J M SMUCKER Co
Form 10-Q
August 27, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 31, 2018
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-5111

THE J. M. SMUCKER COMPANY
(Exact name of registrant as specified in its charter)

Ohio	34-0538550
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Strawberry Lane Orrville, Ohio	44667-0280
(Address of principal executive offices)	(Zip code)

Registrant’s telephone number, including area code:
(330) 682-3000

N/A
(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 at least the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large accelerated filer	ý	Accelerated filer	o

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller Reporting Company o

Emerging growth company o

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

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

The Company had 113,737,560 common shares outstanding on August 21, 2018.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.
THE J. M. SMUCKER COMPANY
CONDENSED STATEMENTS OF CONSOLIDATED INCOME
(Unaudited)

	Three Months Ended July 31,	
Dollars in millions, except per share data	2018	2017
Net sales	$1,902.5	$1,748.9
Cost of products sold	1,224.3	1,086.8
Gross Profit	678.2	662.1
Selling, distribution, and administrative expenses	383.3	348.8
Amortization	60.5	51.5
Other special project costs [(A)]	7.7	27.1
Other operating expense (income) – net	(0.2)	(0.5)
Operating Income	226.9	235.2
Interest expense – net	(53.6)	(42.0)
Other income (expense) – net	(0.2)	(4.2)
Income Before Income Taxes	173.1	189.0
Income tax expense (benefit)	40.1	62.2
Net Income	$133.0	$126.8
Earnings per common share:		
Net Income	$1.17	$1.12
Net Income – Assuming Dilution	$1.17	$1.12
Dividends Declared per Common Share	$0.85	$0.78

(A) Other special project costs includes integration and restructuring costs. For more information, see Note 5: Integration and Restructuring Costs.
See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY
CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended July 31,	
Dollars in millions	2018	2017
Net income	$133.0	$126.8
Other comprehensive income (loss):		
Foreign currency translation adjustments	(6.1)	35.0
Cash flow hedging derivative activity, net of tax	2.1	1.6
Pension and other postretirement benefit plans activity, net of tax	1.6	(0.2)
Available-for-sale securities activity, net of tax	0.3	0.3
Total Other Comprehensive Income (Loss)	(2.1)	36.7
Comprehensive Income	$130.9	$163.5

See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	July 31, 2018	April 30, 2018
Dollars in millions		
ASSETS		
Current Assets		
Cash and cash equivalents	$192.0	$192.6
Trade receivables, less allowance for doubtful accounts	504.2	385.6
Inventories:		
Finished products	660.4	542.1
Raw materials	357.0	312.3
Total Inventory	1,017.4	854.4
Other current assets	92.2	122.4
Total Current Assets	1,805.8	1,555.0
Property, Plant, and Equipment		
Land and land improvements	121.2	120.1
Buildings and fixtures	831.8	812.6
Machinery and equipment	2,189.4	2,111.5
Construction in progress	253.9	212.1
Gross Property, Plant, and Equipment	3,396.3	3,256.3
Accumulated depreciation	(1,568.4)	(1,527.2)
Total Property, Plant, and Equipment	1,827.9	1,729.1
Other Noncurrent Assets		
Goodwill	6,621.9	5,942.2
Other intangible assets – net	7,095.1	5,916.5
Other noncurrent assets	162.3	158.4
Total Other Noncurrent Assets	13,879.3	12,017.1
Total Assets	$17,513.0	$15,301.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$532.1	$512.1
Accrued trade marketing and merchandising	141.6	101.6
Short-term borrowings	530.0	144.0
Other current liabilities	340.3	276.1
Total Current Liabilities	1,544.0	1,033.8
Noncurrent Liabilities		
Long-term debt	6,184.9	4,688.0
Deferred income taxes	1,550.2	1,377.2
Other noncurrent liabilities	303.1	311.1
Total Noncurrent Liabilities	8,038.2	6,376.3
Total Liabilities	9,582.2	7,410.1
Shareholders' Equity		
Common shares	28.9	28.9
Additional capital	5,745.1	5,739.7
Retained income	2,275.6	2,239.2
Accumulated other comprehensive income (loss)	(118.8)	(116.7)

Total Shareholders’ Equity	7,930.8	7,891.1
Total Liabilities and Shareholders’ Equity	$17,513.0	$15,301.2

See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)

