UNIVERSAL CORP /VA/
Form 10-K
May 26, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED MARCH 31, 2017
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: 001-00652
UNIVERSAL CORPORATION
(Exact name of registrant as specified in its charter)

Virginia (State or other jurisdiction of incorporation or organization)	54-0414210 (I.R.S. Employer Identification Number)
9201 Forest Hill Avenue, Richmond, Virginia (Address of principal executive offices)	23235 (Zip Code)

Registrant's telephone number, including area code: 804-359-9311
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, no par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes þ No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act.
Yes o No þ
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 þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 a emerging growth company. See 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 þ 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 þ

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates, based upon the closing sales price on the New York Stock Exchange of the registrant's common stock on September 30, 2016, the last day of the registrant's most recently completed second fiscal quarter, was approximately $1.3 billion.

As of May 19, 2017, the total number of shares of common stock outstanding was 25,274,506.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the 2017 Proxy Statement for the Annual Meeting of Shareholders of the registrant is incorporated by reference into Part III hereof.

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General

This Annual Report on Form 10-K, which we refer to herein as our Annual Report, contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Among other things, these statements relate to Universal Corporation’s financial condition, results of operations and future business plans, operations, opportunities, and prospects. In addition, Universal Corporation and its representatives may make written or oral forward-looking statements from time to time, including statements contained in other filings with the Securities and Exchange Commission (the “SEC”) and in reports to shareholders. These forward-looking statements are generally identified by the use of words such as we “expect,” “believe,” “anticipate,” “could,” “should,” “may,” “plan,” “will,” “predict,” “estimate,” a expressions or words of similar import. These forward-looking statements are based upon management’s current knowledge and assumptions about future events and involve risks and uncertainties that could cause actual results, performance, or achievements to be materially different from any anticipated results, prospects, performance, or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to: anticipated levels of demand for and supply of our products and services; costs incurred in providing these products and services; timing of shipments to customers; changes in market structure; government regulation; product taxation; industry consolidation and evolution; changes in exchange rates and interest rates; impacts of regulation and litigation on our customers; and general economic, political, market, and weather conditions. For a description of factors that may cause actual results to differ materially from such forward-looking statements, see Item 1A, “Risk Factors.” We caution investors not to place undue reliance on any forward-looking statements as these statements speak only as of the date when made, and we undertake no obligation to update any forward-looking statements made in this report. In addition, the discussion of the impact of current trends on our business in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Other Information Regarding Trends and Management’s Actions” in Item 7 should be read carefully in connection with evaluating our business and the forward-looking statements contained in this Annual Report.

This Annual Report uses the terms “Universal,” “the Company,” “we,” “us,” and “our” to refer to Universal Corporation and it subsidiaries when it is not necessary to distinguish among Universal Corporation and its various operating subsidiaries or when any distinction is clear from the context in which it is used.

See the “Results of Operations” section in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 for a discussion of segment operating income, a non-GAAP financial measure that we refer to in this Annual Report on Form 10-K and consider useful in understanding our business results and trends.

PART I

Item 1. Business

A. The Company

Overview

We are the leading global leaf tobacco supplier. We operate in over 30 countries on five continents and procure, finance, process, pack, store and ship leaf tobacco and other agri-products. Tobacco has been our principal focus since our founding in 1918. The largest portion of our business involves procuring and processing flue-cured and burley leaf tobacco for manufacturers of consumer tobacco products. We do not manufacture any consumer products. Rather, we support consumer product manufacturers by selling them processed raw products and performing related services for them. Our reportable segments for our flue-cured and burley tobacco operations are North America and Other Regions. We also have a third reportable segment, Other Tobacco Operations, which comprises our dark tobacco business, our oriental tobacco joint venture, and certain tobacco- and non-tobacco-related services. We generated approximately $2.1 billion in consolidated revenues and earned $188.5 million in total segment operating income in fiscal year 2017. Universal Corporation is a holding company that operates through numerous directly and indirectly owned subsidiaries. Universal Corporation’s primary subsidiary is Universal Leaf Tobacco Company, Incorporated. See Exhibit 21, “Subsidiaries of the Registrant,” for additional subsidiary information.

Key Operating Principles

We believe that by following several key operating principles we can continue to produce good financial returns from our business and enhance shareholder value. These key operating principles are:

- Strategic market position. We work closely with both our customers and suppliers to ensure that we deliver a product that meets our customers' needs while cultivating a strong, sustainable supplier base. We balance purchases of leaf tobacco against indicated customer demand and maintain global procurement and production operations to maximize supply chain efficiencies.
- Strong local management. Having strong local management in all of our key supply origins allows us to identify and react to constantly shifting market conditions. Empowered and experienced local management, coupled with global coordination, affords us the flexibility and knowledge necessary to adapt quickly in order to continually deliver high quality, competitively-priced products and services.
- Compliant products. Customers expect a sustainable supply of compliant, traceable, competitively-priced product, and we believe that we lead in delivering these products. Among other initiatives, we invest in training farmers in good agricultural practices that encompass crop quality, environmental stewardship and agricultural labor standards.
- Diversified sources. We operate in over 30 countries on five continents and maintain a presence in all major flue-cured, burley, oriental, and dark air-cured tobacco origin markets. This global presence allows us to meet our customers' diverse leaf requirements while minimizing the effects of adverse crop conditions and other localized supply disruptions.
- Financial strength. Financial strength is critical and enables us to fund our global operations efficiently and to facilitate investment when suitable opportunities arise. Management of liquidity, interest expense and capital costs provides us with a competitive advantage and affords us flexibility when responding to customer requirements and market changes.

Additional Information

Our website address is www.universalcorp.com. We post regulatory filings on this website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. These filings include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, Section 16 reports on Forms 3, 4, and 5, and any amendments to those reports filed with or furnished to the SEC. Access to these filings on our website is available free of charge. Copies are also available, without charge, from Universal Corporation Investor Relations, 9201 Forest Hill Avenue, Richmond, VA 23235. Reports filed with the SEC may be viewed at www.sec.gov or obtained at the SEC Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information regarding the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. We also post our press releases on our website. Information on our website is not deemed to be incorporated by reference into this Annual Report.

In addition, our Corporate Governance Guidelines, Code of Conduct, and charters for the Audit Committee, the Executive Committee, the Executive Compensation, Nominating and Corporate Governance Committee, the Pension Investment Committee, and the Finance Committee are available free of charge to shareholders and the public through the “Corporate Governance” section of our website. Printed copies of the foregoing are available to any shareholder upon written request to our Treasurer at the address set forth on the cover of this Annual Report or may be requested through our website, www.universalcorp.com.

