



Universal Corporation Reports Strong First Quarter Results

August 7, 2018

RICHMOND, Va., Aug. 7, 2018 /PRNewswire/ -- George C. Freeman, III, Chairman, President, and Chief Executive Officer of Universal Corporation (NYSE: UVV), reported net income of \$13.2 million, or \$0.52 per diluted share, for the first quarter of fiscal year 2019, which ended on June 30, 2018. Those results were up \$9.6 million compared with net income of \$3.6 million, or \$0.14 per diluted share, for the first quarter of fiscal year 2018. The first quarter of fiscal year 2019 included a non-recurring tax benefit from the reversal of a previously recorded foreign dividend withholding tax liability that reduced income taxes and increased net income by \$6.9 million, or \$0.27 per diluted share. Operating income of \$8.4 million for the quarter ended June 30, 2018, improved \$2.0 million, or 31%, compared to operating income of \$6.4 million for the quarter ended June 30, 2017. Similarly, segment operating income was \$8.9 million for the first quarter of fiscal year 2019, up \$3.0 million compared to the same period last fiscal year, mainly as a result of earnings improvements in the North America and Other Tobacco Operations segments, partially offset by earnings declines in the Other Regions segment. Revenues of \$379.7 million for the quarter ended June 30, 2018, increased by \$95.1 million, or 33%, on higher total volumes and processing revenues and a more favorable product mix.

Mr. Freeman stated, "We are off to a strong start to what we believe will be a good year. Our first quarter results benefited from higher carryover crop sales in several origins, particularly in our North America segment where sales volumes in the fourth quarter of fiscal year 2018 were hampered by shipping delays from reduced transportation availability in the United States. We are also continuing to see robust demand for both wrapper style tobaccos and related value-added processing services. We have increased our offerings to meet demand for natural wrappers in both the United States and Europe and continue to be a leading wrapper tobacco supplier.

"Crop purchases are progressing as anticipated with purchasing effectively complete in Brazil and well underway in Africa. We are not seeing any significant supply disruptions thus far this year. Burley production volumes have recovered in Africa, and crop sizes there for both flue-cured and burley tobaccos are coming in somewhat higher than previous estimates.

"Although it is still early in our fiscal year, we are pleased with our results to date and continue to expect that our volumes will be above those achieved last fiscal year. We are also focused on our enhanced capital allocation strategy that reflects the strength of our balance sheet and demonstrates our commitment to sustainable shareholder value creation. As announced in conjunction with our 36% dividend increase in May 2018, our strategy has four key priorities: strengthening and investing for growth in our core tobacco business; increasing our strong dividend; exploring growth opportunities in adjacent industries that would utilize our assets and capabilities; and returning excess capital to our shareholders. In line with this strategy, we are positioning our Company for ongoing success as we continue to identify areas where we can provide additional value and expand the services we provide customers in our core tobacco business."

FLUE-CURED AND BURLEY LEAF TOBACCO OPERATIONS:

OTHER REGIONS:

The Other Regions segment operating loss of \$2.0 million for the quarter ended June 30, 2018, was down \$5.9 million compared with the prior year's first fiscal quarter operating income of \$3.9 million. In the first quarter of fiscal year 2019, the segment benefited from higher carryover crop sales, mainly in Africa, and higher processing volumes in both Europe and South America. Despite these volume improvements and higher gross margins, results for the segment were down on higher selling, general and administrative costs, largely from lower currency remeasurement gains and higher currency exchange losses and higher customer claim costs, compared to the same period in the prior fiscal year. In South America, volumes were flat, but the product mix was more favorable for the first fiscal quarter of 2019 compared to the prior year, as higher carryover crop sales offset lower current crop shipments. Results for Asia were negatively impacted by lower sales volumes and higher currency remeasurement losses. Revenues for the Other Regions segment of \$207.9 million for the quarter ended June 30, 2018, were up about 13% compared to the same period last year, on higher volumes largely from carryover sales, processing revenues, and a better product mix.

