Post Holdings, Inc.
Form 10-Q
February 01, 2019
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 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: 1-35305
Post Holdings, Inc.
(Exact name of registrant as specified in its charter)

Missouri	45-3355106
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2503 S. Hanley Road
St. Louis, Missouri 63144
(Address of principal executive offices) (Zip Code)
(314) 644-7600
(Registrant’s telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
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 x 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.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	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 x
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date:
Common stock, $0.01 Par Value – 66,495,434 shares as of January 28, 2019

Table of Contents

POST HOLDINGS, INC.
QUARTERLY REPORT ON FORM 10-Q
TABLE OF CONTENTS

		Page
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited).	1
	Condensed Consolidated Statements of Operations (Unaudited).	1
	Condensed Consolidated Statements of Comprehensive Income (Unaudited).	2
	Condensed Consolidated Balance Sheets (Unaudited).	3
	Condensed Consolidated Statements of Cash Flows (Unaudited).	4
	Condensed Consolidated Statements of Shareholders' Equity (Unaudited).	5
	Notes to Condensed Consolidated Financial Statements (Unaudited).	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	28
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	36
Item 4.	Controls and Procedures.	37
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings.	38
Item 1A.	Risk Factors.	39
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	39
Item 6.	Exhibits.	40
	SIGNATURES.	42

i

Table of Contents

PART I. FINANCIAL INFORMATION.
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED).
POST HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(in millions, except per share data)

	Three Months Ended December 31,	
	2018	2017
Net Sales	$1,411.3	$1,433.1
Cost of goods sold	984.8	984.6
Gross Profit	426.5	448.5
Selling, general and administrative expenses	217.1	246.0
Amortization of intangible assets	40.3	41.5
Gain on sale of business	(124.7)	—
Other operating income, net	(0.1)	—
Operating Profit	293.9	161.0
Interest expense, net	59.4	90.5
Loss on extinguishment of debt, net	6.1	37.3
Expense (income) on swaps, net	51.7	(2.7)
Other income, net	(3.7)	(3.5)
Earnings before Income Taxes and Equity Method Loss	180.4	39.4
Income tax expense (benefit)	43.8	(255.8)
Equity method loss, net of tax	10.7	—
Net Earnings Including Noncontrolling Interest	125.9	295.2
Less: Net earnings attributable to noncontrolling interest	0.3	0.3
Net Earnings	125.6	294.9
Less: Preferred stock dividends	2.0	3.4
Net Earnings Available to Common Shareholders	$123.6	$291.5
Earnings per Common Share:		
Basic	$1.85	$4.42
Diluted	$1.67	$3.82
Weighted-Average Common Shares Outstanding:		
Basic	66.7	66.0
Diluted	75.1	77.3

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

POST HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(in millions)

	Three Months Ended December 31,	
	2018	2017
Net Earnings Including Noncontrolling Interest	$125.9	$295.2
Pension and postretirement benefits adjustments:		
Reclassifications to net earnings	(1.2)	(0.8)
Hedging adjustments:		
Unrealized net gain (loss) on derivatives	24.4	(1.5)
Reclassifications to net earnings	(30.1)	0.3
Foreign currency translation adjustments:		
Unrealized foreign currency translation adjustments	(40.2)	13.9
Reclassifications to net earnings	42.1	—
Tax benefit on other comprehensive income:		
Pension and postretirement benefits	0.3	0.2
Hedging	1.4	0.3
Total Other Comprehensive (Loss) Income	(3.3)	12.4
Less: Comprehensive income attributable to noncontrolling interest	0.3	0.3
Total Comprehensive Income	$122.3	$307.3

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

POST HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(in millions)

	December 31, 2018	September 30, 2018
ASSETS		
Current Assets		
Cash and cash equivalents	$ 222.9	$ 989.7
Restricted cash	10.6	4.8
Receivables, net	452.5	462.3
Inventories	498.9	484.2
Current assets held for sale	—	195.0
Prepaid expenses and other current assets	57.5	64.3
Total Current Assets	1,242.4	2,200.3
Property, net	1,715.0	1,709.7
Goodwill	4,478.5	4,499.6
Other intangible assets, net	3,488.8	3,539.3
Equity method investments	168.1	5.2
Other assets held for sale	—	856.6
Other assets	192.0	246.8
Total Assets	$ 11,284.8	$ 13,057.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	$ 3.4	$ 22.1
Accounts payable	331.6	365.1
Current liabilities held for sale	—	65.6
Other current liabilities	462.1	339.3
Total Current Liabilities	797.1	792.1
Long-term debt	6,336.5	7,232.1
Deferred income taxes	781.2	778.4
Other liabilities held for sale	—	695.1
Other liabilities	213.6	499.3
Total Liabilities	8,128.4	9,997.0
Shareholders' Equity		
Preferred stock	—	—
Common stock	0.8	0.8
Additional paid-in capital	3,592.4	3,590.9
Retained earnings	210.7	88.0
Accumulated other comprehensive loss	(42.7)	(39.4)
Treasury stock, at cost	(615.2)	(589.9)
Total Shareholders' Equity Excluding Noncontrolling Interest	3,146.0	3,050.4
Noncontrolling interest	10.4	10.1
Total Shareholders' Equity	3,156.4	3,060.5
Total Liabilities and Shareholders' Equity	$ 11,284.8	$ 13,057.5

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

POST HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in millions)

	Three Months Ended December 31,	
	2018	2017
Cash Flows from Operating Activities		
Net Earnings Including Noncontrolling Interest	$125.9	$295.2
Adjustments to reconcile net earnings including noncontrolling interest to net cash flow provided by operating activities:		
Depreciation and amortization	93.6	90.5
Unrealized loss (gain) on interest rate swaps	51.5	(3.1)
Gain on sale of business	(124.7)	—
Loss on extinguishment of debt, net	6.1	37.3
Non-cash stock-based compensation expense	8.7	6.8
Equity method loss, net of tax	10.7	—
Deferred income taxes	8.1	(262.7)
Other, net	0.6	2.3
Other changes in operating assets and liabilities, net of business acquisitions:		
Decrease in receivables, net	30.8	11.6
Increase in inventories	(16.1)	(13.4)
Increase in prepaid expenses and other current assets	(0.5)	(14.5)
Decrease (increase) in other assets	0.9	(5.4)
Increase in accounts payable and other current liabilities	46.7	61.9
Decrease in non-current liabilities	(3.6)	(2.0)
Net Cash Provided by Operating Activities	238.7	204.5
Cash Flows from Investing Activities		
Additions to property	(78.8)	(46.7)
Proceeds from sale of property and assets held for sale	2.0	0.1
Proceeds from sale of business	250.0	—
Cross-currency swap cash settlements	28.3	—
Other, net	—	(1.2)
Net Cash Provided by (Used in) Investing Activities	201.5	(47.8)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	—	1,000.0
Repayments of long-term debt	(919.0)	(635.5)
Payments to appraisal rights holders	(253.6)	—
Purchases of treasury stock	(25.3)	(56.0)
Payments of preferred stock dividends	(2.0)	(3.4)
Payments of debt issuance costs	(0.3)	(10.2)
Refund of debt issuance costs	7.8	—
Payment of debt extinguishment costs	—	(30.8)
Other, net	(7.2)	(4.5)
Net Cash (Used in) Provided by Financing Activities	(1,199.6)	259.6
Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash	(1.6)	0.7