B. Description of Business

General

Our primary business is procuring, financing, processing, packing, storing, and shipping leaf tobacco for sale to manufacturers of consumer tobacco products. Procuring leaf tobacco involves contracting with, providing agronomy support to, and financing farmers in many origins. We do not manufacture cigarettes or other consumer tobacco products. Rather, we support consumer product manufacturers by selling them processed leaf tobacco and performing related services for them. Through various operating subsidiaries and unconsolidated affiliates located in tobacco-growing origins around the world, we contract, purchase, process, and sell flue-cured and burley tobaccos, as well as dark air-cured and oriental tobaccos. Flue-cured, burley, and oriental tobaccos are used principally in the manufacture of cigarettes, and dark air-cured tobaccos are used mainly in the manufacture of cigars, smokeless, and pipe tobacco products. We also provide value-added services to our customers, including blending, chemical and physical testing of tobacco, service cutting for select manufacturers, manufacturing reconstituted leaf tobacco, and managing just-in-time inventory.

Several important operating factors characterize our company and our primary business, leaf tobacco:

- Experience dealing with large numbers of farmers,
- Expertise in delivering a sustainable supply of compliant, traceable, competitively-priced leaf tobacco,
- Capability to meet unique customer requirements for style, volume and quality,
- Longstanding customer relationships,
- Presence in all major leaf tobacco sourcing areas, and
- Financial strength and flexibility.

In addition to our leaf tobacco business, we are involved in other smaller-scale agribusiness opportunities. We participate in a joint venture that supplies liquid nicotine, manufactured in the United States, to the vapor products industry. We also have businesses that test and analyze tobacco products, produce high-quality dehydrated and juiced fruit and vegetable products, and recycle waste materials from tobacco production. When looking at new opportunities, we seek prospects where we believe we can earn an adequate return, leverage our assets and expertise, and enhance our farmer base.

With respect to our leaf tobacco business, we generate our revenues from product sales of processed, packed tobacco that we source, from processing fees for tobacco owned by third parties, and from fees for other services. Sales to our six largest customers, with whom we have longstanding relationships, have accounted for more than two-thirds of our consolidated revenues for each of the past three fiscal years. Our sales consist primarily of flue-cured and burley tobaccos. For the fiscal year ended March 31, 2017, our flue-cured and burley operations accounted for 89% of our revenues and 95% of our segment operating income.

We conduct our business in varying degrees in a number of countries, including Bangladesh, Brazil, the Dominican Republic, Germany, Guatemala, Hungary, India, Indonesia, Italy, Malawi, Mexico, Mozambique, the Netherlands, Nicaragua, Paraguay, the People’s Republic of China, the Philippines, Poland, Russia, Singapore, South Africa, Spain, Switzerland, Tanzania, the United Arab Emirates, the United States, and Zimbabwe. In addition, our oriental tobacco joint venture, Socotab, L.L.C. has operations in Bulgaria, Greece, Macedonia, and Turkey.

Because unprocessed, or “green,” leaf tobacco is a perishable product, timely processing is an essential service to our customers. Our processing of leaf tobacco includes grading in the factories, blending, removal of non-tobacco material, separation of leaf from the stems, drying, packing to precise moisture targets for proper aging, as well as temporary storage. Accomplishing these tasks generally requires investments in factories and machinery in areas where the tobacco is grown. Processed tobacco that has been properly packed can be stored by customers for a number of years prior to use, but most processed tobacco is used within two to three years.

We are a major purchaser and processor in the chief exporting regions for flue-cured and burley tobacco throughout the world. Africa, Brazil, and the United States produce approximately two-thirds of the flue-cured and burley tobacco grown outside of China. We estimate that we have historically handled, through leaf sales or processing, between 30% and 40% of the annual production of such tobaccos in both Africa and the United States and between 15% and 25% in Brazil. These percentages can change from year to year based on the size, price, and quality of the crops. We participate in the procurement, processing, storage, and sale of oriental tobacco through ownership of a 49% equity interest in Socotab, L.L.C., a leading supplier of oriental tobaccos. In addition, we maintain a presence, and in certain cases, a leading presence, in all other major tobacco growing regions in the world. We believe that our leading position in the leaf tobacco industry is based on our operating presence in all of the major sourcing areas, our ability to meet customer style, volume, and quality requirements, our expertise in dealing with large numbers of farmers, our long-standing relationships with customers, our development of processing equipment and technologies, and our financial position. The efficiencies that we offer our customers, due to our established network of operational expertise and infrastructure on the ground and our ability to market most styles and grades of leaf to a diverse customer base, are also key to our success.

We also have a leading position in worldwide dark tobacco markets. Our dark tobacco operations are located in most of the major producing countries and in other smaller markets. We operate in major dark tobacco producing countries, including the

United States, the Dominican Republic, Indonesia, Paraguay, the Philippines, Nicaragua, and Brazil. Dark tobaccos are typically used in the manufacture of cigars, pipe tobacco, and smokeless tobacco products, and as components of certain “roll-your-own” cigarette products.

Sales are made by our sales force and, to a much smaller degree, through the use of commissioned agents. Most customers are long-established tobacco product manufacturers. Customer contract arrangements vary around the world and include negotiated pricing as well as cost plus arrangements. Discussions of a customer’s longer-term needs may begin as early as one to two years in advance of a particular crop purchase. These discussions are key to our future crop production planning. Prior to planting each year, we use early customer indications for type, style, processing, and volume requirements for the upcoming season’s crop to help us determine our farmer contracting and grower input needs in our origins. We work with our farmers and customers continually throughout the crop season. As crops progress through the growing season, customers will inspect the crop, and a customer’s early indications may be refined based upon emerging crop qualities and quantities and market pricing expectations. Ultimately, purchase agreements specifying quantity, quality, grade and price are executed, leading to inventory allocations of harvested green or processed leaf that we have acquired.

In the majority of the countries where we operate, we contract directly with tobacco farmers or tobacco farmer cooperatives. In most countries outside the United States, we advance seed or seedlings, fertilizer, and other agricultural inputs to farmers. These advances are repaid by farmers with the tobacco they produce. We are dedicated to promoting a sustainable farmer base and provide our farmers with agronomy support. Our Good Agricultural Practices programs educate farmers in such matters as the reduction of non-tobacco related materials, product traceability, environmental sustainability, agricultural labor standards, and social responsibility. In Malawi and Zimbabwe, we also purchase some tobacco under auction systems.

Our foreign operations are subject to international business risks, including unsettled political conditions, expropriation, import and export restrictions, exchange controls, and currency fluctuations. During the tobacco season in many of the countries listed above, we advance funds, guarantee local loans, or do both, each in substantial amounts, for the eventual purchase of tobacco. The majority of these seasonal advances and loan guarantees mature in one year or less upon the farmers’ delivery of contracted tobaccos. Most advances to farmers are denominated in local currency, which is a source of foreign currency exchange rate risk. Most tobacco sales are denominated in U.S. dollars, which reduces our foreign currency exchange risk after the tobacco has been purchased. See Item 1A, “Risk Factors” for more information about our foreign currency exchange and other risks.

For a discussion of recent developments and trends in our business, along with factors that may affect our business, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Item 1A, “Risk Factors.”