	Three Months Ended July 31,	
Dollars in millions	2018	2017
Operating Activities		
Net income	$133.0	$126.8
Adjustments to reconcile net income to net cash provided by (used for) operations:		
Depreciation	51.4	54.5
Amortization	60.5	51.5
Share-based compensation expense	4.6	6.6
Other noncash adjustments – net	1.1	0.8
Defined benefit pension contributions	—	(0.8)
Changes in assets and liabilities, net of effect from businesses acquired:		
Trade receivables	(52.7)	7.3
Inventories	(65.7)	(71.2)
Other current assets	21.8	4.3
Accounts payable	0.8	35.3
Accrued liabilities	52.6	52.5
Income and other taxes	58.9	35.9
Other – net	(23.3)	0.8
Net Cash Provided by (Used for) Operating Activities	243.0	304.3
Investing Activities		
Business acquired, net of cash acquired	(1,905.0)	—
Additions to property, plant, and equipment	(101.3)	(69.6)
Other – net	(25.2)	31.5
Net Cash Provided by (Used for) Investing Activities	(2,031.5)	(38.1)
Financing Activities		
Short-term borrowings (repayments) – net	386.0	(170.1)
Proceeds from long-term debt	1,500.0	—
Quarterly dividends paid	(88.4)	(84.9)
Purchase of treasury shares	(4.7)	(6.6)
Other – net	(2.4)	1.5
Net Cash Provided by (Used for) Financing Activities	1,790.5	(260.1)
Effect of exchange rate changes on cash	(2.6)	10.3
Net increase (decrease) in cash and cash equivalents	(0.6)	16.4
Cash and cash equivalents at beginning of period	192.6	166.8
Cash and Cash Equivalents at End of Period	$192.0	$183.2

( ) Denotes use of cash
See notes to unaudited condensed consolidated financial statements.

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THE J. M. SMUCKER COMPANY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars and shares in millions, unless otherwise noted, except per share data)

Note 1: Basis of Presentation

The unaudited interim condensed consolidated financial statements of The J. M. Smucker Company ("Company," "we," "us," or "our") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. Certain items previously reported in the financial statements have been reclassified to conform with the current year presentation.

Operating results for the three months ended July 31, 2018, are not necessarily indicative of the results that may be expected for the year ending April 30, 2019. For further information, reference is made to the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended April 30, 2018.

Note 2: Revenue Recognition

The majority of our revenue is derived from the sale of food and beverage products to food retailers and foodservice distributors and operators. We recognize revenue when obligations under the terms of a contract with a customer have been satisfied. This occurs when control of our products transfers, which typically takes place upon delivery to or pick up by the customer. Amounts due from our customers are classified as trade receivables in the Condensed Consolidated Balance Sheets and require payment on a short-term basis.

Transaction price is based on the list price included in our published price list, which is then reduced by the estimated impact of trade marketing and merchandising programs, discounts, unsaleable product allowances, returns, and similar items in the same period that the revenue is recognized. To estimate the impact of these costs, we consider customer contract provisions, historical data, and our current expectations.

Our trade marketing and merchandising programs consist of various promotional activities conducted through retail trade, distributors, or directly with consumers, including in-store display and product placement programs, feature price discounts, coupons, and other similar activities. We regularly review and revise, when we deem necessary, estimates of costs for these promotional programs based on estimates of what will be redeemed by retail trade, distributors, or consumers. These estimates are made using various techniques, including historical data on performance of similar promotional programs. Differences between estimated expenditures and actual performance are recognized as a change in estimate in a subsequent period.

For revenue disaggregated by reportable segment, geographical region, and product category, see Note 7: Reportable Segments.

Note 3: Recently Issued Accounting Standards

In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-07, Compensation – Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires the service cost component of the net periodic pension cost to be presented separately from the other components of the net periodic pension cost in the income statement. Additionally, only the service cost component of the net periodic pension cost is eligible for capitalization. ASU 2017-07 was effective for us on May 1, 2018. The change in presentation of service cost was applied retrospectively, while the capitalization of service cost will be applied on a prospective basis. The adoption of this ASU did not have a material impact on our financial statements and disclosures.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740) Intra-Entity Transfers of Assets Other Than Inventory, which requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs rather than deferring such recognition until the asset is sold to an outside party. ASU 2016-16 was effective for us on May 1, 2018, and required adoption on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The adoption of this ASU did not have an impact on our financial statements and disclosures.