Net (Decrease) Increase in Cash, Cash Equivalents and Restricted Cash	(761.0)	417.0
Cash, Cash Equivalents and Restricted Cash, Beginning of Year	994.5	1,530.1
Cash, Cash Equivalents and Restricted Cash, End of Period	$233.5	$1,947.1

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

4

POST HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)
(in millions)

	Post Holdings, Inc. Shareholders'											
	Preferred Stock		Common Stock				Accumulated Other Comprehensive Loss					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Retirement Benefit Adjustments, net of tax	Hedging Adjustments, net of tax	Foreign Currency Translation Adjustments	Treasury Stock	Non-Controlling Interest	Total Shareholders' Equity
Balance, September 30, 2017	4.7	$ —	66.1	$ 0.7	$ 3,566.5	$ (376.0)	$ 35.1	$ (11.1)	$ (64.0)	$ (371.2)	$ 9.7	$ 2,789.7
Net earnings	—	—	—	—	—	294.9	—	—	—	—	—	294.9
Preferred stock dividends declared	—	—	—	—	(3.4)	—	—	—	—	—	—	(3.4)
Activity under stock and deferred compensation plans	—	—	0.1	—	(4.3)	—	—	—	—	—	—	(4.3)
Stock-based compensation expense	—	—	—	—	6.8	—	—	—	—	—	—	6.8
Purchases of treasury stock	—	—	(0.7)	—	—	—	—	—	—	(56.0)	—	(56.0)
Net earnings attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—	—	0.3	0.3
Net change in retirement benefits, net of tax	—	—	—	—	—	—	(0.6)	—	—	—	—	(0.6)
Net change in hedges, net of tax	—	—	—	—	—	—	—	(0.9)	—	—	—	(0.9)
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	13.9	—	—	13.9
Balance, December 31, 2017	4.7	$ —	65.5	$ 0.7	$ 3,565.6	$ (81.1)	$ 34.5	$ (12.0)	$ (50.1)	$ (427.2)	$ 10.0	$ 3,040.4
Balance, September 30,	3.2	$ —	66.7	$ 0.8	$ 3,590.9	$ 88.0	$ 37.9	$ 37.4	$ (114.7)	$ (589.9)	$ 10.1	$ 3,060.5

2018												
Net earnings	—	—	—	—	—	125.6	—	—	—	—	—	125.6
Adoption of accounting standards update 2014-09	—	—	—	—	—	(0.9)	—	—	—	—	—	(0.9)
Preferred stock dividends declared	—	—	—	—	—	(2.0)	—	—	—	—	—	(2.0)
Activity under stock and deferred compensation plans	—	—	0.2	—	(7.2)	—	—	—	—	—	—	(7.2)
Stock-based compensation expense	—	—	—	—	8.7	—	—	—	—	—	—	8.7
Purchases of treasury stock	—	—	(0.3)	—	—	—	—	—	—	(25.3)	—	(25.3)
Net earnings attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—	—	0.3	0.3
Net change in retirement benefits, net of tax	—	—	—	—	—	—	(0.9)	—	—	—	—	(0.9)

Table of Contents

Net change in hedges, net of tax	—	——	—	—	—	—	(4.3)	—	—	—	(4.3)
Foreign currency translation adjustments	—	——	—	—	—	—	—	1.9	—	—	1.9
Balance, December 31, 2018	3.2	$—66.6	$0.8	$3,592.4	$210.7	$37.0	$33.1	$(112.8)	$(615.2)	$10.4	$3,156.4

Table of Contents

POST HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(in millions, except per share information and where indicated otherwise)

NOTE 1 — BASIS OF PRESENTATION

These unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), under the rules and regulations of the United States Securities and Exchange Commission (the “SEC”), and on a basis substantially consistent with the audited consolidated financial statements of Post Holdings, Inc. (herein referred to as “Post,” “the Company,” “us,” “our” or “we”) as o and for the fiscal year ended September 30, 2018. These unaudited condensed consolidated financial statements should be read in conjunction with such audited consolidated financial statements, which are included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2018, filed with the SEC on November 16, 2018.

These unaudited condensed consolidated financial statements include all adjustments (consisting of normal recurring adjustments and accruals) that management considers necessary for a fair statement of the Company’s results of operations, comprehensive income, financial position and cash flows for the interim periods presented. Interim results are not necessarily indicative of the results for any other interim period or for the entire fiscal year. Certain prior year amounts have been reclassified to conform with the 2019 presentation. These reclassifications had no impact on net earnings as previously reported.

On October 1, 2018, Post and affiliates of Thomas H. Lee Partners, L.P. (collectively, “THL”) separately capitalized 8th Avenue Food & Provisions, Inc. (“8th Avenue,” and such transactions, the “8th Avenue Transactions”), and 8th Avenue became the holding company for Post’s historical private brands business. Post received total proceeds of $875.0 from the 8th Avenue Transactions, retaining shares of common stock equal to 60.5% of the common equity in 8th Avenue. As of October 1, 2018, 8th Avenue is no longer consolidated in the Company's financial statements and the 60.5% common equity retained interest in 8th Avenue is accounted for using the equity method. 8th Avenue is reported historically herein as Post’s Private Brands segment. For additional information, see Notes 4, 8 and 17.

NOTE 2 — RECENTLY ISSUED AND ADOPTED ACCOUNTING STANDARDS

The Company has considered all new accounting pronouncements and has concluded there are no new pronouncements (other than the ones described below) that had or will have an impact on the Company’s results of operations, other comprehensive income (“OCI”), financial condition, cash flows or shareholders’ equity based on current information.