NORTH AMERICA:

Operating income for the North America segment for the quarter ended June 30, 2018, was \$9.0 million, up \$6.6 million from the comparable prior year period, mainly on higher carryover crop sales volumes. The increased volumes included some shipments delayed from earlier in the calendar year due to reduced transportation availability. In addition, current crop tobaccos in Mexico shipped earlier this fiscal year compared to the prior fiscal year. Selling, general, and administrative costs for the North America segment were relatively flat, compared to the prior year's first fiscal quarter. Revenues for this segment increased by \$62.2 million to \$115.6 million for the quarter ended June 30, 2018, compared to the same period in the prior fiscal year, on the higher sales volumes and a more favorable product mix.

OTHER TOBACCO OPERATIONS:

The Other Tobacco Operations segment operating income of \$2.0 million for the first quarter of fiscal year 2019 reflected an increase of about \$2.3 million, compared with an operating loss of \$0.3 million for this segment in the same period last year. Results for the dark tobacco operations were up for the quarter ended June 30, 2018, buoyed by higher sales from strong wrapper tobacco demand. Despite slightly lower sales volumes, results for the oriental joint venture were up for its seasonally weak first fiscal quarter ended June 30, 2018, compared to the prior fiscal year. The increase was due to a favorable currency remeasurement variance caused by the devaluation of the Turkish Lira during the first fiscal quarter. Revenues for this segment in the quarter ended June 30, 2018, increased by \$9.3 million to \$56.2 million on the higher wrapper tobacco sales. Selling, general, and

administrative costs for the segment were flat compared with the prior year's first fiscal quarter.

OTHER ITEMS:

Cost of goods sold in the quarter ended June 30, 2018, of \$307.5 million was up by about 33% compared with the same period last year, consistent with the similar percentage increase in revenues for the current period. Selling, general, and administrative costs for the first quarter of fiscal year 2019 increased by \$16.4 million to \$63.9 million, mainly driven by negative foreign currency remeasurement and exchange variances of about \$10 million, primarily in Mozambique and Brazil, higher customer claim costs, and higher compensation and incentive benefit accruals in the quarter ended June 30, 2018, compared with the same period in the prior year.

For the three months ended June 30, 2018, the Company reported a net tax benefit on pretax earnings due to a \$6.9 million benefit from reversing a portion of a liability previously recorded for dividend withholding taxes on the cumulative retained earnings of a foreign subsidiary. The reversal followed the resolution of uncertainties with local taxing authorities with respect to the inclusion of the tax under a tax holiday applicable to a subsidiary and was attributable to the portion of cumulative retained earnings that the Company expects to distribute prior to the expiration of the holiday. Without the dividend withholding tax reversal, income taxes for the quarter would have been expense of approximately \$1.5 million, or a consolidated effective tax rate of approximately 27%.

Income taxes for the quarter ended June 30, 2017, were favorably impacted by a lower effective tax rate on dividend income from unconsolidated operations and by excess tax deductions related to stock-based compensation awards that vested during the quarter. Under the tax law in effect at that time, both of these items were accounted for as discrete tax benefits during the quarter, resulting in a net tax benefit on pretax earnings for the period. Without the benefit from the discrete items, income taxes for the quarter would have been expense of approximately \$1 million, or a consolidated effective tax rate of about 34%.

Additional information

Amounts included in the previous discussion are attributable to Universal Corporation and exclude earnings related to non-controlling interests in subsidiaries. In addition, the total for segment operating income (loss) referred to in this discussion is a non-GAAP measure. This measure is not a financial measure calculated in accordance with GAAP and should not be considered as a substitute for net income (loss), operating income (loss), cash from operating activities or any other operating performance measure calculated in accordance with GAAP, and it may not be comparable to similarly titled measures reported by other companies. A reconciliation of the total for segment operating income (loss) to consolidated operating income (loss) is provided in Note 3. Segment Information, included in this earnings release. The Company evaluates its segment performance excluding certain significant charges or credits. The Company believes this measure, which excludes items that it believes are not indicative of its core operating results, provides investors with important information that is useful in understanding its business results and trends.