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In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments, which makes changes to how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 was effective for us on May 1, 2018, and required adoption on a retrospective basis. The adoption of this ASU did not impact the presentation of our financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which will require lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. ASU 2016-02 will be effective for us on May 1, 2019, with the option to early adopt at any time prior to the effective date. ASU 2016-02 requires a modified retrospective application for leases existing at, or entered into after, the beginning of the earliest comparative period presented and may exclude any leases that expired before the date of initial application. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) Targeted Improvements, which provides an additional transition method that allows entities to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without restating prior periods. We are currently compiling an inventory of our lease arrangements in order to determine the impact the new guidance will have on our financial statements and disclosures. We have selected new lease accounting software in preparation for the standard's additional reporting requirements and began implementation during the first quarter of 2019. Based on our assessment to date, we expect that the adoption of ASU 2016-02 will result in a material increase in lease-related assets and liabilities recognized in our Consolidated Balance Sheet, but we are unable to quantify the impact at this time.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the new guidance is that an entity must recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It requires additional disclosures to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows relating to customer contracts. We adopted the requirements of ASU 2014-09 and all related amendments on May 1, 2018, using the modified retrospective transition method. Adoption did not have an impact on our financial statements. The additional disclosures required are presented within Note 2: Revenue Recognition and Note 7: Reportable Segments.

Note 4: Acquisition

On May 14, 2018, we acquired the stock of Ainsworth Pet Nutrition, LLC (“Ainsworth”) in an all-cash transaction, valued at $1.9 billion, which was funded with a bank term loan and borrowings under our commercial paper program of approximately $1.5 billion and $400.0, respectively. For additional information on the financing associated with this transaction, refer to Note 9: Debt and Financing Arrangements.

Ainsworth is a leading producer, distributor, and marketer of premium pet food and pet snacks, predominantly within the U.S. The majority of Ainsworth’s sales are generated by the Rachael Ray® Nutrish® brand, which is driving significant growth in the premium pet food category. Ainsworth also sells pet food and pet snacks under several additional branded and private label trademarks. Ainsworth was a privately-held company headquartered in Meadville, Pennsylvania. In addition to its headquarters, the transaction includes two manufacturing facilities owned by Ainsworth, which are located in Meadville, Pennsylvania, and Frontenac, Kansas, and a leased distribution facility in Greenville, Pennsylvania.

The transaction was accounted for under the acquisition method of accounting, and accordingly, the results of Ainsworth's operations, including $162.8 and $4.1 in revenue and operating loss, respectively, are included in our consolidated financial statements from the date of acquisition. The operating loss reflects the recognition of a fair value purchase accounting adjustment of $10.9, attributable to the acquired inventory.

The purchase price was preliminarily allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. We estimated the fair values based on independent appraisals, discounted cash flow analyses, quoted market prices, and other estimates made by management. The purchase price exceeded the estimated fair value of the net identifiable tangible and intangible assets acquired, and the excess was recognized as goodwill.

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The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed at the acquisition date.

Assets acquired:	
Cash and cash equivalents	$1.6
Trade receivables	66.3
Inventories	97.8
Other current assets	4.8
Property, plant, and equipment	83.8
Goodwill	681.9
Other intangible assets – net	1,239.6
Other noncurrent assets	0.3
Total assets acquired	$2,176.1
Liabilities assumed:	
Current liabilities	$81.5
Deferred tax liabilities	172.0
Other noncurrent liabilities	16.0
Total liabilities assumed	$269.5
Net assets acquired	$1,906.6

Estimated values for the acquisition, including goodwill, other intangible assets, property, plant, and equipment, contingent liabilities, and income taxes, are not yet finalized. The purchase price was preliminarily allocated based on information available at the date of acquisition and is subject to change as we complete our analysis of the fair values at the date of acquisition during the measurement period, not to exceed one year, as permitted under FASB ASC 805, Business Combinations.

As a result of the acquisition, we recognized a total of $681.9 of goodwill within the U.S. Retail Pet Foods segment. Our expectation is that a portion will be deductible for tax purposes, the amount of which will be refined and ultimately determined during the measurement period. Goodwill represents the value we expect to achieve through the implementation of operational synergies and growth opportunities as we integrate Ainsworth into our U.S. Retail Pet Foods segment.

The purchase price was preliminarily allocated to the identifiable other intangible assets acquired as follows:

Intangible assets with finite lives:	
Customer and contractual relationships (25-year useful life)	$935.0
Trademarks (5-year useful life)	1.6
Intangible assets with indefinite lives:	
Trademarks	303.0
Total other intangible assets	$1,239.6

Ainsworth's results of operations are included in our consolidated financial statements from the date of the transaction within the U.S. Retail Pet Foods reportable segment. Had the transaction occurred on May 1, 2017, unaudited pro forma consolidated results for the three months ended July 31, 2018 and 2017, would have been as follows:

	Three Months Ended July 31,	
	2018	2017
Net sales	$1,929.9	$1,904.6
Net income	133.1	109.8
Net income per common share – assuming dilution	1.17	0.97

The unaudited pro forma consolidated results are based on our historical financial statements and those of Ainsworth, and do not necessarily indicate the results of operations that would have resulted had the acquisition been completed at the beginning of the applicable period presented. The most significant pro forma adjustments relate to the elimination of nonrecurring acquisition-related costs incurred prior to the close of the transaction, amortization of

acquired intangible assets, depreciation of acquired property, plant, and equipment, and higher interest expense associated with acquisition-related financing. The unaudited pro forma consolidated results do not give effect to the synergies of the acquisition and are not indicative of the results of operations in future periods.