Recently Issued

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “Leases (Topic 842).” This ASU requires a company to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for lessees, lessors and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. This ASU is effective for annual periods beginning after December 15, 2018 and interim periods therein (i.e., Post’s financial statements for the year ending September 30, 2020), with early adoption permitted. The Company will adopt this ASU on October 1, 2019 and expects to use the modified retrospective method of adoption. The Company has selected a software vendor and is in the process of assessing its lease agreements to identify those that fall within the scope of this guidance. This ASU will result in a material increase in both assets and liabilities; however, the Company is unable to quantify the impact at this time. In addition, the Company expects to provide expanded disclosures to present additional information related to its leasing arrangements.

Recently Adopted

In August 2018, the FASB issued ASU 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.” This ASU largely aligns the guidance for recognizing implementation costs incurred in a cloud

computing arrangement that is a service contract with that for recognizing implementation costs incurred to develop or obtain internal-use software, including hosting arrangements that include an internal-use software license. The Company adopted this ASU on October 1, 2018 on a prospective basis, as permitted by the ASU. This change did not have a material impact on the Company's financial statements.

In June 2018, the FASB issued ASU 2018-07, "Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting." This ASU largely aligns the accounting for share-based payment awards issued to employees and nonemployees, whereby the existing employee guidance will apply to nonemployee share-based transactions (as long as the transaction is not effectively a form of financing), with the exception of specific guidance related to the attribution of compensation cost. The cost of nonemployee awards will continue to be recorded as if the grantor had paid cash for the goods

Table of Contents

or services, and the contractual term will be able to be used in lieu of an expected term in the option-pricing model for nonemployee awards. The Company adopted this ASU on October 1, 2018 on a prospective basis, as permitted by the ASU. In accordance with this ASU, historical share-based payment awards that were granted to employees of 8th Avenue are accounted for as nonemployee compensation. The adoption of this ASU did not have an impact on the Company's financial statements.

In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." This ASU requires an entity to report the service cost component of periodic net benefit cost as an operating expense in the same line item or items as other compensation costs arising from services rendered by employees during the period. Other components of net benefit cost are to be presented outside of income from operations in the income statement separately from the service cost component. This ASU also allows only the service cost component to be eligible for capitalization when applicable. The Company adopted this ASU on October 1, 2018 and used the retrospective method of adoption, as required by the ASU. The adoption of this ASU resulted in an increase in "Cost of goods sold" and "Selling, general and administrative expenses" of $3.2 and $0.3, respectively, and a corresponding increase in "Other income, net" of $3.5, for the three months ended December 31, 2017, to reflect the exclusion of all components of benefit cost, with the exception of service cost, from operating profit. For additional disclosures about pension and other postretirement benefits, refer to Note 18.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." This ASU requires that a statement of cash flows explain the change in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents, and therefore, restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of year cash balance to the end of year cash balance as shown on the statement of cash flows. The Company adopted this ASU on October 1, 2018 and used the retrospective method of adoption, as required by the ASU. The adoption of this ASU resulted in an increase in "Net Cash Used in Investing Activities" of $1.6 for the three months ended December 31, 2017.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which superseded all existing revenue recognition guidance under GAAP. This ASU's core principle is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU also calls for additional disclosures around the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted this ASU on October 1, 2018 and used the modified retrospective transition method of adoption. The adoption of this ASU did not have a material impact on the Company's financial statements as the impact of this ASU was limited to recognition timing and classification changes of immaterial amounts within the statement of operations and balance sheet. For additional information, refer to Note 3.

NOTE 3 — REVENUE FROM CONTRACTS WITH CUSTOMERS

In conjunction with the adoption of ASU 2014-09 (see Note 2), the Company updated its policy for recognizing revenue. The Company utilized a comprehensive approach to assess the impact of this ASU by reviewing its customer contract portfolio and existing accounting policies and procedures in order to identify potential differences that would result from applying the new requirements of Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers." A summary of the updated policy is included below.

Revenue Recognition Policy

The Company recognizes revenue when performance obligations have been satisfied by transferring control of the goods to customers. Control is generally transferred upon delivery of the goods to the customer. At the time of delivery, the customer is invoiced using previously agreed-upon credit terms. Shipping and/or handling costs that occur before the customer obtains control of the goods are deemed fulfillment activities and are accounted for as fulfillment costs. The Company's contracts with customers generally contain one performance obligation.

Many of the Company's contracts with customers include some form of variable consideration. The most common forms of variable consideration are trade promotions, rebates and discounts. Variable consideration is treated as a

reduction of revenue at the time product revenue is recognized. Depending on the nature of the variable consideration, the Company uses either the “expected value” or the “most likely amount” method to determine variable consideration. The Company does not believe that there will be significant changes to its estimates of variable consideration when any uncertainties are resolved with customers. The Company reviews and updates estimates of variable consideration each period. Uncertainties related to the estimate of variable consideration are resolved in a short time frame and do not require any additional constraint on variable consideration.

The Company’s products are sold with no right of return, except in the case of goods which do not meet product specifications or are damaged. No services beyond this assurance-type warranty are provided to customers. The Company does not grant a general right of return. However, customers may return defective or non-conforming products. Customer remedies include either a cash

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Table of Contents

refund or an exchange of the product. As a result, the right of return and related refund liability is estimated and recorded as a reduction of revenue based on historical sales return experience.

Impacts of Adoption

The Company used the modified retrospective transition method of adoption and, accordingly, recorded an adjustment to retained earnings to reflect the application of its updated revenue recognition policy, which resulted in changes to the timing of when variable consideration payments are recognized. The cumulative adjustment resulted in a reduction of retained earnings and deferred income taxes of $0.9 and $0.3, respectively, and a corresponding increase in other current liabilities of $1.2 at October 1, 2018.

For the three months ended December 31, 2018, the Company elected the following practical expedients in accordance with ASC Topic 606:

- Significant financing component — The Company elected not to adjust the promised amount of consideration for the effects of a significant financing component as the Company expects, at contract inception, the period between the transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less.
- Shipping and handling costs — The Company elected to account for shipping and handling activities that occur before the customer has obtained control of a good as fulfillment activities (i.e., an expense), rather than as a promised service.
- Measurement of transaction price — The Company elected to exclude from the measurement of transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the Company from a customer for sales taxes.

The following tables summarize the impact of the Company's adoption of ASC Topic 606 on a modified retrospective basis in the Company's Condensed Consolidated Statement of Operations. As a result of the adoption, certain payments to customers totaling $4.7 previously classified in "Selling, general, and administrative expenses" were classified as "Net Sales" in the Condensed Consolidated Statement of Operations for the three months ended December 31, 2018. These payments to customers relate to trade advertisements that support the Company's sales to customers. In accordance with ASC Topic 606, these payments were determined not to be distinct within the customer contracts and, as such, require classification within net sales. Additionally, the Company has recognized revenue of $0.4 that was deferred upon the adoption of ASC Topic 606 in accordance with the satisfaction of the related performance obligation. The recognition of unearned revenue is included in "Net Sales" in the Company's Condensed Consolidated Statement of Operations for the three months ended December 31, 2018. No material changes to the balance sheet were required by the adoption of ASC Topic 606.