Seasonality

Our operations are seasonal in nature. Tobacco in Brazil is usually purchased from January through July, while buying in Malawi, Mozambique, and other African countries typically begins around April and continues through November. Farmers begin to sell U.S. flue-cured tobacco in late July, and the marketing season lasts for approximately four months.

We normally operate each of our processing plants for seven to nine months of the year. During this period for each region, inventories of green tobacco, inventories of processed tobacco, and trade accounts receivable normally reach peak levels in succession. We normally finance this expansion of current assets with cash, short-term borrowings from banks, and customer advances, and these funding sources normally reach their peak usage in each region during its respective purchasing or processing period. Our balance sheet at our fiscal year end reflects seasonal expansions in working capital in South America and Central America. Our financial performance is also impacted by the seasonality of our business. Due to global tobacco growing cycles, as well as customer shipment preferences, we typically ship a larger portion of our volumes in the second half of our fiscal year. Changes in customer shipment schedules or changes in crop timing in a season can shift recognition of revenue in a given fiscal year or between fiscal years.

Customers

A material part of our business is dependent upon a few customers. Our six largest customers are Altria Group Inc., British American Tobacco plc, China Tobacco International, Inc., Imperial Brands plc, Japan Tobacco, Inc., and Philip Morris International, Inc. In the aggregate, these customers have accounted for more than two-thirds of our consolidated revenues for each of the past three fiscal years. For the fiscal year ended March 31, 2017, each of British American Tobacco plc, Imperial Brands plc, and Philip Morris International, Inc., including their respective affiliates, accounted for 10% or more of our revenues. The loss of, or substantial reduction in business from, any of these customers could have a material adverse effect on our results. We have longstanding relationships with all of these customers.

We had commitments from customers for approximately $450 million of the tobacco in our inventories at March 31, 2017. Based upon historical experience, we expect that at least 90% of such orders will be delivered during fiscal year 2018. Most of our product requires shipment via trucks and oceangoing vessels to reach customer destinations. Delays in the delivery of orders can result from such factors as truck and container availability, port access and capacity, vessel scheduling, and changing customer requirements for shipment.

As more fully described in Note 1 to the consolidated financial statements in Item 8 of this Annual Report, we recognize revenue from the sale of tobacco when title and risk of loss is transferred to our customer. Individual shipments may be large, and since the customer typically specifies shipping dates, our financial results may vary significantly between reporting periods due to timing of sales. In some markets, including the United States, Italy, Tanzania, Poland, and Brazil, we process tobacco that is owned by our customers, and we recognize the revenue for that service when the processing is completed.

Competition

Competition among leaf tobacco suppliers is based on the ability to meet customer specifications in the growing, buying, processing, and financing of tobacco, and on the prices charged for products and services. Competition varies depending on the market or country involved. The number of competitors varies from country to country, but there is competition in most areas to buy and sell the available tobacco. Our principal competitor is Alliance One International, Inc. (“Alliance One”). Alliance One operates in many of the countries where we operate. We consider ourselves and Alliance One to be the only global leaf suppliers based on our worldwide scope of operations. Most of our major customers are partially vertically integrated, and thus also compete with us for the purchase of leaf tobacco in several of the major markets.

In most major markets, smaller competitors are very active. These competitors typically have lower overhead requirements and provide less support to customers and farmers. Due to their lower cost structures, they can often offer a price on products that is lower than our price. However, we believe that we provide quality controls and farm programs that add value for our customers in an increasingly regulated world and make our products highly desirable. Our Good Agricultural Practices support an approach to farming that is focused on sustainability, employing sound field production and labor management practices that meet our customers’ needs, promote farmer profitability, and reflect environmental sensitivity. We provide comprehensive training, technical support in the field, and crop analytics through ongoing research and development. We believe that our major customers increasingly require these services and that our programs increase the quality and value of the products and services we offer. We also believe that our customers value the security of supply that we are able to provide due to our strong relationships with our farmer base and our global footprint.

Reportable Segments

We evaluate the performance of our leaf tobacco business by geographic region, although the dark air-cured and oriental tobacco businesses are each evaluated on the basis of their worldwide operations. Performance of the oriental tobacco operations is evaluated based on our equity in the pretax earnings of our affiliate. Under this structure, we have the following primary operating segments: North America, South America, Africa, Europe, Asia, Dark Air-Cured, Oriental, and Special Services. North America, South America, Africa, Europe, and Asia are primarily involved in flue-cured and burley leaf tobacco operations for supply to cigarette manufacturers. Our Dark Air-Cured group supplies dark air-cured tobacco principally to manufacturers of cigars, pipe tobacco, and smokeless tobacco products, and our Oriental business supplies oriental tobacco to cigarette manufacturers. Our Special Services group provides laboratory services, including physical and chemical product testing, electronic nicotine delivery system and e-liquid testing, and smoke testing for customers. Our liquid nicotine joint venture and our fruit and vegetable ingredients business are also included in the Special Services group.

The five regional operating segments serving our cigarette manufacturer customers share similar characteristics in the nature of their products and services, production processes, class of customer, product distribution methods, and regulatory environment. Based on the applicable accounting guidance, four of the regions – South America, Africa, Europe, and Asia – are aggregated into a single reporting segment, Other Regions, because they also have similar economic characteristics. North America is reported as an individual operating segment, because its economic characteristics differ from the other regions, generally because its operations require lower working capital investments for crop financing and inventory. The Dark Air-Cured, Oriental, and Special Services segments, which have differing characteristics in some of the categories mentioned above, are reported together as Other Tobacco Operations, because each is below the measurement threshold for separate reporting.

Financial Information about Segments

Our North America and Other Regions reportable segments, which represent our flue-cured and burley tobacco operations, accounted for 20% and 69% of our revenues and 19% and 76% of our segment operating income, respectively, in fiscal year 2017. Our Other Tobacco Operations reportable segment accounted for 11% of our revenues and 5% of our segment operating income in fiscal year 2017. Sales and other operating revenues and operating income attributable to our reportable segments for each of the last three fiscal years, along with segment assets for each reportable segment at March 31, 2017, 2016, and 2015, are set forth in Note 14 to the consolidated financial statements, which are included in Item 8 of this Annual Report. Information with respect to the geographic distribution of our revenues and long-lived assets is also set forth in Note 14 to the consolidated financial statements.

C. Employees

We employed over 24,000 employees throughout the world during the fiscal year ended March 31, 2017. We estimated this figure because the majority of our personnel are seasonal employees.

D. Research and Development

We did not expend material amounts for research and development during the fiscal years ended March 31, 2017, 2016, or 2015.

E. Patents, etc.

We hold no material patents, licenses, franchises, or concessions.

F. Government Regulation, Environmental Matters, and Other Matters

Our business is subject to general governmental regulation in the United States and in foreign jurisdictions where we conduct business. Such regulation includes, but is not limited to, matters relating to environmental protection. To date, governmental provisions regulating the discharge of material into the environment have not had a material effect upon our capital expenditures, earnings, or competitive position. See Item 1A, “Risk Factors” for a discussion of government regulations and other factors that may affect our business.

