

ALTRIA GROUP, INC.

Form 10-Q

October 27, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _____ to _____

Commission File Number 1-08940

Altria Group, Inc.

(Exact name of registrant as specified in its charter)

| | |
|--|--------------------------------------|
| Virginia | 13-3260245 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| |
|---|
| 6601 West Broad Street, Richmond, Virginia 23230 |
| (Address of principal executive offices) (Zip Code) |

Registrant's telephone number, including area code (804) 274-2200

Former name, former address and former fiscal year, if changed since last report

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At October 17, 2016, there were 1,950,270,736 shares outstanding of the registrant's common stock, par value \$0.33 1/3 per share.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Altria Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in millions of dollars)

(Unaudited)

| | September 30, December 31, | |
|--|----------------------------|-----------|
| | 2016 | 2015 |
| Assets | | |
| Cash and cash equivalents | \$ 2,298 | \$ 2,369 |
| Receivables | 146 | 124 |
| Inventories: | | |
| Leaf tobacco | 844 | 957 |
| Other raw materials | 174 | 181 |
| Work in process | 410 | 444 |
| Finished product | 552 | 449 |
| | 1,980 | 2,031 |
| Deferred income taxes | 1,188 | 1,175 |
| Other current assets | 791 | 387 |
| Total current assets | 6,403 | 6,086 |
| Property, plant and equipment, at cost | 4,820 | 4,877 |
| Less accumulated depreciation | 2,851 | 2,895 |
| | 1,969 | 1,982 |
| Goodwill | 5,285 | 5,285 |
| Other intangible assets, net | 12,042 | 12,028 |
| Investment in SABMiller | 5,826 | 5,483 |
| Finance assets, net | 1,046 | 1,239 |
| Other assets | 363 | 360 |
| Total Assets | \$ 32,934 | \$ 32,463 |

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries
 Condensed Consolidated Balance Sheets (Continued)
 (in millions of dollars, except share and per share data)
 (Unaudited)

| | September 30, 2016 | December 31, 2015 |
|--|-----------------------|----------------------|
| Liabilities | | |
| Current portion of long-term debt | \$ — | \$ 4 |
| Accounts payable | 296 | 400 |
| Accrued liabilities: | | |
| Marketing | 797 | 695 |
| Employment costs | 216 | 198 |
| Settlement charges | 3,429 | 3,590 |
| Other | 964 | 1,081 |
| Dividends payable | 1,193 | 1,110 |
| Total current liabilities | 6,895 | 7,078 |
| Long-term debt | 13,878 | 12,843 |
| Deferred income taxes | 5,607 | 5,663 |
| Accrued pension costs | 863 | 1,277 |
| Accrued postretirement health care costs | 2,296 | 2,245 |
| Other liabilities | 412 | 447 |
| Total liabilities | 29,951 | 29,553 |
| Contingencies (Note 11) | | |
| Redeemable noncontrolling interest | 36 | 37 |
| Stockholders' Equity | | |
| Common stock, par value \$0.33 1/3 per share (2,805,961,317 shares issued) | 935 | 935 |
| Additional paid-in capital | 5,864 | 5,813 |
| Earnings reinvested in the business | 27,816 | 27,257 |
| Accumulated other comprehensive losses | (3,278 |) (3,280) |
| Cost of repurchased stock (854,558,381 shares at September 30, 2016 and 845,901,836 shares at December 31, 2015) | (28,393 |) (27,845) |
| Total stockholders' equity attributable to Altria Group, Inc. | 2,944 | 2,880 |
| Noncontrolling interests | 3 | (7) |
| Total stockholders' equity | 2,947 | 2,873 |
| Total Liabilities and Stockholders' Equity | \$ 32,934 | \$ 32,463 |
| See notes to condensed consolidated financial statements. | | |