	Three Months Ended December 31, 2018		
	As Reported Under Topic 606	As Reported Under Prior Guidance	Impact of Adoption
Net Sales	$1,411.3	$1,415.6	$ (4.3)
Cost of goods sold	984.8	984.8	—
Gross Profit	426.5	430.8	(4.3)
Selling, general and administrative expenses	217.1	221.8	(4.7)
Amortization of intangible assets	40.3	40.3	—
Gain on sale of business	(124.7)	(124.7)	—
Other operating income, net	(0.1)	(0.1)	—
Operating Profit	$293.9	$293.5	$ 0.4

Table of Contents

Disaggregated Revenues

The following table presents net sales by product. The amounts for the three months ended December 31, 2018 and December 31, 2017 are presented under ASC Topic 606 “Revenue from Contracts with Customers” and ASC Topic 605 “Revenue Recognition,” respectively.

	Three Months Ended December 31,	
	2018	2017
Cereal and granola	$556.2	$555.7
Egg and egg products	394.7	381.1
Cheese and dairy	70.3	71.7
Side dishes	145.7	56.2
Sausage	43.6	—
Pasta	—	67.6
Protein-based products and supplements	185.8	186.0
Nut butters and dried fruit and nut	—	114.3
Other	15.4	1.6
Eliminations	(0.4)	(1.1)
Net Sales	$1,411.3	$1,433.1

NOTE 4 — BUSINESS COMBINATIONS AND DIVESTITURES

The Company accounts for business combinations using the acquisition method of accounting, whereby the results of operations are included in the financial statements from the date of acquisition. The purchase price is allocated to acquired assets and assumed liabilities based on their estimated fair values at the date of acquisition, and any excess is allocated to goodwill. Goodwill represents the value the Company expects to achieve through the implementation of operational synergies and the expansion of the business into new or growing segments of the industry. The Company includes results of operations for business divestitures from the date of acquisition through the date of sale.

On October 1, 2018, the Company completed the 8th Avenue Transactions in which Post and THL separately capitalized 8th Avenue and 8th Avenue became the holding company for Post’s private brands business, reported historically herein as Post’s Private Brands segment. Post received total gross proceeds of $875.0 from the 8th Avenue Transactions, retaining shares of common stock equal to 60.5% of the common equity in 8th Avenue. Post’s gross proceeds consisted of (i) $250.0 from THL and (ii) $625.0 from a committed senior increasing rate bridge loan (the “Bridge Loan”), which was funded in fiscal 2018 prior to the closing of the 8th Avenue Transactions (see Note 17). THL received 2.5 shares of 8th Avenue preferred stock with an 11% cumulative, quarterly compounding dividend and $100.00 per share liquidation value and shares of common stock equal to 39.5% of the common equity in 8th Avenue. In December 2018, an estimated settlement of net working capital and other adjustments was proposed, and the Company recorded a receivable of $22.6, which is recorded as “Receivables, net” on the Condensed Consolidated Balance Sheet at December 31, 2018. During the three months ended December 31, 2018, the Company recorded a gain of $124.7 related to the 8th Avenue Transactions, which included foreign exchange losses previously recorded in accumulated OCI of $42.1, and was reported as “Gain on sale of business” in the Condensed Consolidated Statement of Operations. Effective October 1, 2018, 8th Avenue is no longer consolidated in the Company's financial statements and the 60.5% common equity retained interest in 8th Avenue is accounted for using the equity method. For additional information regarding the Company’s equity method investment in 8th Avenue, refer to Note 8.

In order to calculate the recorded gain of $124.7, management was required to estimate the fair value of the Company’s equity method investment in 8th Avenue. In making this estimate, management used an approach combining the estimated implied value from the 8th Avenue Transactions, an income approach and a market approach, in which the greatest value was placed on the implied value from the 8th Avenue Transactions. In order to calculate the fair value implied by the 8th Avenue Transactions, management was required to estimate the value of the 8th Avenue equity. In making this estimate, management used a lattice model, which required significant assumptions, including estimates for the term, credit spread, yield volatility and risk free rates associated with 8th Avenue’s preferred stock. The income

approach was based on discounted future cash flows and required significant assumptions, including estimates regarding future revenue, profitability and capital requirements. The market approach was based on a market multiple (revenue and EBITDA, which stands for earnings before interest, income taxes, depreciation and amortization) and required an estimate of appropriate multiples based on the market data.

Table of Contents

On January 12, 2018, the Company completed its acquisition of Bob Evans Farms, Inc. ("Bob Evans"), resulting in the Company owning all of the outstanding shares of Bob Evans common stock. At closing, the Company paid each holder of shares of Bob Evans common stock, other than holders who demanded appraisal of their shares under Delaware law and had not withdrawn their demands as of the closing date, $77.00 per share, resulting in a payment at closing of $1,381.2 (which, in addition to the amounts paid to Bob Evans stockholders, includes amounts paid to retire certain debt and other obligations of Bob Evans). Any shares of Bob Evans common stock subject to appraisal as of the closing date were canceled and no longer outstanding after closing. The closing payment did not include any amounts due to former holders of approximately 4.35 shares of Bob Evans common stock who demanded appraisal under Delaware law and had not withdrawn their demands as of the closing date. At September 30, 2018, former holders of 3.3 shares of Bob Evans common stock had not withdrawn their appraisal demands and had not been paid for their shares of Bob Evans common stock. Related to these shares, the Company accrued $267.0 at September 30, 2018, which was the number of shares of Bob Evans common stock for which former Bob Evans stockholders demanded appraisal and had not withdrawn their demands multiplied by the $77.00 per share merger consideration, plus accrued interest at the Federal Reserve Discount Rate plus a spread of 5.00%. In December 2018, the Company made payments of $257.6 to the former holders of Bob Evans common stock who had demanded appraisal and had not been paid for their shares. The payments constitute a settlement with one former stockholder as well as prepayments of the $77.00 per share merger consideration to the remaining former stockholders. At December 31, 2018, the Company had a remaining accrual of $13.7, which represents the accrued interest at the Federal Reserve Discount Rate plus a spread of 5.00% related to 2.5 shares for which the $77.00 per share merger consideration was paid. Additional payments related to these 2.5 shares could be made in the future. The liabilities were reported in "Other current liabilities" and "Other liabilities" on the Condensed Consolidated Balance Sheets at December 31, 2018 and September 30, 2018, respectively. For additional information regarding the appraisal proceedings brought by former holders of Bob Evans common stock who demanded appraisal under Delaware law, refer to Note 16.

