamb Weston. Such guarantee arrangements are described below. Pursuant to the Separation and Distribution Agreement, dated as of November 8, 2016 (the "Separation Agreement"), between us and Lamb Weston, these guarantee arrangements are deemed liabilities of Lamb Weston that were transferred to Lamb Weston as part of the Spinoff. Accordingly, in the event that we are required to make any payments as a result of these guarantee arrangements, Lamb Weston is obligated to indemnify us for any such liability, reduced by any insurance proceeds received by us, in accordance with the terms of the indemnification provisions under the Separation Agreement.

Lamb Weston is a party to a warehouse services agreement with a third-party warehouse provider through July 2035. Under this agreement, Lamb Weston is required to make payments for warehouse services based on the quantity of goods stored and other service factors. Minimum payments of \$1.5 million per month are required under this agreement. Prior to the Spinoff, we guaranteed the warehouse provider that we would make the payments required under the services agreement in the event that Lamb Weston failed to perform. Upon completion of the Spinoff, the guarantee remained in place, and we recognized a liability for the estimated fair value of this guarantee. During the third quarter of fiscal 2019, we entered into an Assignment and Assumption Agreement with Novation pursuant to which Lamb Weston assumed all of our obligations under the services agreement and related guarantee and we were released from all further obligations thereunder. As a result of this agreement, we reversed the applicable liability, previously recorded in other noncurrent liabilities, and recognized a benefit of \$27.3 million in SG&A expenses. Lamb Weston is a party to an agricultural sublease agreement with a third party for certain farmland through 2020 (subject, at Lamb Weston's option, to extension for two additional five-year periods). Under the terms of the sublease agreement, Lamb Weston is required to make certain rental payments to the sublessor. We have guaranteed the sublessor Lamb Weston's performance and the payment of all amounts (including indemnification obligations) owed by Lamb Weston under the sublease agreement, up to a maximum of \$75.0 million. We believe the farmland associated with this sublease agreement is readily marketable for lease to other area farming operators. As such, we believe that any financial exposure to the Company, in the event that we were required to perform under the guarantee, would be largely mitigated.

We lease a certain office building from an entity that we have determined to be a variable interest entity. The lease agreement with this entity includes a fixed-price purchase option for the asset being leased. The lease agreement also contains a contingent put option (the "lease put option") that allows the lessor to require us to purchase the building 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, this lease put option became exercisable. We are amortizing the difference between the put price and the estimated fair value (without a lease agreement in place) of the property over the remaining lease term within SG&A

expenses. As of February 24, 2019 and May 27, 2018, the estimated amount by which the put option price exceeded the estimated fair value of the property was \$8.2 million, of which we had accrued \$1.5 million and \$1.2 million, respectively. This lease is accounted for as an operating lease, and accordingly, there are no material assets and liabilities, other than the accrued portion of the put price, associated with this entity included in the 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 this entity. In making this determination, we have considered, among other items, the terms of the lease agreement, the expected remaining useful life of the asset leased, and the capital structure of the lessor entity. During the third quarter of fiscal 2018, we purchased two buildings that were subject to lease put options and recognized net losses totaling \$48.2 million for the early exit of unfavorable lease contracts.

#### General

After taking into account liabilities recognized for all of the foregoing matters, management believes the ultimate resolution of such matters should not have a material adverse effect on our financial condition, results of operations, or liquidity; however, it is reasonably



possible that a change of the estimates of any of the foregoing matters may occur in the future and, as noted, the lead paint matter could result in a material final judgment which could have a material adverse effect on our financial condition, results of operations, or liquidity.

Costs of legal services associated with the foregoing matters are recognized in earnings as services are provided.

#### 14. PENSION AND POSTRETIREMENT BENEFITS

We have defined benefit retirement plans ("plans") for eligible salaried and hourly employees. Benefits are based on years of credited service and average compensation or stated amounts for each year of service. We also sponsor postretirement plans which provide certain medical and dental benefits ("other postretirement benefits") to qualifying U.S. employees.