Item 1A. Risk Factors

Operating Factors

In areas where we purchase leaf tobacco directly from farmers, we bear the risk that the tobacco we receive will not meet quality and quantity requirements.

When we contract directly with tobacco farmers or tobacco farmer cooperatives, which is the method we use to purchase tobacco in most countries, we bear the risk that the tobacco delivered may not meet customer quality and quantity requirements. If the tobacco does not meet such market requirements, we may not be able to fill all of our customers' orders, and such failure would have an adverse effect on profitability and results of operations. In a contract market our obligation is to purchase the entire tobacco plant, which encompasses many leaf styles, therefore, we also have a risk that not all of that production will be readily marketable at prices that support acceptable margins. In addition, in many foreign countries where we purchase tobacco directly from farmers, we provide them with financing. Unless we receive marketable tobacco that meets the quality and quantity specifications of our customers, we bear the risk that we will not be able to fully recover our crop advances or recover them in a reasonable period of time.

The leaf tobacco industry is competitive, and we are heavily reliant on a few large customers.

We are one of two major independent global competitors in the leaf tobacco industry, both of whom are reliant upon a few large customers. The loss of one of those large customers or a significant decrease in their demand for our products or services could significantly decrease our sales of products or services, which would have a material adverse effect on our results of operations. The competition among leaf tobacco suppliers and dealers is based on the ability to meet customer requirements in the buying, processing, and financing of tobacco, and on the price charged for products and services. We believe that we consistently meet our customers' requirements and charge competitive prices. Since we rely upon a few significant customers, the consolidation or failure of any of these large customers, or a significant increase in their vertical integration, could contribute to a significant decrease in our sales of products and services.

We compete for both the purchase and sale of leaf with smaller leaf tobacco suppliers in some of the markets where we conduct business. Some of these smaller leaf tobacco suppliers operate in more than one country. Since they typically provide little or no support to farmers, these leaf tobacco suppliers typically have lower overhead requirements than we do. Due to their lower cost structures, they often can offer prices on products and services that are lower than our prices. Our customers also directly source leaf tobacco from farmers to meet some of their raw material needs. Direct sourcing provides our customers with some qualities and quantities of leaf tobacco that they prefer not to use in their existing blends and that may be offered for sale. This competition for both the sale and purchase of leaf could reduce the volume of the leaf we handle and could negatively impact our financial results.

Our financial results can be significantly affected by changes in the balance of supply and demand for leaf tobacco.

As a leaf tobacco supplier, our financial results can be significantly affected by changes in the overall balance of worldwide supply and demand for leaf tobacco. The demand for leaf tobacco, which is based upon customers' expectations of their future requirements, can change from time to time depending upon factors affecting the demand for their products. Our customers' expectations and their demand for leaf tobacco are influenced by a number of factors, including:

- trends in the global consumption of cigarettes,
- trends in consumption of cigars and other tobacco products,
- trends in consumption of alternative tobacco products, such as electronic nicotine delivery systems and non-combustible products,
- levels of competition among our customers, and
- regulatory and governmental factors.

The world supply of leaf tobacco at any given time is a function of current tobacco production, inventories held by manufacturers, and the stocks of leaf tobacco held by leaf tobacco suppliers. Production of tobacco in a given year may be significantly affected by such factors as:

- demographic shifts that change the number of farmers or the amount of land available to grow tobacco,
- decisions by farmers to grow crops other than leaf tobacco,
- volume of annual tobacco plantings and yields realized by farmers,

- availability of crop inputs,
- weather and natural disasters, including any adverse weather conditions that may result from climate change, and
- crop infestation and disease.

Any significant change in these factors could cause a material imbalance in the supply of and demand for tobacco, which would affect our results of operations.

Our financial results will vary according to tobacco growing conditions, customer requirements, and other factors. These factors may also limit the ability to accurately forecast our future performance and increase the risk of an investment in our common stock or other securities.

Our financial results, particularly our year-over-year quarterly comparisons, may be significantly affected by variations in tobacco growing seasons and fluctuations in crop sizes. The timing of the cultivation and delivery of tobacco is dependent upon a number of factors, including weather and other natural events, and our processing schedules and results of operations can be significantly altered by these factors. In addition, the potential impact of climate change is uncertain and may vary by geographic region. The possible effects, as described in various public accounts, could include changes in rainfall patterns, water shortages, changing storm patterns and intensities, and changing temperature levels that could adversely impact our costs and business operations and the supply and demand for leaf tobacco. Our operations also rely on dependable and efficient transportation services. A disruption in transportation services, as a result of climate change or otherwise, may also significantly impact our results of operations.

Further, the timing and unpredictability of customer orders and shipments may require us to keep tobacco in inventory and may also result in variations in quarterly and annual financial results. We base sales recognition on the passage of ownership. Since individual shipments may represent significant amounts of revenue, our quarterly and annual financial results may vary significantly depending on the timing of needs and shipping instructions of our customers and the availability of transportation services. These fluctuations result in varying volumes and sales in given periods, which also reduce the comparability of financial results.

Major shifts in customer requirements for tobacco supply may significantly affect our operating results.

If our customers significantly alter their requirements for tobacco volumes from certain regions, we may have to change our production facilities and alter our fixed asset base in certain origins. Permanent or long-term reduction in demand for tobacco from origins where we have operations may trigger restructuring and impairment charges. We may also need to make significant capital investments in other regions to develop the needed infrastructure to meet customer supply requirements.

Weather and other conditions can affect the marketability of our products.

Tobacco crops are subject to vagaries of weather and the environment that can, in some cases, change the quality or size of the crops. If a weather event is particularly severe, such as a major drought or hurricane, the affected crop could be destroyed or damaged to an extent that it would be less desirable to manufacturers, which would result in a reduction in revenues. If such an event is also widespread, it could affect our ability to acquire the quantity of tobacco required by our customers. In addition, other factors can affect the marketability of tobacco, including, among other things, the presence of excess residues of crop protection agents or non-tobacco related materials. A significant event impacting the condition or quality of a large amount of any of the crops that we buy could make it difficult for us to sell these products or to fill customers’ orders.

Our food ingredient business is subject to industry-specific risks which could adversely affect our operating results.

Our food ingredients business is subject to risks posed by food spoilage or food contamination; shifting consumer preferences; federal, state, and local food processing regulations; product tampering; and product liability claims. If one or more of these risks were to materialize, our revenues and operating results could be adversely affected, and our Company’s reputation might be damaged.

We may be adversely impacted if our information technology systems fail to perform adequately, including with respect to cybersecurity issues.

The efficient operation of our business depends on our information technology systems. We rely on our information technology systems to effectively manage our business data, communications, supply chain, order entry and fulfillment, and other business processes. The failure of our information technology systems (including those provided to us by third parties) to perform as we anticipate could disrupt our business and affect our results of operations.