Bob Evans is a producer of refrigerated potato and pasta side dishes, pork sausage and a variety of refrigerated and frozen convenience food items. Bob Evans is reported in two reportable segments. The results of Bob Evans's foodservice operations are reported in the Foodservice segment and the results of Bob Evans's retail operations are reported in the Refrigerated Retail segment (see Note 20). Based upon the purchase price allocation, the Company recorded $376.0 of customer relationships to be amortized over a weighted-average period of 18 years, $6.0 of definite-lived trademarks to be amortized over a weighted-average period of 10 years and $400.0 of indefinite-lived trademarks.

The goodwill generated by the Company's acquisition of Bob Evans is not deductible for U.S. federal income tax purposes; however, $13.8 of goodwill generated by business combinations completed by Bob Evans in periods prior to its acquisition transferred to Post and is tax deductible.

The following table provides the final allocation of the purchase price related to the fiscal 2018 acquisition of Bob Evans based upon the fair value of assets and liabilities assumed, including the provisional amounts recognized related to the acquisition as of September 30, 2018, as well as measurement period adjustments made during the three months ended December 31, 2018.

	Acquisition Date Amounts Recognized as of September 30, 2018 (a)	Adjustments During the Three Months Ended December 31, 2018	Acquisition Date Amounts Recognized (as Adjusted)
Cash and cash equivalents	$ 15.6	$ —	$ 15.6
Receivables	58.5	—	58.5
Inventories	27.1	—	27.1
Prepaid expenses and other current assets	34.3	—	34.3

Property	184.3	—	184.3
Goodwill	898.3	(0.7)	897.6
Other intangible assets	782.0	—	782.0
Other assets	0.4	—	0.4
Accounts payable	(18.2)	—	(18.2)
Other current liabilities	(58.5)	—	(58.5)
Deferred tax liability - long-term	(194.9)	0.7	(194.2)
Other liabilities	(5.3)	—	(5.3)
Total acquisition cost	$ 1,723.6	$ —	$ 1,723.6

(a) As previously reported in Post’s Annual Report on Form 10-K for fiscal 2018 filed with the SEC on November 16, 2018.

Table of Contents

Transaction-related Expenses

The Company incurs transaction-related expenses in connection with both completed and contemplated acquisitions, divestitures and mergers. These expenses generally include third party costs for due diligence, advisory services and transaction success fees. Transaction-related expenses of $10.7 and $3.1 were incurred during the three months ended December 31, 2018 and 2017, respectively, and were recorded as “Selling, general and administrative expenses” in the Condensed Consolidated Statements of Operations. For the three months ended December 31, 2018 and 2017, transaction-related expenses included costs attributable to the 8th Avenue Transactions of $9.1 and $0.7, respectively.

Pro Forma Information

The following unaudited pro forma information presents a summary of the results of operations of the Company combined with the results of Bob Evans for the periods presented as if the fiscal 2018 acquisition had occurred on October 1, 2016, along with certain pro forma adjustments. Additionally, the impact of the 8th Avenue Transactions is presented in the unaudited pro forma information as if the transactions occurred on October 1, 2017. These pro forma adjustments give effect to the amortization of certain definite-lived intangible assets, adjusted depreciation based upon fair value of assets acquired, interest expense related to the financing of the business combinations, inventory revaluation adjustments on acquired businesses, transaction and extinguished debt costs and related income taxes. Additionally, the gain of $124.7 related to the 8th Avenue Transactions has been adjusted out of the current year results. The following unaudited pro forma information has been prepared for comparative purposes only and is not necessarily indicative of the results of operations as they would have been had the transactions occurred on the assumed dates, nor is it necessarily an indication of future operating results.

	Three Months Ended December 31,	
	2018	2017
Pro forma net sales	$1,411.3	$1,379.4
Pro forma net earnings available to common shareholders	$38.9	$263.1
Pro forma basic earnings per common share	$0.58	$3.99
Pro forma diluted earnings per common share	$0.54	$3.45

NOTE 5 — RESTRUCTURING

In February 2018, the Company announced its plan to close its cereal manufacturing facility in Clinton, Massachusetts, which manufactures certain Weetabix products distributed in North America. The transfer of production capabilities to other Post Consumer Brands facilities and the closure of the facility is expected to be completed by September 2019.

Restructuring charges and the related liabilities are shown in the following table. Employee-related costs are included in “Selling, general and administrative expenses” and accelerated depreciation expense is included in “Cost of goods sold” in the Condensed Consolidated Statement of Operations. No restructuring costs were incurred in the three months ended December 31, 2017. These expenses are not included in the measure of segment performance (see Note 20).

	Employee-Related Costs	Accelerated Depreciation	Total
Balance, September 30, 2018	$ 2.7	$ —	$2.7
Charge to expense	0.7	1.8	2.5
Cash payments	—	—	—
Non-cash charges	—	(1.8)	(1.8)
Balance, December 31, 2018	$ 3.4	$ —	$3.4
Total expected restructuring charge	$ 5.7	$ 11.2	$16.9
Cumulative restructuring charges incurred to date	3.4	4.3	7.7
Remaining expected restructuring charge	$ 2.3	$ 6.9	$9.2

NOTE 6 — ASSETS AND LIABILITIES HELD FOR SALE

The major classes of assets and liabilities comprising “Current assets held for sale,” “Other assets held for sale,” “Current liabilities held for sale” and “Other liabilities held for sale” on the Condensed Consolidated Balance Sheet as of September 30, 2018 are shown in the following table. There were no assets or liabilities held for sale at December 31, 2018.

Table of Contents

Current assets held for sale	
Restricted cash	$0.7
Receivables, net	79.8
Inventories	111.6
Prepaid expenses and other current assets	1.5
Property, net (a)	1.4
	$195.0
Other assets held for sale	
Property, net (a)	$165.1
Goodwill	417.1
Other intangible assets, net	270.4
Other assets	4.0
	$856.6
Current liabilities held for sale	
Accounts payable	$37.4
Other current liabilities	28.2
	$65.6
Other liabilities held for sale	
Long-term debt	$614.6
Deferred income taxes	79.9
Other liabilities	0.6
	$695.1

(a) In accordance with ASC Topic 360, “Property, Plant, and Equipment,” the building classified as held for sale related to the closure of the Company’s Post Consumer Brands cereal warehouse in Clinton, Massachusetts and the 8th Avenue properties held for sale are classified as current and noncurrent, respectively, on the Condensed Consolidated Balance Sheet.