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Note 5: Integration and Restructuring Costs
Integration and restructuring costs primarily consist of employee-related costs and other transition and termination costs related to certain acquisition or restructuring activities. Employee-related costs include severance, retention bonuses, and relocation costs. Severance costs and retention bonuses are recognized over the estimated future service period of the affected employees, and relocation costs are expensed as incurred. Other transition and termination costs include fixed asset related charges, contract and lease termination costs, professional fees, and other miscellaneous expenditures associated with the integration or restructuring activities, which are expensed as incurred. These one-time costs are not allocated to segment profit, and the majority of these costs are reported in other special project costs in the Condensed Statements of Consolidated Income. The obligation related to employee separation costs is included in other current liabilities in the Condensed Consolidated Balance Sheets.
Integration Costs: Total one-time costs related to the acquisition of Ainsworth are anticipated to be approximately $50.0, of which the majority are expected to be cash charges. Of the total anticipated one-time costs, we expect to incur $25.0 in employee-related costs and $25.0 in other transition and termination costs directly related to the acquisition. Approximately two-thirds of these one-time costs are expected to be recognized by the end of 2019.
The following table summarizes our one-time costs incurred in relation to the Ainsworth acquisition.

	Three Months Ended July 31, 2018	Total Costs Incurred to Date at July 31, 2018
Employee-related costs	$ 0.9	$ 0.9
Other transition and termination costs	1.1	1.1
Total one-time costs	$ 2.0	$ 2.0

Noncash charges included in total one-time costs incurred to date were $0.8, all of which were incurred during the three months ended July 31, 2018, and primarily consisted of accelerated depreciation. The obligation related to severance costs and retention bonuses was $0.8 at July 31, 2018.
All integration activities related to the acquisition of Big Heart Pet Brands (“Big Heart”) were considered complete as of April 30, 2018, and as a result, we did not incur any costs during the three months ended July 31, 2018. We incurred total one-time costs of $271.9, of which $11.1 were incurred during the three months ended July 31, 2017. Noncash charges included in the total one-time costs were $30.4, of which $1.3 were incurred during the three months ended July 31, 2017, primarily consisting of share-based compensation and accelerated depreciation. As a result of the Big Heart integration activities being complete, the obligation related to severance costs and retention bonuses was fully satisfied at July 31, 2018, and was $0.1 at April 30, 2018.
Restructuring Costs: An organization optimization program was approved by the Board of Directors (the “Board”) during the fourth quarter of 2016. Under this program, we identified opportunities to reduce costs and optimize the organization. Related projects include an organizational redesign and the optimization of our manufacturing footprint. In addition, the program was recently expanded to include the restructuring of our geographic footprint, which includes the centralization of our pet food and pet snacks business, as well as certain international non-manufacturing functions, to our corporate headquarters in Orrville, Ohio, furthering collaboration and enhanced agility, while improving cost efficiency. As a result, we plan to close the San Francisco and Burbank, California, offices by the end of 2019, and our international offices in China and Mexico during the first half of 2019. The majority of the related restructuring costs are expected to be incurred through the end of 2019.
During 2018, we completed the consolidation of all of our coffee produced at our Harahan, Louisiana, facility into one of our facilities in New Orleans, Louisiana. Upon completion of the remaining initiatives, we anticipate that the organization optimization program will result in total headcount reductions of approximately 375 full-time positions, of which approximately 75 percent were reduced as of July 31, 2018.
Upon completion of this program, total restructuring costs are expected to be approximately $75.0, of which the majority represents employee-related costs, while the remainder primarily consists of site preparation, equipment

relocation, and production start-up costs at the impacted facilities.

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The following table summarizes our one-time costs incurred related to the organization optimization program.

	Three Months Ended July 31,		Total Costs Incurred to Date at July 31, 2018
	2018	2017	
Employee-related costs	$5.6	$10.4	$ 29.4
Other transition and termination costs	0.1	6.3	18.9
Total one-time costs	$5.7	$16.7	$ 48.3

Noncash charges of $0.1 and $6.1 were included in the one-time costs during the three months ended July 31, 2018 and 2017, respectively. Noncash charges included in total one-time costs incurred to date were $12.0 and primarily consisted of accelerated depreciation. The obligation related to severance costs and retention bonuses was $4.4 and $0.3 at July 31, 2018, and April 30, 2018, respectively.