In addition, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, systems failures, security breaches or intrusions (including theft of confidential data), and viruses. If we are unable to prevent physical and electronic break-ins, cyber-attacks and other information security breaches, we may suffer financial and reputational damage, be subject to litigation, or incur remediation costs or penalties because of the unauthorized disclosure of confidential information belonging to us or to our partners, customers, suppliers or employees.

Regulatory and Governmental Factors

Government efforts to regulate the production and consumption of tobacco products could have a significant impact on the businesses of our customers, which would, in turn, affect our results of operations.

About 5% of cigarettes manufactured worldwide are consumed in the United States. Nationally, the U.S. federal government and certain state and local governments have taken or proposed actions that may have the effect of reducing U.S. consumption of tobacco products and indirectly reducing demand for our products and services. These activities have included:

- restrictions on the use of tobacco products in public places and places of employment,
- legislation authorizing the U.S. Food and Drug Administration (the "FDA") to regulate the manufacturing and marketing of all tobacco products,
- increases in the federal, state, and local excise taxes on cigarettes and other tobacco products, and
- the policy of the U.S. government to link certain federal grants to the enforcement of state laws restricting the sale of tobacco products.

Numerous other legislative and regulatory anti-smoking measures have been proposed at the federal, state, and local levels.

Globally, a number of foreign governments and non-government organizations also have taken or proposed steps to restrict or prohibit tobacco product advertising and promotion, to increase taxes on tobacco products, to indirectly limit the use of certain types of tobacco, and to discourage tobacco product consumption. A number of such measures, including plain packaging, are included in the Framework Convention on Tobacco Control ("FCTC"), which was negotiated and promoted globally under the auspices of the World Health Organization ("WHO"). We cannot predict the extent or speed at which the efforts of governments or non-governmental agencies to reduce tobacco consumption might affect the business of our primary customers. However, a significant decrease in worldwide tobacco consumption brought about by existing or future governmental laws and regulations would reduce demand for tobacco products and services and could have a material adverse effect on our results of operations.

Government actions can have a significant effect on the sourcing of tobacco. If some of the current efforts are successful, we could have difficulty obtaining sufficient tobacco to meet our customers' requirements, which could have an adverse effect on our performance and results of operations.

The WHO, through the FCTC, created a formal study group in 2007 to identify and assess crop diversification initiatives and alternatives to growing leaf tobacco in countries whose economies depend upon tobacco production. If certain countries were to partner with the FCTC study group and seek to eliminate or significantly reduce leaf tobacco production, we could encounter difficulty in sourcing leaf tobacco to fill customer requirements, which could have an adverse effect on our results of operations.

Certain recommendations by the WHO, through the FCTC, may cause shifts in customer usage of certain styles of tobacco. As seen in countries like Canada and Brazil and in the European Union, efforts have been taken to eliminate ingredients from the manufacturing process for tobacco products. Recently, the FCTC and the FDA have discussed formulating a nicotine strategy (limitations on the level of nicotine allowed in tobacco and tobacco smoke). Such decisions could cause a change in requirements for certain styles of tobacco in particular countries. Shifts in customer demand from one type of tobacco to another could create sourcing challenges as requirements move from one origin to another.

Trade proposals have included provisions that could effectively allow governments to regulate tobacco products differently than other products. These "carve outs" could negatively impact the industry and reduce requirements for leaf tobacco.

In addition, continued government and public emphasis on environmental issues, including climate change, conservation, and natural resource management, could result in new or more stringent forms of regulatory oversight of industry activities, which may lead to increased levels of expenditures for environmental controls, land use restrictions affecting us or our suppliers, and other conditions that could have a material adverse effect on our business, financial condition, and results of operations. For example, certain aspects of our business generate carbon emissions. Regulatory restrictions on greenhouse gas emissions have been proposed. These may include limitations on such emissions, taxes or emission allowance fees on such emissions, various restrictions on industrial operations, and other measures that could affect land-use decisions, the cost of agricultural production, and the cost and means of processing and transporting our products. These actions could adversely affect our business, financial condition, and results of operations.

Because we conduct a significant portion of our operations internationally, political and economic uncertainties in certain countries could have an adverse effect on our performance and results of operations.

Our international operations are subject to uncertainties and risks relating to the political stability of certain foreign governments, principally in developing countries and emerging markets, and also to the effects of changes in the trade policies and economic regulations of foreign governments. These uncertainties and risks, which include undeveloped or antiquated commercial law, the expropriation, indigenization, or nationalization of assets, and the authority to revoke or refuse to renew business licenses and work permits, may adversely impact our ability to effectively manage our operations in those countries. We have substantial capital investments in South America and Africa, and the performance of our operations in those regions can materially affect our earnings. If the political situation in any of the countries where we conduct business were to deteriorate significantly, our ability to recover assets located there could be impaired. To the extent that we do not replace any lost volumes of tobacco with tobacco from other sources, or we incur increased costs related to such replacement, our financial condition or results of operations, or both, would suffer.

In addition, there have been recent public announcements by members of the U.S. Congress and President Trump and his administration regarding their plans to make substantial changes in the taxation of U.S. companies and their foreign operations, including the possible implementation of a border tax, tariff or increase in customs duties on products manufactured outside of, and imported into, the United States, as well as the renegotiation of U.S. trade agreements, including the North American Free Trade Agreement. In the event such taxes, tariffs, increased customs duties or other measures are implemented, they could have a materially adverse effect on our business, financial condition and results of operations. Due to broad uncertainty regarding the timing, content and extent of any regulatory changes in the United States or abroad, we cannot predict the impact, if any, that these changes could have to our business, financial condition and results of operations.

Changes in tax laws in the countries where we do business may adversely affect our results of operations.

Through our subsidiaries, we are subject to the tax laws of many jurisdictions. Changes in tax laws or the interpretation of tax laws can affect our earnings, as can the resolution of various pending and contested tax issues. In most jurisdictions, we regularly have audits and examinations by the designated tax authorities, and additional tax assessments are common. We believe that we comply with applicable tax laws in the jurisdictions where we operate, and we vigorously contest all significant tax assessments where we believe we are in compliance with the tax laws.

Financial Factors

Failure of our customers or suppliers to repay extensions of credit could materially impact our results of operations.

We extend credit to both suppliers and customers. A significant bad debt provision related to amounts due could adversely affect our results of operations. In addition, crop advances to farmers are generally secured by the farmers' agreement to deliver green tobacco. In the event of crop failure, delivery failure, or permanent reductions in crop sizes, full recovery of advances may never be realized, or otherwise could be delayed until future crops are delivered. See Notes 1 and 13 to the consolidated financial statements in Item 8 for more information on these extensions of credit.

Fluctuations in foreign currency exchange rates may affect our results of operations.