In connection with the acquisition of Pinnacle, we now include the components of pension and postretirement expense associated with the Pinnacle pension plans and an other post-employment benefit plan in our Condensed Consolidated Statements of Earnings from the date of the completion of the acquisition. These plans are frozen for future benefits. A net liability of \$34.8 million is included in our Condensed Consolidated Balance Sheets at February 24, 2019. The tabular disclosures presented below are inclusive of the Pinnacle plans.

Components of pension benefit and other postretirement benefit costs are:

	Pension Benefits			
	Thirteen weeks ended		Thirty-nine weeks ended	
	February 24, 2019	February 25, 2018	February 24, 2019	February 25, 2018
Service cost	\$2.8	\$ 4.8	\$8.3	\$ 21.6
Interest cost	34.0	27.6	98.7	83.5
Expected return on plan assets	(44.6)	(50.3)	(130.1)	(150.0)
Amortization of prior service cost	0.7	0.7	2.1	2.1
Recognized net actuarial loss	—	—	—	3.4
Curtailment loss	—	—	—	0.7
Benefit cost (benefit) — Company plans	(7.1)	(17.2)	(21.0)	(38.7)
Pension benefit cost — multi-employer plans	1.4	(0.2)	4.9	5.5
Total benefit cost (benefit)	\$(5.7)	\$ (17.4)	\$(16.1)	\$ (33.2)
	Postretirement Benefits			
	Thirteen weeks ended		Thirty-nine weeks ended	
	February 24, 2019	February 25, 2018	February 24, 2019	February 25, 2018
Service cost	\$—	\$ —	\$0.1	\$ —
Interest cost	1.0	1.0	2.9	2.8
Amortization of prior service benefit	(0.5)	(0.9)	(1.5)	(2.5)
Recognized net actuarial gain	(0.4)	—	(1.2)	—
Curtailment gain	—	—	(0.6)	—
Total cost (benefit)	\$0.1	\$ 0.1	\$(0.3)	\$ 0.3

The Company uses a split discount rate (spot-rate approach) for the U.S. plans and certain foreign plans. The spot-rate approach applies separate discount rates for each projected benefit payment in the calculation of pension service and interest cost.

The weighted-average discount rates for service and interest costs under the spot-rate approach used for pension benefit cost in fiscal 2019 were 4.21% and 3.83%.

During the third quarter and first three quarters of fiscal 2019, we contributed \$3.6 million and \$11.5 million, respectively, to our pension plans and contributed \$2.0 million and \$6.3 million, respectively, to our other

postretirement plans. Based upon the current funded status of the plans and the current interest rate environment, we anticipate making further contributions of approximately \$3.0 million to our pension plans for the remainder of fiscal 2019. We anticipate making further contributions of approximately \$9.9 million to our other postretirement plans during the remainder of fiscal 2019. These estimates are based on ERISA guidelines, current tax laws, plan asset performance, and liability assumptions, which are subject to change.

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During the third quarter and first three quarters of fiscal 2018, we recorded a benefit of \$1.7 million and an expense of \$0.4 million, respectively, related to our expected incurrence of certain multi-employer pension plan withdrawal costs. These amounts have been included in restructuring activities.

## 15. STOCKHOLDERS' EQUITY

The following table presents a reconciliation of our stockholders' equity accounts for the thirty-nine weeks ended February 24, 2019:

	Conagra Brands, Inc. Stockholders' Equity							
	Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interests	Total Equity
Balance at May 27, 2018	567.9	\$2,839.7	\$1,180.0	\$4,744.9	\$ (110.5 )	\$(4,977.9)	\$ 80.4	\$3,756.6
Stock option and incentive plans			(14.1 )	0.5		23.3	0.1	9.8
Adoption of ASU 2016-01				0.6	(0.6 )			—
Adoption of ASU 2014-09				0.5				0.5
Currency translation adjustment, net					(0.7 )		(2.3 )	(3.0 )
Derivative adjustment, net					(43.4 )			(43.4 )
Activities of noncontrolling interests			(0.3 )				0.3	—
Pension and postretirement healthcare benefits					(0.5 )			(0.5 )
Dividends declared on common stock; \$0.2125 per share				(83.2 )				(83.2 )
Net income attributable to Conagra Brands, Inc.				178.2				178.2
Balance at August 26, 2018	567.9	\$2,839.7	\$1,165.6	\$4,841.5	\$ (155.7 )			