In connection with the 8th Avenue Transactions, the Company had assets and liabilities held for sale at September 30, 2018. On October 1, 2018, the Company completed the 8th Avenue Transactions, and 8th Avenue was no longer consolidated in the Company's financial statements (see Notes 4 and 8). Additionally, at September 30, 2018, the Company had a building classified as held for sale related to the closure of the Company’s Post Consumer Brands cereal warehouse in Clinton, Massachusetts. The building was sold in November 2018.

During the three months ended December 31, 2018, the Company recorded a gain of $124.7, which was reported as “Gain on sale of business,” and a loss of $2.6, which was included in “Loss on extinguishment of debt, net,” in the Condensed Consolidated Statement of Operations related to the 8th Avenue Transactions. A gain of $0.6 was recorded related to the sale of the Company’s Post Consumer Brands cereal warehouse in Clinton, Massachusetts and was included in “Other operating income, net” in the Condensed Consolidated Statement of Operations. There were no held for sale gains or losses recorded in the three months ended December 31, 2017.

NOTE 7 — GOODWILL

The changes in the carrying amount of goodwill by segment are noted in the following table. Goodwill for the historical Private Brands segment was classified as held for sale at September 30, 2018 (see Note 6).

On October 1, 2018, the Company completed the reorganization of its refrigerated foods businesses, which resulted in the assignment of the foodservice and retail components previously included in the historical Refrigerated Food segment to its Foodservice and Refrigerated Retail segments. In connection with the reorganization, the Company assigned goodwill previously reported within the historical Refrigerated Food segment to reporting units within the Foodservice and Refrigerated Retail segments. The historical Refrigerated Food segment contained two reporting units: refrigerated food and cheese and dairy. The Company's cheese and dairy reporting unit was not impacted by the reorganization and is now reported within the Refrigerated Retail segment. The remaining goodwill balance within the refrigerated food reporting unit was allocated between the Foodservice and Refrigerated Retail segments based on the relative fair value of the businesses. The fair value of the foodservice and refrigerated retail businesses was determined using methodologies consistent with the Company's annual goodwill impairment assessment.

	Post Consumer Brands	Weetabix	Foodservice	Refrigerated Retail	Active Nutrition	Total
Balance, September 30, 2018						
Goodwill (gross)	$ 2,012.0	$ 900.9	$ 1,373.1	$ 756.8	$ 180.7	$ 5,223.5
Accumulated impairment losses	(609.1)	—	—	—	(114.8)	(723.9)
Goodwill (net)	$ 1,402.9	$ 900.9	$ 1,373.1	$ 756.8	$ 65.9	$ 4,499.6
Goodwill acquired	—	—	—	—	—	—
Acquisition related adjustment	—	—	(0.5)	(0.2)	—	(0.7)
Currency translation adjustment	(0.3)	(20.1)	—	—	—	(20.4)
Balance, December 31, 2018						
Goodwill (gross)	$ 2,011.7	$ 880.8	$ 1,372.6	$ 756.6	$ 180.7	$ 5,202.4
Accumulated impairment losses	(609.1)	—	—	—	(114.8)	(723.9)
Goodwill (net)	$ 1,402.6	$ 880.8	$ 1,372.6	$ 756.6	$ 65.9	$ 4,478.5

NOTE 8 — EQUITY INTERESTS AND RELATED PARTY TRANSACTIONS

8th Avenue

In connection with the 8th Avenue Transactions, the Company has a 60.5% common equity retained interest in 8th Avenue that is accounted for using the equity method. In determining the accounting treatment of the retained interest, management concluded that 8th Avenue was not a variable interest entity as defined by ASC Topic 810, "Consolidation," and as such, was evaluated under the voting interest model. Based on the terms of 8th Avenue's governing documents, management determined that the Company does not have a controlling voting interest in 8th Avenue due to substantive participating rights held by THL associated with the governance of 8th Avenue. However, Post does retain significant influence, and therefore, the use of the equity method of accounting is required.

The following table presents the calculation of the Company's equity method loss attributable to 8th Avenue:

	Three Months Ended December 31, 2018
8th Avenue's net loss available to 8th Avenue common shareholders	$ (11.5)
	60.5 %
Equity method loss available to Post's common shareholders	$ (7.0)
Less: Amortization of basis difference, net of tax (a)	3.6
Equity method loss, net of tax	$ (10.6)

(a)

The Company adjusted the historical basis of 8th Avenue's assets and liabilities to fair value and recognized a total basis difference of $68.4, which represents Post's retained portion of the gain on sale. The basis difference related to inventory of $2.0, net of tax, was included in equity method loss in the three months ended December 31, 2018. The basis difference related to property, plant and equipment and other

Table of Contents

intangible assets is being amortized over the weighted average useful lives of the assets. At December 31, 2018, the remaining basis difference to be amortized was $64.8.

Summarized financial information of 8th Avenue is presented in the following table.

	Three Months Ended December 31, 2018
Net sales	$ 214.1
Gross profit	$ 33.7
Net loss	$ (4.5)
Preferred stock dividend	7.0
Net Loss Available to 8th Avenue Common Shareholders	$ (11.5)

Prior to the 8th Avenue Transactions, 8th Avenue used certain functions and services performed by the Company. These functions and services included information systems, procurement, accounting shared services, legal, tax, human resources, payroll and cash management. After the completion of the 8th Avenue Transactions, the Company continued to provide many of these services to 8th Avenue under a master services agreement ("MSA"). In addition, Post and THL both provide certain advisory services to 8th Avenue for a fee. During the three months ended December 31, 2018, the Company recorded MSA and advisory income, net of $1.0, which was recorded in "Selling, general and administrative expenses" in the Condensed Consolidated Statement of Operations. No such income was recorded in the three months ended December 31, 2017.

During the three months ended December 31, 2018, the Company had net sales to 8th Avenue of $1.1 and purchases from 8th Avenue of $2.3. The investment in 8th Avenue was $163.1 at December 31, 2018 and was included in "Equity method investments" on the Condensed Consolidated Balance Sheet. The Company had receivables and payables with 8th Avenue of $29.1 and $0.7, respectively, at December 31, 2018, related to the separation of 8th Avenue from the Company, the closing of the 8th Avenue Transactions, including the proposed settlement of net working capital and other adjustments and MSA and advisory fees owed by 8th Avenue to the Company and related party sales and purchases. The receivables and payables were included in "Receivables, net" and "Accounts payable," respectively, on the Condensed Consolidated Balance Sheet.

Alpen and Weetabix East Africa

The Company holds an equity interest in two legal entities, Alpen Food Company South Africa (Proprietary) Limited ("Alpen") and Weetabix East Africa Limited ("Weetabix East Africa"), whose assets are reported in the Weetabix segment (see Note 20).