Note 6: Divestiture

On July 9, 2018, we announced a definitive agreement to sell our U.S. baking business to Brynwood Partners VII L.P. and Brynwood Partners VIII L.P., subsidiaries of Brynwood Partners. We expect the transaction to close during the second quarter of 2019, subject to customary closing conditions. The transaction includes products that are sold in U.S. retail channels under the Pillsbury®, Martha White®, Hungry Jack®, White Lily®, and Jim Dandy® brands, along with all relevant trademarks and licensing agreements, and our manufacturing facility in Toledo, Ohio. This business generated net sales of approximately $370.0 in 2018. The transaction does not include our baking business in Canada. We will receive approximately $375.0 in proceeds from the divestiture, which is subject to a final working capital adjustment, and anticipate recognizing a gain upon completion of the transaction. The pre-tax gain is estimated to be approximately $25.0 based on the expected proceeds, including the assumed working capital and the carrying value of the assets, less estimated costs to sell, at the closing date.

The operating results for this business were primarily included in the U.S. Retail Consumer Foods segment for the three months ended July 31, 2018. Additionally, the disposal group met the criteria to be classified as held for sale as of July 31, 2018, and was measured at the lower of carrying amount or fair value less costs to sell.

The assets and liabilities held for sale at July 31, 2018, include the following:

	July 31, 2018
Assets held for sale:	
Inventories	$ 40.1
Property, plant, and equipment	39.8
Goodwill	144.3
Other intangible assets – net	109.5
Other noncurrent assets	1.4
Total assets held for sale	$ 335.1
Liabilities held for sale:	
Other current liabilities	$ 0.1
Net assets held for sale	$ 335.0

Note 7: Reportable Segments

We operate in one industry: the manufacturing and marketing of food and beverage products. We have four reportable segments: U.S. Retail Coffee, U.S. Retail Consumer Foods, U.S. Retail Pet Foods, and International and Away From Home.

The U.S. Retail Coffee segment primarily includes the domestic sales of Folgers®, Dunkin' Donuts®, and Café Bustelo® branded coffee; the U.S. Retail Consumer Foods segment primarily includes the domestic sales of Jif®, Smucker's®, Crisco®, and Pillsbury branded products; and the U.S. Retail Pet Foods segment primarily includes the domestic sales of Rachael Ray Nutrish, Meow Mix®, Milk-Bone®, Natural Balance®, Kibbles 'n Bits®, 9Lives®,

Pup-Peroni®, and Nature's Recipe® branded products. The International and Away From Home segment is composed of products distributed domestically and in foreign

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countries through retail channels and foodservice distributors and operators (e.g., restaurants, lodging, schools and universities, health care operators).

Effective May 1, 2018, the convenience store channel, which was previously included in the U.S. retail segments, is now included in the International and Away From Home segment. Segment performance for the three months ended July 31, 2017, has been reclassified for this realignment.

Segment profit represents net sales, less direct and allocable operating expenses and is consistent with the way in which we manage our segments. However, we do not represent that the segments, if operated independently, would report operating profit equal to the segment profit set forth below, as segment profit excludes certain expenses such as corporate administrative expenses, unallocated gains and losses on commodity and foreign currency exchange derivative activities, as well as amortization expense and impairment charges related to intangible assets.

Commodity and foreign currency exchange derivative gains and losses are reported in unallocated derivative gains and losses outside of segment operating results until the related inventory is sold. At that time, we reclassify the hedge gains and losses from unallocated derivative gains and losses to segment profit, allowing our segments to realize the economic effect of the hedge without experiencing any mark-to-market volatility. We would expect that any gain or loss in the estimated fair value of the derivatives would generally be offset by a change in the estimated fair value of the underlying exposures.

	Three Months Ended July 31,	
	2018	2017
Net sales:		
U.S. Retail Coffee	$489.5	$479.4
U.S. Retail Consumer Foods	483.3	487.9
U.S. Retail Pet Foods	671.2	520.7
International and Away From Home	258.5	260.9
Total net sales	$1,902.5	$1,748.9
Segment profit:		
U.S. Retail Coffee	$147.8	$123.2
U.S. Retail Consumer Foods	97.3	110.1
U.S. Retail Pet Foods	100.4	97.8
International and Away From Home	43.4	40.2
Total segment profit	$388.9	$371.3
Amortization	(60.5)	(51.5)
Interest expense – net	(53.6)	(42.0)
Unallocated derivative gains (losses)	(22.0)	12.6
Cost of products sold – special project costs (A)	—	(0.7)
Other special project costs (A)	(7.7)	(27.1)
Corporate administrative expenses	(71.8)	(69.4)
Other income (expense) – net	(0.2)	(4.2)
Income before income taxes	$173.1	$189.0

(A) Special project costs includes integration and restructuring costs. For more information, see Note 5: Integration and Restructuring Costs.