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Altria Group, Inc. and Subsidiaries
 Condensed Consolidated Statements of Earnings
 (in millions of dollars, except per share data)
 (Unaudited)

| | For the Nine Months Ended September 30, | |
|---|---|----------|
| | 2016 | 2015 |
| Net revenues | \$19,492 | \$19,116 |
| Cost of sales | 5,841 | 5,733 |
| Excise taxes on products | 4,888 | 4,991 |
| Gross profit | 8,763 | 8,392 |
| Marketing, administration and research costs | 1,871 | 1,951 |
| Reduction of PMI tax-related receivable | — | 41 |
| Asset impairment and exit costs | 123 | 4 |
| Operating income | 6,769 | 6,396 |
| Interest and other debt expense, net | 571 | 609 |
| Loss on early extinguishment of debt | 823 | 228 |
| Earnings from equity investment in SABMiller | (564 |) (546 |
| Gain on derivative financial instruments | (205 |) — |
| Earnings before income taxes | 6,144 | 6,105 |
| Provision for income taxes | 2,178 | 2,110 |
| Net earnings | 3,966 | 3,995 |
| Net earnings attributable to noncontrolling interests | (3 |) (1 |
| Net earnings attributable to Altria Group, Inc. | \$3,963 | \$3,994 |
| Per share data: | | |
| Basic and diluted earnings per share attributable to Altria Group, Inc. | \$2.02 | \$2.03 |
| Dividends declared | \$1.74 | \$1.605 |
| See notes to condensed consolidated financial statements. | | |

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Altria Group, Inc. and Subsidiaries
 Condensed Consolidated Statements of Earnings
 (in millions of dollars, except per share data)
 (Unaudited)

| | For the Three Months Ended September 30, | |
|---|--|---------|
| | 2016 | 2015 |
| Net revenues | \$6,905 | \$6,699 |
| Cost of sales | 2,043 | 1,932 |
| Excise taxes on products | 1,712 | 1,721 |
| Gross profit | 3,150 | 3,046 |
| Marketing, administration and research costs | 766 | 698 |
| Reduction of PMI tax-related receivable | — | 41 |
| Asset impairment and exit costs | 2 | — |
| Operating income | 2,382 | 2,307 |
| Interest and other debt expense, net | 179 | 205 |
| Loss on early extinguishment of debt | 823 | — |
| Earnings from equity investment in SABMiller | (299) | (187) |
| Gain on derivative financial instruments | (48) | — |
| Earnings before income taxes | 1,727 | 2,289 |
| Provision for income taxes | 633 | 761 |
| Net earnings | 1,094 | 1,528 |
| Net earnings attributable to noncontrolling interests | (1) | — |
| Net earnings attributable to Altria Group, Inc. | \$1,093 | \$1,528 |
| Per share data: | | |
| Basic and diluted earnings per share attributable to Altria Group, Inc. | \$0.56 | \$0.78 |
| Dividends declared | \$0.61 | \$0.565 |
| See notes to condensed consolidated financial statements. | | |

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Altria Group, Inc. and Subsidiaries
 Condensed Consolidated Statements of Comprehensive Earnings
 (in millions of dollars)
 (Unaudited)

| | For the Nine Months Ended September 30, | |
|--|---|---------|
| | 2016 | 2015 |
| Net earnings | \$3,966 | \$3,995 |
| Other comprehensive earnings (losses), net of deferred income taxes: | | |
| Currency translation adjustments | 1 | (3) |
| Benefit plans | (116) | 121 |
| SABMiller | 117 | (593) |
| Other comprehensive earnings (losses), net of deferred income taxes | 2 | (475) |
| Comprehensive earnings | 3,968 | 3,520 |
| Comprehensive earnings attributable to noncontrolling interests | (3) | (1) |
| Comprehensive earnings attributable to Altria Group, Inc. | \$3,965 | \$3,519 |
| See notes to condensed consolidated financial statements. | | |

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Altria Group, Inc. and Subsidiaries
 Condensed Consolidated Statements of Comprehensive Earnings
 (in millions of dollars)
 (Unaudited)

| | For the Three Months Ended September 30, | |
|--|--|---------|
| | 2016 | 2015 |
| Net earnings | \$1,094 | \$1,528 |
| Other comprehensive earnings (losses), net of deferred income taxes: | | |
| Currency translation adjustments | — | (2) |
| Benefit plans | 28 | 40 |
| SABMiller | 34 | (317) |
| Other comprehensive earnings (losses), net of deferred income taxes | 62 | (279) |
| Comprehensive earnings | 1,156 | 1,249 |
| Comprehensive earnings attributable to noncontrolling interests | (1) | — |
| Comprehensive earnings attributable to Altria Group, Inc. | \$1,155 | \$1,249 |