We account for most of our tobacco operations using the U.S. dollar as the functional currency. The international tobacco trade generally is conducted in U.S. dollars, and we finance most of our tobacco operations in U.S. dollars. Although this generally limits foreign exchange risk to the economic risk that is related to leaf purchase and production costs, overhead, and income taxes in the source country, significant currency movements could materially impact our results of operations. Changes in exchange rates can make a particular crop more or less expensive in U.S. dollar terms. If a particular crop is viewed as expensive in U.S. dollar terms, it may be less attractive in the world market. This could negatively affect the profitability of that crop and our results of operations. In tobacco markets that are primarily domestic, such as Eastern Europe and the Philippines, the local currency is the functional currency. In addition, the local currency is the functional currency in other markets, such as Western Europe, where export sales have been denominated primarily in local currencies. In these markets, reported earnings are affected by the translation of the local currency into the U.S. dollar. See Item 7A, "Qualitative and Quantitative Disclosure About Market Risk" for additional discussion related to foreign currency exchange risk.

Our purchases of tobacco are generally made in local currency, and we also provide farmer advances that are denominated in the local currency. We account for currency remeasurement gains or losses on those advances as period costs, and they are usually accompanied by offsetting increases or decreases in the purchase cost of tobacco, which is priced in the local currency. The effect of differences in the cost of tobacco is generally not realized in our earnings until the tobacco is sold, which often occurs in a quarter or fiscal year subsequent to the recognition of the related remeasurement gains or losses. The difference in timing could affect our profitability in a given quarter or fiscal year.

We have used currency hedging strategies to reduce our foreign currency exchange rate risks in some markets. In addition, where we source tobacco in countries with illiquid or nonexistent forward foreign exchange markets, we often manage our foreign exchange risk by matching funding for inventory purchases with the currency of sale and by minimizing our net investment in these countries. To the extent that we have net monetary assets or liabilities in local currency, and those balances are not hedged, we may have currency remeasurement gains or losses that will affect our results of operations.

Changes in interest rates may affect our results of operations.

We generally use both fixed and floating interest rate debt to finance our operations. Changes in market interest rates expose us to changes in cash flows for floating rate instruments and to changes in fair value for fixed-rate instruments. We normally maintain a proportion of our debt in both variable and fixed interest rates to manage this exposure, and from time to time we may enter hedge agreements to swap the interest rates. In addition, our customers may pay market rates of interest for inventory purchased on order, which could mitigate a portion of the floating interest rate exposure on short-term borrowings. To the extent we are unable to match these interest rates, a decrease in interest rates could increase our net financing costs. We also periodically have large cash balances and may receive deposits from customers, both of which we use to fund seasonal purchases of tobacco, reducing our financing needs. Decreases in short-term interest rates could reduce the income we derive from those investments. Changes in interest rates also affect expense related to our defined benefit pension plan, as described below.

Low investment performance by our defined benefit pension plan assets and changes in pension plan valuation assumptions may increase our pension expense and may require us to fund a larger portion of our pension obligations, thus diverting funds from other potential uses.

We sponsor domestic defined benefit pension plans that cover certain eligible employees. Our results of operations may be positively or negatively affected by the amount of expense we record for these plans. U.S. generally accepted accounting principles (“GAAP”) require that we calculate expense for the plans using actuarial valuations. These valuations reflect assumptions about financial market and other economic conditions that may change based on changes in key economic indicators. The most significant year-end assumptions we used to estimate pension expense for fiscal year 2017 were the discount rate, the expected long-term rate of return on plan assets, and the mortality rates. In addition, we are required to make an annual measurement of plan assets and liabilities, which may result in a significant change to shareholders’ equity through a reduction or increase to the “Pension and other postretirement benefit plans” component of Accumulated Other Comprehensive Loss. At the end of fiscal year 2017, the projected benefit obligation of our qualified U.S. pension plan was $223 million and plan assets were $207 million. For a discussion regarding how our financial statements can be affected by pension plan valuation assumptions, see “Critical Accounting Estimates – Pension and Other Postretirement Benefit Plans” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 and in Note 10 to the consolidated financial statements in Item 8. Although GAAP expense and pension funding contributions are not directly related, key economic factors that affect GAAP expense can also affect the amount of cash we are required to contribute to our pension plans under requirements of the Employee Retirement Income Security Act (“ERISA”). Failure to achieve expected returns on plan assets could also result in an increase to the amount of cash we would be required to contribute to our pension plans. In order to maintain or improve the funded status of our plans, we may also choose to contribute more cash to our plans than required by ERISA regulations.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We own the following significant properties (greater than 500,000 square feet):

Location	Principal Use	Building Area (Square Feet)
Flue-Cured and Burley Leaf Tobacco Operations:		
North America:		
United States		
Nash County, North Carolina	Factory and storages	1,323,000
Other Regions:		
Brazil		
Santa Cruz	Factory and storages	2,386,000
Malawi		
Lilongwe	Factory and storages	942,000
Mozambique		
Tete	Factory and storages	770,000
Philippines		
Agoo, La Union	Factory and storages	770,000
Tanzania		
Morogoro	Factory and storages	895,000
Zimbabwe		
Harare [1]	Factory and storages	1,445,000
Other Tobacco Operations:		
United States		
Lancaster, Pennsylvania	Factory and storages	793,000

(1) Owned by an unconsolidated subsidiary.

We lease headquarters office space of about 50,000 square feet at 9201 Forest Hill Avenue in Richmond, Virginia, which we believe is adequate for our current needs.

Our business involves, among other things, storing and processing green tobacco and storing processed tobacco. We operate processing facilities in major tobacco growing areas. In addition, we require tobacco storage facilities that are in close proximity to the processing facilities. We own most of the tobacco storage facilities, but we lease additional space as needs arise, and expenses related to such leases are not material. We believe that the properties currently utilized in our tobacco operations are maintained in good operating condition and are suitable and adequate for our purposes at our current volumes.

In addition to our significant properties listed above, we own other processing facilities in the following countries: Germany, Guatemala, Italy, the Netherlands, Poland, and the United States. In addition, we have an ownership interest in a processing plant in Mexico and have access to processing facilities in other areas, such as India, the People's Republic of China, and South Africa. Socotab L.L.C., an oriental tobacco joint venture in which we own a noncontrolling interest, owns tobacco processing plants in Turkey, Macedonia, and Bulgaria.

Except for the Lancaster, Pennsylvania facility, the facilities described above are engaged primarily in processing tobaccos used by manufacturers in the production of cigarettes. The Lancaster facility, as well as facilities in Brazil, the Dominican Republic, Indonesia, and Paraguay, process tobaccos used in making cigar, pipe, and smokeless products, as well as components of certain "roll-your-own" products.