The following table presents certain geographical information.

	Three Months Ended July 31,	
	2018	2017
Net sales:		
United States	$1,772.3	$1,617.3
International:		

Canada	$98.2	$96.9
All other international	32.0	34.7
Total international	$130.2	$131.6
Total net sales	$1,902.5	$1,748.9

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The following table presents product category information.

	Three Months Ended July 31,		
	2018	2017	Primary Reportable Segment [A]
Coffee	$578.3	$572.3	U.S. Retail Coffee
Dog food	308.5	188.7	U.S. Retail Pet Foods
Peanut butter	199.2	200.5	U.S. Retail Consumer Foods
Cat food	189.0	165.8	U.S. Retail Pet Foods
Pet snacks	187.8	180.7	U.S. Retail Pet Foods
Fruit spreads	85.6	87.6	U.S. Retail Consumer Foods
Baking mixes and ingredients	84.3	91.8	U.S. Retail Consumer Foods
Frozen handheld	64.5	50.0	U.S. Retail Consumer Foods
Shortening and oils	52.9	56.3	U.S. Retail Consumer Foods
Portion control	40.9	39.7	International and Away From Home
Juices and beverages	32.2	37.1	U.S. Retail Consumer Foods
Other	79.3	78.4	International and Away From Home
Total net sales	$1,902.5	$1,748.9	

(A) The primary reportable segment generally represents at least 75 percent of total net sales for each respective product category.

Note 8: Earnings per Share

The following table sets forth the computation of net income per common share and net income per common share – assuming dilution under the two-class method.

	Three Months Ended July 31,	
	2018	2017
Net income	$133.0	$126.8
Less: Net income allocated to participating securities	0.7	0.6
Net income allocated to common stockholders	$132.3	$126.2
Weighted-average common shares outstanding	113.1	112.9
Add: Dilutive effect of stock options	—	0.1
Weighted-average common shares outstanding – assuming dilution	113.1	113.0
Net income per common share	$1.17	$1.12
Net income per common share – assuming dilution	$1.17	$1.12

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Note 9: Debt and Financing Arrangements

Long-term debt consists of the following:

	July 31, 2018		April 30, 2018	
	Principal Outstanding	Carrying Amount (A)	Principal Outstanding	Carrying Amount (A)
2.20% Senior Notes due December 6, 2019	$300.0	$ 298.8	$300.0	$ 298.6
2.50% Senior Notes due March 15, 2020	500.0	498.1	500.0	497.8
3.50% Senior Notes due October 15, 2021	750.0	773.8	750.0	775.6
3.00% Senior Notes due March 15, 2022	400.0	397.5	400.0	397.3
3.50% Senior Notes due March 15, 2025	1,000.0	994.6	1,000.0	994.4
3.38% Senior Notes due December 15, 2027	500.0	495.9	500.0	495.8
4.25% Senior Notes due March 15, 2035	650.0	643.2	650.0	643.1
4.38% Senior Notes due March 15, 2045	600.0	585.6	600.0	585.4
Term Loan Credit Agreement due May 14, 2021	1,500.0	1,497.4	—	—
Total long-term debt	$6,200.0	$ 6,184.9	$4,700.0	$ 4,688.0

(A) Represents the carrying amount included in the Condensed Consolidated Balance Sheets, which includes the impact of terminated interest rate contracts, offering discounts, and capitalized debt issuance costs.

In June 2018, we entered into an interest rate swap, with a notional value of $500.0, to manage our exposure to interest rate volatility associated with anticipated debt financing in 2020. This interest rate contract is designated as a cash flow hedge, and as a result, the mark-to-market gains or losses on the contract are deferred and included as a component of accumulated other comprehensive income (loss) and reclassified to net interest expense in the period during which the hedged transaction affects earnings. At July 31, 2018, an unrealized gain of $2.6 was deferred in accumulated other comprehensive income (loss) for this derivative instrument. For additional information, see Note 11: Derivative Financial Instruments.

In April 2018, we entered into a senior unsecured delayed-draw Term Loan Credit Agreement ("Term Loan") with a syndicate of banks and an available commitment amount of $1.5 billion. The full amount of the Term Loan was drawn on May 14, 2018, to partially finance the Ainsworth acquisition, as discussed in Note 4: Acquisition. Borrowings under the Term Loan bear interest on the prevailing U.S. Prime Rate or London Interbank Offered Rate ("LIBOR"), based on our election, and is payable either on a quarterly basis or at the end of the borrowing term. The Term Loan does not require scheduled amortization payments. Voluntary prepayments are permitted without premium or penalty. The interest rate on the Term Loan at July 31, 2018, was 3.21 percent. We have incurred total capitalized debt issuance costs of $2.8, of which $2.0 was incurred during the three months ended July 31, 2018 and will be amortized to net interest expense over the time period for which the debt is outstanding.