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries
 Condensed Consolidated Statements of Stockholders' Equity
 for the Year Ended December 31, 2015 and
 the Nine Months Ended September 30, 2016
 (in millions of dollars, except per share data)
 (Unaudited)

| | Attributable to Altria Group, Inc. | | | | | | Total |
|---|------------------------------------|----------------------------------|--|---|---------------------------------|------------------------------|-------------------------|
| | Common Stock | Additional Paid-in Capital | Earnings Reinvested in the Business | Accumulated Other Comprehensive Losses | Cost of Repurchased Stock | Non-controlling Interests | Stockholders' Equity |
| Balances, December 31, 2014 | \$935 | \$5,735 | \$26,277 | \$ (2,682) | \$ (27,251) | \$ (4) | \$ 3,010 |
| Net earnings (losses) ⁽¹⁾ | — | — | 5,241 | — | — | (3) | 5,238 |
| Other comprehensive losses, net of deferred income taxes | — | — | — | (598) | — | — | (598) |
| Stock award activity | — | 78 | — | — | (40) | — | 38 |
| Cash dividends declared (\$2.17 per share) | — | — | (4,261) | — | — | — | (4,261) |
| Repurchases of common stock | — | — | — | — | (554) | — | (554) |
| Balances, December 31, 2015 | 935 | 5,813 | 27,257 | (3,280) | (27,845) | (7) | 2,873 |
| Net earnings ⁽¹⁾ | — | — | 3,963 | — | — | — | 3,963 |
| Other comprehensive earnings, net of deferred income taxes | — | — | — | 2 | — | — | 2 |
| Stock award activity | — | 61 | — | — | (36) | — | 25 |
| Cash dividends declared (\$1.74 per share) | — | — | (3,404) | — | — | — | (3,404) |
| Repurchases of common stock | — | — | — | — | (512) | — | (512) |
| Other | — | (10) | — | — | — | 10 | — |
| Balances, September 30, 2016 | \$935 | \$5,864 | \$27,816 | \$ (3,278) | \$ (28,393) | \$ 3 | \$ 2,947 |

Amounts attributable to noncontrolling interests for the nine months ended September 30, 2016 and for the year ended December 31, 2015 exclude net earnings of \$3 million and \$5 million, respectively, due to the redeemable noncontrolling interest related to Stag's Leap Wine Cellars, which is reported in the mezzanine equity section in the condensed consolidated balance sheets at September 30, 2016 and December 31, 2015.

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries
 Condensed Consolidated Statements of Cash Flows
 (in millions of dollars)
 (Unaudited)

For the Nine
 Months Ended
 September 30,
 2016 2015

| | | |
|--|---------|---------|
| Cash Provided by (Used in) Operating Activities | | |
| Net earnings | \$3,966 | \$3,995 |
| Adjustments to reconcile net earnings to operating cash flows: | | |
| Depreciation and amortization | 149 | 150 |
| Deferred income tax benefit | (69) | (1) |
| Earnings from equity investment in SABMiller | (564) | (546) |
| Dividends from SABMiller | 403 | 374 |
| Gain on derivative financial instruments | (205) | — |
| Asset impairment and exit costs, net of cash paid | 71 | 2 |
| Loss on early extinguishment of debt | 823 | 228 |
| Cash effects of changes: | | |
| Receivables | (21) | 9 |
| Inventories | 54 | 59 |
| Accounts payable | (132) | (102) |
| Income taxes | (122) | (6) |
| Accrued liabilities and other current assets | (257) | 22 |
| Accrued settlement charges | (161) | (284) |
| Pension plan contributions | (520) | (23) |
| Pension provisions and postretirement, net | (56) | 78 |
| Other | | |