Item 3. Legal Proceedings

Some of our subsidiaries are involved in litigation or legal matters incidental to their business activities. While the outcome of these matters cannot be predicted with certainty, we are vigorously defending the matters and do not currently expect that any of them will have a material adverse effect on our business or financial position. However, should one or more of these matters be resolved in a manner adverse to our current expectation, the effect on our results of operations for a particular fiscal reporting period could be material.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Equity

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "UVV." The following table sets forth the high and low sales prices per share of the common stock on the NYSE Composite Tape, based upon published financial sources, and the dividends declared on each share of common stock for the quarter indicated.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal Year Ended March 31, 2017				
Cash dividends declared	$ 0.53	$ 0.53	$ 0.54	$ 0.54
Market price range:				
High	57.75	61.69	64.20	83.35
Low	52.26	55.29	52.40	63.30
Fiscal Year Ended March 31, 2016				
Cash dividends declared	$ 0.52	$ 0.52	$ 0.53	$ 0.53
Market price range:				
High	57.76	58.41	57.72	57.27
Low	46.80	46.98	49.70	51.49

Our current dividend policy anticipates the payment of quarterly dividends in the future. However, the declaration and payment of dividends to holders of common stock is at the discretion of the Board of Directors and will be dependent upon our future earnings, financial condition, and capital requirements. Under certain of our credit facilities, we must meet financial covenants relating to minimum tangible net worth and maximum levels of debt. If we were not in compliance with them, these financial covenants could restrict our ability to pay dividends. We were in compliance with all such covenants at March 31, 2017. At May 19, 2017, there were 1,126 holders of record of our common stock. See Notes 5 and 11 to the consolidated financial statements in Item 8 for more information on debt covenants and equity securities.

Purchases of Equity Securities

As indicated in the following table, we did not repurchase shares of our common stock or our Series B 6.75% Convertible Perpetual Preferred Stock during the three-month period ended March 31, 2017.

	Common Stock			Series B 6.75% Convertible Perpetual Preferred Stock (4)			
Period (1)	Total Number of Shares Repurchased	Average Price Paid Per Share (2)	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs (3)	Total Number of Shares Repurchased	Average Price Paid Per Share (2)	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs (3)	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (3)
January 1-31, 2017	—	$ —	—	—	$ —	—	$100,000,000
February 1-28, 2017	—	—	—	—	—	—	100,000,000
March 1-31, 2017	—	—	—	—	—	—	100,000,000
Total	—	$ —	—	—	$ —	—	$100,000,000

(1) Repurchases are based on the date the shares were traded. This presentation differs from the consolidated statement of cash flows, where the cost of share repurchases is based on the date the transactions were settled.

(2) Amounts listed for average price paid per share include broker commissions paid in the transactions.

(3) A stock repurchase plan, which was authorized by our Board of Directors, became effective and was publicly announced on November 5, 2015. This stock repurchase plan authorizes the purchase of up to $100 million in

common and/or preferred stock in open market or privately negotiated transactions, subject to market conditions and other factors, and will expire on the earlier of November 15, 2017, or when we have exhausted the funds authorized for the program. The conversion of the remaining shares of our Series B 6.75% Convertible Perpetual Preferred Stock did not affect our stock repurchase plan.

(4) On January 9, 2017, the Company announced a mandatory conversion of all 107,418 remaining outstanding shares of the preferred stock after meeting the requirements to initiate the mandatory conversion under the original terms of the preferred shares. The Company chose to satisfy the full conversion obligation for the mandatory conversion in cash, paying approximately $178.4 million for those preferred shares on January 31, 2017 to complete the conversion.

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Item 6. Selected Financial Data

	Fiscal Year Ended March 31,				
	2017	2016	2015	2014	2013
	(in thousands, except share and per share data, ratios, and number of shareholders)				
Summary of Operations					
Sales and other operating revenues	$2,071,218	$2,120,373	$2,271,801	$2,542,115	$2,461,699
Operating income	$178,351	$181,647	$167,874	$246,151	$223,009
Segment operating income (1)	$188,484	$186,068	$167,225	$175,175	$232,757
Net income	$112,506	$118,148	$120,461	$155,155	$140,919
Net income attributable to Universal Corporation (2)	$106,304	$109,016	$114,608	$149,009	$132,750
Earnings available to Universal Corporation common shareholders	$20,890	$94,268	$99,748	$134,159	$117,900
Return on beginning common shareholders' equity	1.7 %	8.2 %	8.6 %	12.8 %	12.1 %
Earnings per share attributable to Universal Corporation common shareholders:					
Basic	$0.89	$4.16	$4.33	$5.77	$5.05
Diluted	$0.88	$3.92	$4.06	$5.25	$4.66
Financial Position at Year End					
Current ratio	5.83	6.65	5.96	3.66	2.77
Total assets	$2,123,405	$2,231,177	$2,186,476	$2,264,401	$2,285,987
Long-term debt	$368,733	$368,380	$368,027	$239,508	$180,060
Working capital	$1,293,403	$1,392,276	$1,329,770	$1,200,023	$1,094,764
Total Universal Corporation shareholders' equity	$1,286,489	$1,414,222	$1,378,230	$1,378,230	$1,258,571
General					
Ratio of earnings to fixed charges	10.25	10.22	8.46	10.73	8.87
Ratio of earnings to combined fixed charges and preference dividends	5.30	4.59	4.05	5.49	4.69
Number of common shareholders	1,131	1,182	1,225	1,295	1,354
Weighted average common shares outstanding:					
Basic	23,433,860	22,683,290	23,035,920	23,238,978	23,354,793
Diluted	23,770,088	27,825,491	28,221,264	28,392,033	28,478,058
Dividends per share of convertible perpetual preferred stock (annual)	$50.63	$67.50	$67.50	$67.50	$67.50
Dividends per share of common stock (annual)	$2.14	$2.10	$2.06	$2.02	$1.98
Book value per common share	$50.90	$52.94	$50.95	$50.19	$44.79

(1) The Company evaluates the performance of its segments based on operating income after allocated overhead expenses (excluding significant charges or credits), plus equity in the pretax earnings of unconsolidated affiliates. See Note 14 to the consolidated financial statements in Item 8 of this Annual Report.

(2) We hold less than a 100% financial interest in certain consolidated subsidiaries, and a portion of net income is attributable to the noncontrolling interests in those subsidiaries.