All of our Senior Notes outstanding at July 31, 2018, are unsecured and interest is paid semiannually, with no required scheduled principal payments until maturity. We may prepay all or part of the Senior Notes at 100 percent of the principal amount thereof, together with the accrued and unpaid interest, and any applicable make-whole amount.

We have available a $1.8 billion unsecured revolving credit facility with a group of 11 banks that matures in September 2022. Borrowings under the revolving credit facility bear interest on the prevailing U.S. Prime Rate, LIBOR, or Canadian Dealer Offered Rate, based on our election. Interest is payable either on a quarterly basis or at the end of the borrowing term. We did not have a balance outstanding under the revolving credit facility at both July 31, 2018 and April 30, 2018.

We participate in a commercial paper program under which we can issue short-term, unsecured commercial paper not to exceed $1.8 billion at any time. The commercial paper program is backed by our revolving credit facility and reduces what we can borrow under the revolving credit facility by the amount of commercial paper outstanding. Commercial paper will be used as a continuing source of short-term financing for general corporate purposes. As of July 31, 2018 and April 30, 2018, we had $530.0 and $144.0 of short-term borrowings outstanding, respectively, which were issued under our commercial paper program at weighted-average interest rates of 2.25 percent and 2.20

percent, respectively.
Interest paid totaled $23.3 and $4.6 for the three months ended July 31, 2018 and 2017, respectively. This differs from interest expense due to the timing of interest payments, amortization of debt issuance costs and discounts, effect of interest rate contracts, capitalized interest, and other debt fees.

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Our debt instruments contain certain financial covenant restrictions, including a leverage ratio and an interest coverage ratio. We are in compliance with all covenants.

Note 10: Pensions and Other Postretirement Benefits

The components of our net periodic benefit cost for defined benefit pension and other postretirement benefit plans are shown below.

	Three Months Ended July 31,			
	Defined Benefit Pension Plans		Other Postretirement Benefits	
	2018	2017	2018	2017
Service cost	$0.6	$1.7	$ 0.4	$ 0.5
Interest cost	5.9	5.4	0.6	0.5
Expected return on plan assets	(6.8)	(7.2)	—	—
Amortization of net actuarial loss (gain)	2.0	2.9	(0.1)	(0.1)
Amortization of prior service cost (credit)	0.2	0.2	(0.3)	(0.3)
Net periodic benefit cost	$1.9	$3.0	$ 0.6	$ 0.6

Note 11: Derivative Financial Instruments

We are exposed to market risks, such as changes in commodity prices, foreign currency exchange rates, and interest rates. To manage the volatility related to these exposures, we enter into various derivative transactions. We have policies in place that define acceptable instrument types we may enter into and establish controls to limit our market risk exposure.

Commodity Price Management: We enter into commodity derivatives to manage price volatility and reduce the variability of future cash flows related to anticipated inventory purchases of key raw materials, notably green coffee, corn, edible oils, wheat, and soybean meal. We also enter into commodity derivatives to manage price risk for energy input costs, including diesel fuel and natural gas. Our derivative instruments generally have maturities of less than one year.

We do not qualify commodity derivatives for hedge accounting treatment and, as a result, the derivative gains and losses are immediately recognized in earnings. Although we do not perform the assessments required to achieve hedge accounting for derivative positions, we believe all of our commodity derivatives are economic hedges of our risk exposure.

The commodities hedged have a high inverse correlation to price changes of the derivative instrument. Thus, we would expect that over time any gain or loss in the estimated fair value of the derivatives would generally be offset by an increase or decrease in the estimated fair value of the underlying exposures.

Foreign Currency Exchange Rate Hedging: We utilize foreign currency derivatives to manage the effect of foreign currency exchange fluctuations on future cash payments primarily related to purchases of certain raw materials and finished goods. The contracts generally have maturities of less than one year. We do not qualify instruments used to manage foreign currency exchange exposures for hedge accounting treatment.

Interest Rate Hedging: We utilize derivative instruments to manage changes in the fair value of our debt. Interest rate contracts mitigate the risk associated with the underlying hedged item. At the inception of the contract, the instrument is evaluated and documented for qualifying hedge accounting treatment. If the contract is designated as a cash flow hedge, the mark-to-market gains or losses on the contract are deferred and included as a component of accumulated other comprehensive income (loss) and reclassified to interest expense in the period during which the hedged transaction affects earnings. If the contract is designated as a fair value hedge, the contract is recognized at fair value on the balance sheet and changes in the fair value are recognized in interest expense. Generally, changes in the fair value of the contract are equal to changes in the fair value of the underlying debt and have no impact on earnings.