This information includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions readers that any statements contained herein regarding earnings and expectations for its performance are forward-looking statements based upon management's current knowledge and assumptions about future events, including anticipated levels of demand for and supply of its products and services; costs incurred in providing these products and services; timing of shipments to customers; changes in market structure; government regulation, including the impact of regulations on tobacco products; product taxation; changes in the U.S. federal income tax rates and legislation; industry consolidation and evolution; changes in global supply and demand positions for tobacco products; and general economic, political, market, and weather conditions. Actual results, therefore, could vary from those expected. A further list and description of these risks, uncertainties, and other factors can be found in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2018, and in other documents the Company files with the Securities and Exchange Commission. This information should be read in conjunction with the Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

At 5:00 p.m. (Eastern Time) on August 7, 2018, the Company will host a conference call to discuss these results. Those wishing to listen to the call may do so by visiting www.universalcorp.com at that time. A replay of the webcast will be available at that site through November 7, 2018. A taped replay of the call will be available through August 21, 2018, by dialing (855) 859-2056. The confirmation number to access the replay is 1249369.

Headquartered in Richmond, Virginia, Universal Corporation is the leading global leaf tobacco supplier and conducts business in more than 30 countries. Its revenues for the fiscal year ended March 31, 2018, were \$2.0 billion. For more information on Universal Corporation, visit its website at www.universalcorp.com.

**UNIVERSAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(in thousands of dollars, except per share data)**

| | Three Months Ended June 30, | |
|---|--|-------------|
| | 2018 | 2017 |
| | (Unaudited) | |
| Sales and other operating revenues | \$ 379,719 | \$ 284,622 |
| Costs and expenses | | |
| Cost of goods sold | 307,498 | 230,765 |
| Selling, general and administrative expenses | 63,852 | 47,480 |
| Operating income | 8,369 | 6,377 |
| Equity in pretax earnings (loss) of unconsolidated affiliates | 539 | (435) |
| Other non-operating income (expense) | 190 | 178 |
| Interest income | 512 | 670 |
| Interest expense | 3,949 | 3,932 |

| | | |
|---|----------------------|---------------------|
| Income before income taxes and other items | 5,661 | 2,858 |
| Income taxes | <u>(5,399)</u> | <u>(463)</u> |
| Net income | 11,060 | 3,321 |
| Less: net loss attributable to noncontrolling interests in subsidiaries | <u>2,119</u> | <u>256</u> |
| Net income attributable to Universal Corporation | <u>13,179</u> | <u>3,577</u> |

Earnings per share:

| | | |
|---------|----------------|----------------|
| Basic | <u>\$ 0.53</u> | <u>\$ 0.14</u> |
| Diluted | <u>\$ 0.52</u> | <u>\$ 0.14</u> |

See accompanying notes.

UNIVERSAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

| | <u>June 30, 2018</u> | <u>June 30, 2017</u> | <u>March 31, 2018</u> |
|---|--------------------------|--------------------------|---------------------------|
| | (Unaudited) | (Unaudited) | |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 66,008 | \$ 128,605 | \$ 234,128 |
| Accounts receivable, net | 247,812 | 209,321 | 377,119 |
| Advances to suppliers, net | 70,731 | 58,218 | 122,786 |
| Accounts receivable—unconsolidated affiliates | 101,483 | 62,239 | 2,040 |
| Inventories—at lower of cost or net realizable value: | | | |
| Tobacco | 947,520 | 917,945 | 679,428 |
| Other | 73,358 | 74,628 | 69,301 |
| Prepaid income taxes | 20,242 | 16,523 | 16,032 |
| Other current assets | <u>71,511</u> | <u>71,823</u> | <u>88,209</u> |
| Total current assets | 1,598,665 | 1,539,302 | 1,589,043 |
| Property, plant and equipment | | | |
| Land | 23,041 | 22,787 | 23,180 |
| Buildings | 268,789 | 267,740 | 271,757 |
| Machinery and equipment | <u>636,425</u> | <u>606,473</u> | <u>634,660</u> |
| | 928,255 | 897,000 | 929,597 |
| Less accumulated depreciation | <u>(604,765)</u> | <u>(580,927)</u> | <u>(605,803)</u> |
| | 323,490 | 316,073 | 323,794 |
| Other assets | | | |
| Goodwill and other intangibles | 98,892 | 99,023 | 98,927 |
| Investments in unconsolidated affiliates | 83,327 | 82,645 | 89,302 |
| Deferred income taxes | 19,162 | 25,451 | 17,118 |
| Other noncurrent assets | <u>45,632</u> | <u>42,494</u> | <u>50,448</u> |
| | <u>247,013</u> | <u>249,613</u> | <u>255,795</u> |
| Total assets | <u>\$ 2,169,168</u> | <u>\$ 2,104,988</u> | <u>\$ 2,168,632</u> |

See accompanying notes.

UNIVERSAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

| | June 30, 2018 | June 30, 2017 | March 31, 2018 |
|--|---------------------|---------------------|---------------------|
| | (Unaudited) | (Unaudited) | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Notes payable and overdrafts | \$ 73,291 | \$ 45,064 | \$ 45,421 |
| Accounts payable and accrued expenses | 199,214 | 189,676 | 163,763 |
| Accounts payable—unconsolidated affiliates | — | 869 | 16,072 |
| Customer advances and deposits | 3,414 | 1,841 | 7,021 |
| Accrued compensation | 20,969 | 19,404 | 27,886 |
| Income taxes payable | 6,813 | 2,132 | 7,557 |
| Current portion of long-term debt | — | — | — |
| Total current liabilities | <u>303,701</u> | <u>258,986</u> | <u>267,720</u> |
| Long-term debt | 369,174 | 368,821 | 369,086 |
| Pensions and other postretirement benefits | 60,360 | 77,312 | 64,843 |
| Other long-term liabilities | 45,628 | 31,189 | 45,955 |
| Deferred income taxes | 28,033 | 46,836 | 35,726 |
| Total liabilities | <u>806,896</u> | <u>783,144</u> | <u>783,330</u> |
| Shareholders' equity | | | |
| Universal Corporation: | | | |
| Preferred stock: | | | |
| Series A Junior Participating Preferred Stock, no par value, 500,000 shares authorized, none issued or outstanding | — | — | — |
| Common stock, no par value, 100,000,000 shares authorized 24,957,418 shares issued and outstanding (25,325,595 at June 30, 2017, and 24,930,725 at March 31, 2018) | 322,889 | 321,215 | 321,559 |
| Retained earnings | 1,072,230 | 1,024,567 | 1,080,934 |
| Accumulated other comprehensive loss | (73,442) | (63,723) | (60,064) |
| Total Universal Corporation shareholders' equity | <u>1,321,677</u> | <u>1,282,059</u> | <u>1,342,429</u> |
| Noncontrolling interests in subsidiaries | 40,595 | 39,785 | 42,873 |
| Total shareholders' equity | <u>1,362,272</u> | <u>1,321,844</u> | <u>1,385,302</u> |
| Total liabilities and shareholders' equity | <u>\$ 2,169,168</u> | <u>\$ 2,104,988</u> | <u>\$ 2,168,632</u> |

See accompanying notes.

UNIVERSAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of dollars)

| | Three Months Ended June 30, | |
|---|-----------------------------|----------|
| | 2018 | 2017 |
| | (Unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 11,060 | \$ 3,321 |
| Adjustments to reconcile net income to net cash used by operating activities: | | |
| Depreciation | 8,645 | 8,818 |
| Net provision for losses (recoveries) on advances and guaranteed loans to suppliers | (797) | 1,290 |
| Foreign currency remeasurement (gain) loss, net | (943) | (5,917) |
| Other, net | (6,928) | (1,944) |

| | | |
|---|-------------------------|--------------------------|
| Changes in operating assets and liabilities, net | <u>(179,366)</u> | <u>(122,647)</u> |
| Net cash used by operating activities | <u>(168,329)</u> | <u>(117,079)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property, plant and equipment | (11,018) | (6,356) |
| Proceeds from sale of property, plant and equipment | <u>589</u> | <u>206</u> |
| Net cash used by investing activities | <u>(10,429)</u> | <u>(6,150)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Issuance (repayment) of short-term debt, net | 28,978 | (16,058) |
| Repurchase of common stock | (1,443) | — |
| Dividends paid on common stock | (13,712) | (13,649) |
| Other | <u>(2,656)</u> | <u>(2,827)</u> |
| Net cash provided (used) by financing activities | <u>11,167</u> | <u>(32,534)</u> |
| Effect of exchange rate changes on cash | <u>(529)</u> | <u>375</u> |
| Net decrease in cash and cash equivalents | <u>(168,120)</u> | <u>(155,388)</u> |
| Cash and cash equivalents at beginning of year | <u>234,128</u> | <u>283,993</u> |
| Cash and cash equivalents at end of period | <u><u>\$ 66,008</u></u> | <u><u>\$ 128,605</u></u> |

See accompanying notes.