Alpen is a South African-based company that produces ready-to-eat ("RTE") cereal and muesli. The Company owns 50% of Alpen's common stock with no other indicators of control, and accordingly, the Company accounts for its investment in Alpen using the equity method. The investment in Alpen was $5.0 and $5.2 at December 31, 2018 and September 30, 2018, respectively, and was included in "Equity method investments" on the Condensed Consolidated Balance Sheets. The Company had a note receivable balance with Alpen of $1.0 and $1.0 at December 31, 2018 and September 30, 2018, respectively, which was included in "Other assets" on the Condensed Consolidated Balance Sheets.

Weetabix East Africa is a Kenyan-based company that produces RTE cereal and muesli. The Company owns 50.1% of Weetabix East Africa and holds a controlling voting and financial interest through its appointment of management and representation on Weetabix East Africa's Board of Directors. Accordingly, Weetabix East Africa is fully consolidated into the Company's financial statements.

NOTE 9 — INCOME TAXES

The effective income tax rate was 24.3% for the three months ended December 31, 2018. In accordance with ASC Topic 740, "Income Taxes," the Company records income tax expense (benefit) for interim periods using the estimated annual effective tax rate for the full fiscal year adjusted for the impact of discrete items occurring during the interim

periods.
In the three months ended December 31, 2017, the Company recorded an income tax benefit of $255.8, resulting in an effective tax rate of (649.2)%. This benefit was driven by the Tax Cuts and Jobs Act (the “Tax Act”), which was enacted on December 22, 2017. The Tax Act resulted in significant impacts to the Company’s accounting for income taxes with the most significant of these impacts resulting from the reduction of the U.S. federal corporate income tax rate, a one-time transition tax on unrepatriated foreign earnings and full expensing of certain qualified depreciable assets placed in service after September 27, 2017 and before January 1, 2023. The Tax Act enacted a new U.S. federal corporate income tax rate of 21% that went into effect for the Company’s current tax year and was prorated with the pre-December 22, 2017 U.S. federal corporate income tax rate of 35% for the Company’s 2018

Table of Contents

tax year. This proration resulted in a blended U.S. federal corporate income tax rate of 24.5% for fiscal 2018. During the three months ended December 31, 2017, the Company (i) remeasured its existing deferred tax assets and liabilities considering both the 2018 fiscal year blended rate and the 21% rate for periods beyond fiscal 2018 and recorded a provisional tax benefit of $270.7 (adjusted to $281.2 during the year ended September 30, 2018) and (ii) calculated the one-time transition tax and recorded provisional tax expense of $7.1 (adjusted to $10.3 during the year ended September 30, 2018). Full expensing of certain depreciable assets resulted in temporary differences, which were analyzed throughout fiscal 2018 as assets were placed in service.

ASU 2018-05, "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118," allowed for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. The Company finalized the impact of the Tax Act during the three months ended December 31, 2018, and no additional adjustments were recorded.

NOTE 10 — INTANGIBLE ASSETS, NET

Total intangible assets are as follows:

	December 31, 2018			September 30, 2018		
	Carrying Amount	Accumulated Amortization	Net Amount	Carrying Amount	Accumulated Amortization	Net Amount
Subject to amortization:						
Customer relationships	$2,303.1	$ (473.9)	$1,829.2	$2,307.0	$ (444.4)	$1,862.6
Trademarks and brands	814.6	(198.8)	615.8	768.5	(188.2)	580.3
Other intangible assets	3.1	(3.1)	—	3.1	(3.1)	—
	3,120.8	(675.8)	2,445.0	3,078.6	(635.7)	2,442.9
Not subject to amortization:						
Trademarks and brands	1,043.8	—	1,043.8	1,096.4	—	1,096.4
	$4,164.6	$ (675.8)	$3,488.8	$4,175.0	$ (635.7)	$3,539.3

NOTE 11 — EARNINGS PER SHARE

Basic earnings per share is based on the average number of common shares outstanding during the period. Diluted earnings per share is based on the average number of shares used for the basic earnings per share calculation, adjusted for the dilutive effect of stock options, stock appreciation rights and restricted stock equivalents using the "treasury stock" method. The impact of potentially dilutive convertible preferred stock is calculated using the "if-converted" method. In the second quarter of fiscal 2018, the Company completed the redemption of its 3.75% Series B Cumulative Perpetual Convertible Preferred Stock ("Series B Preferred"). Substantially all of the 1.5 shares of Series B Preferred outstanding as of January 10, 2018, the date the redemption was announced, were converted into 3.1 shares of the Company's common stock pursuant to the conversion rights applicable to the Series B Preferred and the remaining shares of Series B Preferred were redeemed.

The following table sets forth the computation of basic and diluted earnings per share.

Table of Contents

	Three Months Ended December 31,	
	2018	2017
Net earnings for basic earnings per share	$123.6	$291.5
Dilutive preferred stock dividends	2.0	3.4
Net earnings for diluted earnings per share	$125.6	$294.9
Weighted-average shares for basic earnings per share	66.7	66.0
Effect of dilutive securities:		
Stock options	2.0	1.8
Stock appreciation rights	0.1	0.1
Restricted stock awards	0.4	0.4
Preferred shares conversion to common	5.9	9.0
Total dilutive securities	8.4	11.3
Weighted-average shares for diluted earnings per share	75.1	77.3
Basic earnings per common share	$1.85	$4.42
Diluted earnings per common share	$1.67	$3.82

The following table details the securities that have been excluded from the calculation of weighted-average shares for diluted earnings per share as they were anti-dilutive.

	Three Months Ended December 31,	
	2018	2017
Stock options	0.3	0.6
Restricted stock awards	0.2	—
Performance-based restricted stock awards	0.1	—

NOTE 12 — INVENTORIES

	December 31, 2018	September 30, 2018
Raw materials and supplies	$ 98.2	$ 107.8
Work in process	18.6	17.8
Finished products	348.5	324.1
Flocks	33.6	34.5
	$ 498.9	$ 484.2

NOTE 13 — PROPERTY, NET

	December 31, 2018	September 30, 2018
Property, at cost	$2,595.9	$2,543.0
Accumulated depreciation	(880.9)	(833.3)
	$1,715.0	$1,709.7

NOTE 14 — DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

In the ordinary course of business, the Company is exposed to commodity price risks relating to the acquisition of raw materials and supplies, interest rate risks relating to floating rate debt and foreign currency exchange rate risks. The Company utilizes derivative financial instruments, including (but not limited to) futures contracts, option contracts, forward contracts and swaps, to manage certain of these exposures by hedging when it is practical to do so. The Company does not hold or issue financial instruments for speculative or trading purposes.