In June 2018, we entered into an interest rate swap, with a notional value of $500.0, to manage our exposure to interest rate volatility associated with anticipated debt financing in 2020. This interest rate contract is designated as a cash flow hedge, and as a result, an unrealized gain of $2.6 was deferred in accumulated other comprehensive income (loss) at July 31, 2018.

In June 2017, we entered into a treasury lock, with a notional value of $300.0, to manage our exposure to interest rate volatility associated with anticipated debt financing in 2018. This interest rate contract was designated as a cash flow hedge. In

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December 2017, concurrent with the pricing of the Senior Notes due December 15, 2027, we terminated the treasury lock prior to maturity. The termination resulted in a gain of $2.7, which was deferred and included as a component of accumulated other comprehensive income (loss) and will be amortized as a reduction to net interest expense over the life of the debt.

In 2015, we terminated the interest rate swap on the 3.50 percent Senior Notes due October 15, 2021, which was designated as a fair value hedge, and used to hedge against the changes in the fair value of the debt. As a result of the early termination, we received $58.1 in cash, which included $4.6 of accrued and prepaid interest. The gain on termination was deferred and is being recognized over the remaining life of the underlying debt as a reduction of interest expense. To date, we have recognized $27.0, of which $2.0 was recognized during the three months ended July 31, 2018. The remaining gain will be recognized as follows: $6.0 through the remainder of 2019, $8.1 in 2020, $8.4 in 2021, and $4.0 in 2022.

The following tables set forth the gross fair value amounts of derivative instruments recognized in the Condensed Consolidated Balance Sheets.

	July 31, 2018			
	Other Current Assets	Other Current Liabilities	Other Noncurrent Assets	Other Noncurrent Liabilities
Derivatives designated as hedging instruments:				
Interest rate contracts	$—	$ —	$ 2.6	$ —
Total derivatives designated as hedging instruments	$—	$ —	$ 2.6	$ —
Derivatives not designated as hedging instruments:				
Commodity contracts	$9.1	$ 18.1	$ 1.0	$ 0.7
Foreign currency exchange contracts	2.4	0.2	—	—
Total derivatives not designated as hedging instruments	$11.5	$ 18.3	$ 1.0	$ 0.7
Total derivative instruments	$11.5	$ 18.3	$ 3.6	$ 0.7

	April 30, 2018			
	Other Current Assets	Other Current Liabilities	Other Noncurrent Assets	Other Noncurrent Liabilities
Derivatives not designated as hedging instruments:				
Commodity contracts	$14.8	$ 6.8	$ 0.4	$ 0.2
Foreign currency exchange contracts	2.2	0.7	—	—
Total derivative instruments	$17.0	$ 7.5	$ 0.4	$ 0.2

We have elected to not offset fair value amounts recognized for our exchange-traded derivative instruments and our cash margin accounts executed with the same counterparty that are generally subject to enforceable netting agreements. We are required to maintain cash margin accounts in connection with funding the settlement of our open positions. At July 31, 2018, and April 30, 2018, we maintained cash margin account balances of $34.6 and $10.9, respectively, included in other current assets in the Condensed Consolidated Balance Sheets. The change in the cash margin account balances is included in other – net, investing activities in the Condensed Statements of Consolidated Cash Flows. In the event of default and immediate net settlement of all of our open positions with individual counterparties, all of our derivative liabilities would be fully offset by either our derivative asset positions or margin accounts based on the net asset or liability position with our individual counterparties.

During the three months ended July 31, 2018 and 2017, net interest expense, as presented in the Condensed Statements of Consolidated Income, was $53.6 and $42.0, respectively. Within interest expense, during both of the three-month periods ended July 31, 2018 and 2017, we recognized pre-tax losses of $0.1 related to the termination of prior interest rate contracts. Included as a component of accumulated other comprehensive income (loss) at July 31, 2018 and April 30, 2018, were deferred net pre-tax losses of $1.1 and $3.8, respectively, related to the active and terminated interest rate contracts. The related net tax benefit recognized in accumulated other comprehensive income (loss) was $0.3 and $0.9 at July 31, 2018 and April 30, 2018, respectively. Approximately $0.4 of the net pre-tax loss

will be recognized over the next 12 months related to the terminated interest rate contracts.

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The following table presents the net gains and losses recognized in cost of products sold on derivatives not designated as hedging instruments.

Three Months Ended July 31, 2018