NOTE 1. BASIS OF PRESENTATION

Universal Corporation, which together with its subsidiaries is referred to herein as "Universal" or the "Company," is the leading global leaf tobacco supplier. Because of the seasonal nature of the Company's business, the results of operations for any fiscal quarter will not necessarily be indicative of results to be expected for other quarters or a full fiscal year. All adjustments necessary to state fairly the results for the period have been included and were of a normal recurring nature. Certain amounts in prior year statements have been reclassified to conform to the current year presentation. This Form 10-Q should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

NOTE 2. EARNINGS PER SHARE

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

| <u>(in thousands, except share and per share data)</u> | <u>Three Months Ended June 30,</u> | |
|--|------------------------------------|--------------------------|
| | <u>2018</u> | <u>2017</u> |
| Basic Earnings Per Share | | |
| Numerator for basic earnings per share | | |
| Net income attributable to Universal Corporation | \$ 13,179 | \$ 3,577 |
| Denominator for basic earnings per share | | |
| Weighted average shares outstanding | <u>25,064,420</u> | <u>25,407,293</u> |
| Basic earnings per share | <u><u>\$ 0.53</u></u> | <u><u>\$ 0.14</u></u> |
| Diluted Earnings Per Share | | |
| Numerator for diluted earnings per share | | |
| Net income attributable to Universal Corporation | 13,179 | 3,577 |
| Denominator for diluted earnings per share: | | |
| Weighted average shares outstanding | 25,064,420 | 25,407,293 |
| Effect of dilutive securities | | |
| Employee share-based awards | <u>220,280</u> | <u>224,864</u> |
| Denominator for diluted earnings per share | <u><u>25,284,700</u></u> | <u><u>25,632,157</u></u> |
| Diluted earnings per share | <u><u>\$ 0.52</u></u> | <u><u>\$ 0.14</u></u> |

NOTE 4. SEGMENT INFORMATION

The principal approach used by management to evaluate the Company's performance is by geographic region, although the dark air-cured and oriental tobacco businesses are each evaluated on the basis of their worldwide operations. The Company evaluates the performance of its segments based on operating income (loss) after allocated overhead expenses (excluding significant non-recurring charges or credits), plus equity in the pretax earnings (loss) of unconsolidated affiliates.

Operating results for the Company's reportable segments for each period presented in the consolidated statements of income and comprehensive income were as follows:

| (in thousands of dollars) | Three Months Ended June 30, | |
|--|-----------------------------|------------|
| | 2018 | 2017 |
| SALES AND OTHER OPERATING REVENUES | | |
| Flue-Cured and Burley Leaf Tobacco Operations: | | |
| North America | \$ 115,556 | \$ 53,324 |
| Other Regions ⁽¹⁾ | 207,932 | 184,412 |
| Subtotal | 323,488 | 237,736 |
| Other Tobacco Operations ⁽²⁾ | 56,231 | 46,886 |
| Consolidated sales and other operating revenue | \$ 379,719 | \$ 284,622 |
| OPERATING INCOME (LOSS) | | |
| Flue-Cured and Burley Leaf Tobacco Operations: | | |
| North America | \$ 8,952 | \$ 2,330 |
| Other Regions ⁽¹⁾ | (2,017) | 3,944 |
| Subtotal | 6,935 | 6,274 |
| Other Tobacco Operations ⁽²⁾ | 1,973 | (332) |
| Segment operating income | 8,908 | 5,942 |
| Deduct: Equity in pretax (earnings) loss of unconsolidated affiliates ⁽³⁾ | (539) | 435 |
| Consolidated operating income | \$ 8,369 | \$ 6,377 |

(1) Includes South America, Africa, Europe, and Asia regions, as well as inter-region eliminations.

(2) Includes Dark Air-Cured, Special Services, and Oriental, as well as inter-company eliminations. Sales and other operating revenues for this reportable segment include limited amounts for Oriental because the business is accounted for on the equity method and its financial results consist principally of equity in the pretax earnings (loss) of an unconsolidated affiliate.

(3) Equity in pretax earnings (loss) of unconsolidated affiliates is included in segment operating income (Other Tobacco Operations segment), but is reported below consolidated operating income and excluded from that total in the consolidated statements of income and comprehensive income.



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