Table of Contents

At December 31, 2018, the Company’s derivative instruments consisted of:

Not designated as hedging instruments under ASC Topic 815

- Commodity and energy futures and option contracts, which relate to inputs that generally will be utilized within the next year;
- foreign currency forward contracts maturing within the next year that have the effect of hedging currency fluctuations between the Euro and the U.S. Dollar;
- a pay-fixed, receive-variable interest rate swap maturing in May 2021 that requires monthly settlements and has the effect of hedging interest payments on debt expected to be issued but not yet priced; and
- rate-lock interest rate swaps that require five lump sum settlements with the first settlement occurring in December 2019 and the last in July 2022 and have the effect of hedging interest payments on debt expected to be issued but not yet priced.

Designated as hedging instruments under ASC Topic 815

- Pay-fixed, receive-fixed cross-currency swaps with maturities in July 2022 that require quarterly cash settlements and are used as net investment hedges of the Company’s investment in Weetabix, which is denominated in Pounds Sterling; and
- a pay-fixed, receive-variable interest rate swap maturing in May 2024 that requires monthly settlements and is used as a cash flow hedge of forecasted interest payments on the Company’s variable rate term loan.

During the three months ended December 31, 2018, the Company terminated $800.0 and $214.2 notional value of its interest rate swap and cross-currency swap contracts, respectively, that were designated as hedging instruments. In connection with the interest rate swap terminations, the Company received cash proceeds of $29.8, and reclassified previously recorded gains from accumulated OCI to “Interest expense, net” in the Condensed Consolidated Statement of Operations during the three months ended December 31, 2018. In connection with the cross-currency swap terminations, the Company received cash proceeds of $26.2, which were recorded to accumulated OCI. Reclassification of amounts recorded in accumulated OCI into earnings will only occur in the event all United Kingdom-based operations are liquidated.

The following table shows the notional amounts of derivative instruments held.

	December 31, 2018	September 30, 2018
Not designated as hedging instruments under ASC Topic 815:		
Commodity contracts	$ 37.6	$ 64.3
Energy contracts	62.7	20.8
Foreign exchange contracts - Forward contracts	6.8	9.3
Interest rate swap	74.2	74.6
Interest rate swaps - Rate-lock swaps	1,649.3	1,649.3
Designated as hedging instruments under ASC Topic 815:		
Foreign exchange contracts - Cross-currency swaps	448.7	662.9
Interest rate swap	200.0	1,000.0

Table of Contents

The following table presents the balance sheet location and fair value of the Company's derivative instruments, along with the portion designated as hedging instruments under ASC Topic 815. The Company does not offset derivative assets and liabilities within the Condensed Consolidated Balance Sheets.

	Balance Sheet Location	Fair Value		Portion Designated as Hedging Instruments	
		December 31, 2018	September 30, 2018	December 31, 2018	September 30, 2018
Asset Derivatives:					
Commodity contracts	Prepaid expenses and other current assets	$1.2	$ 1.9	$—	$ —
Energy contracts	Prepaid expenses and other current assets	0.7	4.9	—	—
Commodity contracts	Other assets	—	0.2	—	—
Energy contracts	Other assets	—	0.3	—	—
Foreign exchange contracts	Prepaid expenses and other current assets	—	1.2	—	1.1
Foreign exchange contracts	Other assets	—	17.6	—	17.6
Interest rate swaps	Prepaid expenses and other current assets	0.4	6.4	0.4	6.4
Interest rate swaps	Other assets	2.0	33.9	2.0	30.6
		$4.3	$ 66.4	$2.4	$ 55.7
Liability Derivatives:					
Commodity contracts	Other current liabilities	$0.4	$ 2.2	$—	$ —
Energy contracts	Other current liabilities	5.2	0.4	—	—
Foreign exchange contracts	Other current liabilities	0.3	1.5	0.2	1.4
Foreign exchange contracts	Other liabilities	1.3	19.4	1.3	19.4
Interest rate swaps	Other current liabilities	68.4	23.6	—	—
Interest rate swaps	Other liabilities	97.7	94.3	—	—
		$173.3	$ 141.4	$1.5	$ 20.8

The following tables present the effects of the Company's derivative instruments on the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Comprehensive Income for the three months ended December 31, 2018 and 2017.

Derivatives Not Designated as Hedging Instruments	Statement of Operations Location	(Gain) Loss Recognized in Statement of Operations	
		2018	2017
Commodity contracts	Cost of goods sold	$(0.2)	$0.4
Energy contracts	Cost of goods sold	8.3	(2.2)
Foreign exchange contracts	Selling, general and administrative expenses	—	0.2
Interest rate swaps	Expense (income) on swaps, net	51.7	(2.7)

Table of Contents

Derivatives Designated as Hedging Instruments	Loss (Gain) Recognized in OCI		(Gain) Loss Reclassified from Accumulated OCI into Earnings		Statement of Operations Location
	2018	2017	2018	2017	
Foreign exchange contracts	$ —	$ (0.2)	$ —	$ —	Selling, general and administrative expenses
Interest rate swaps	4.6	(9.0)	(30.1)	0.3	Interest expense, net
Cross-currency swaps	(29.0)	10.7	—	—	Expense (income) on swaps, net

Accumulated OCI included a $44.3 net gain on hedging instruments before taxes ($33.1 after taxes) at December 31 2018, compared to a $50.0 net gain before taxes ($37.4 after taxes) at September 30, 2018. Approximately $0.4 of the net hedging gains reported in accumulated OCI at December 31, 2018 are expected to be reclassified into earnings within the next 12 months. For gains or losses associated with interest rate swaps, the reclassification will occur over the term of the related debt. Reclassification of gains and losses reported in accumulated OCI into earnings related to the cross-currency swaps will only occur in the event all United Kingdom-based operations are liquidated.

Accumulated OCI included settlements of cross-currency swaps of $33.1 and $4.8 at December 31, 2018 and September 30, 2018, respectively. The Company recognized gains in accumulated OCI of $28.3 and $0.8 related to settlements of cross-currency swaps during the three months ended December 31, 2018 and 2017, respectively.

At December 31, 2018 and September 30, 2018, the Company had pledged collateral of $10.3 and $4.5, respectively, related to its commodity and energy contracts. These amounts are classified as “Restricted cash” on the Condensed Consolidated Balance Sheets.

NOTE 15 — FAIR VALUE MEASUREMENTS

The following table represents the Company’s assets and liabilities measured at fair value on a recurring basis and the basis for that measurement according to the levels in the fair value hierarchy in ASC Topic 820.

	December 31, 2018			September 30, 2018		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Assets:						