The calculations of the ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preference dividends are shown in Exhibit 12. Fixed charges primarily represent interest expense we incurred during the designated fiscal year, and preference dividends represent the pretax equivalent of dividends on preferred stock. Significant items included in the operating results in the above table are as follows:

- Fiscal Year 2017 – $4.4 million restructuring and impairment costs, primarily related to our decision to close our tobacco processing facility in Hungary. We are now processing tobaccos sourced from Hungary in our facilities in Italy. The restructuring and impairment costs reduced net income by $2.8 million, or $0.10 per diluted share. In addition, all 218,490 outstanding shares of our Series B 6.75% Convertible Perpetual Preferred Stock were converted during the third and fourth quarters. Of the total shares converted, 107,418 shares were converted for cash, resulting in a reduction of retained earnings of approximately $74.4 million for the excess of the conversion cost over the carrying value of the shares. The reduction in retained earnings resulted in a corresponding one-time reduction of earnings available to common shareholders for purposes of determining the amounts reported for basic and diluted earnings per share for the year. The reduction in earnings available to common shareholders decreased diluted earnings per share by $2.99.
- Fiscal Year 2016 – a $3.4 million pretax gain arising from the acquisition of a joint venture partner's 50% ownership interest in a tobacco processing entity in Guatemala. The transaction increased our ownership interest in the entity to 100%, requiring us to consolidate the financial statements of the entity and to remeasure our original 50% ownership interest to fair value, resulting in the gain. In addition, we recorded restructuring and impairment costs of $2.4 million related to a decision to significantly scale back our operations in Zambia. The net effect of the gain and the restructuring and impairment costs increased pretax income by $1 million and net income by $0.7 million, or $0.02 per diluted share.
- Fiscal Year 2015 – a $12.7 million benefit to pretax earnings from the reversal of a valuation allowance on the remaining unused balance of the excise tax credits realized from the favorable outcome of litigation by our subsidiary in Brazil in fiscal year 2014. In addition, we recorded a consolidated income tax benefit of $8.0 million arising from the ability of our subsidiary, Deltafina S.p.A. ("Deltafina"), to pay a significant portion of the European Commission fine and related interest charges settled during the first quarter following the unsuccessful appeal of the case related to tobacco buying practices in Italy. The effect of those items was partially offset by restructuring costs of $4.9 million, primarily related to downsizing certain functions at our operations in Brazil and the decision to suspend our operations in Argentina. On a combined basis, the net effect of these items increased pretax income by $7.8 million and net income by $13.1 million, or $0.46 per diluted share.
- Fiscal Year 2014 – an $81.6 million pretax gain resulting from the favorable outcome of litigation by our operating subsidiary in Brazil related to previous years' excise tax credits. In addition to the gain, we recorded restructuring costs of $6.7 million, primarily related to the closure of a tobacco processing facility in Brazil and the consolidation of these operations into our main processing facility there. The net effect of the gain and the restructuring costs increased pretax income by $74.9 million and net income by $48.7 million, or $1.72 per diluted share.
- Fiscal Year 2013 – $4.1 million in restructuring costs, primarily related to workforce reductions in Africa. The effect of those charges was a reduction in net income of $1.8 million, or $0.06 per diluted share.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations is provided to enhance the understanding of, and should be read in conjunction with, Part I, Item 1, “Business” and Item 8, “Financial Statements and Supplementary Data.” For information on risks and uncertainties related to our business that may make past performance not indicative of future results, or cause actual results to differ materially from any forward-looking statements, see “General,” and Part I, Item 1A, “Risk Factors.”

OVERVIEW

We are the leading global leaf tobacco supplier. We derive most of our revenues from sales of processed tobacco to manufacturers of tobacco products throughout the world and from fees and commissions for specific services. We hold a strategic position in the world leaf markets where we work closely with both our customers and farmers to ensure that we deliver a compliant product that meets our customers' needs while promoting a strong supplier base. We adapt to meet changes in customer requirements as well as broader changes in the leaf markets, while continuing to provide the stability of supply and high level of service that distinguishes us in the marketplace. We believe that we have successfully met the needs of both our customers and suppliers while adapting to changes in leaf markets. Over the last three fiscal years, we have generated over $660 million in net cash flow from operations, invested over $145 million in our businesses, settled the mandatory conversion of our Series B 6.75% Convertible Perpetual Preferred Stock ("Series B Preferred Stock") for about $178 million in cash, and returned over $210 million to our shareholders through a combination of dividends and share repurchases.

We have also faced challenging market conditions over the last three fiscal years. In fiscal year 2015, declines in some of our customers’ sales volumes in the U.S. and Western European markets, partially due to weak economic conditions, reduced demand for leaf tobacco. At the same time, crops sold in fiscal year 2015 were larger than those sold in fiscal year 2014. Given fiscal year 2015’s oversupplied market conditions, we were pleased with the results we achieved. We ended the year with strong fourth quarter results, which helped to bring our segment operating earnings for the fiscal year in line with our expectations. We also realized higher margins and maintained our solid financial position. We believe that our performance that year demonstrated our ability to execute well on our objective of delivering a compliant product in an efficient manner to our customers, under challenging circumstances.

We achieved improved results in fiscal year 2016, after managing through a second year of oversupplied market conditions. As anticipated, we ended the year with strong fourth quarter volumes, primarily driven by later timing of customer shipping orders in Brazil and Asia, and the positive change in leaf supply arrangements in our North America segment. We also achieved modest growth in overall volumes for the full fiscal year and improved our margins, and our selling, general, and administrative costs were lower. Our inventories continued to be well-managed, and uncommitted stocks declined from fiscal year 2015’s level, in line with our target.

We delivered solid results again in fiscal year 2017 despite supply headwinds, most notably from the weather-reduced crop sizes in Brazil and ongoing challenging market conditions in Tanzania. Although we had anticipated ending the year with slightly lower volumes, earlier shipment timing as well as attractive green prices in some origins resulting in some additional purchases by our customers boosted shipments later in our fiscal year, allowing us to improve our market share and achieve lamina sales volumes that were slightly above those of the prior fiscal year.

Our segment operating income for the 2017 fiscal year was also improved, primarily attributable to a reduction in selling, general, and administrative costs and earlier receipt of distributions from unconsolidated subsidiaries. We believe that our success reflects our continuing efforts to bring efficiencies to the leaf tobacco supply chain. Through the hard work of our dedicated employees around the world, we have been able to expand services that we provide our customers and, despite continuing slow decline in demand for consumer tobacco products, maintain our volumes handled.

We also maintained our strong balance sheet in fiscal year 2017, and our lower working capital requirements from smaller crops and prudent buying programs helped us to retain the necessary cash reserves to support our working capital needs in fiscal year 2018. In addition, in fiscal year 2017, we continued our focus on providing returns to our shareholders through completion of the conversion of our preferred stock, increasing the common dividend rate, and returning more than $60 million in dividends.

As we move into fiscal year 2018, we are forecasting that global flue-cured tobacco production outside of China will increase by about 9%, largely from the recovery of the Brazilian crop due to better weather conditions there, and that burley tobacco production will decrease by approximately 8%, primarily due to reductions in Africa. Although it is too early to determine whether the additional purchases by customers in fiscal year 2017 may impact their requirements in fiscal year 2018, we continue to strive to be our customers’ supplier of choice, providing them compliant products and quality services at a competitive price.

RESULTS OF OPERATIONS

Amounts described as net income and earnings per diluted share in the following discussion are attributable to Universal Corporation and exclude earnings related to non-controlling interests in subsidiaries. The total for segment operating income referred to in the discussion below is a non-GAAP financial measure. This measure is not a financial measure calculated in accordance with GAAP and should not be considered as a substitute for net income, operating income, cash flows 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. We have provided a reconciliation of the total for segment operating income to consolidated operating income in Note 14. "Operating Segments" to the consolidated financial statements in Item 8. We evaluate our segment performance excluding certain significant charges or credits. We believe this measure, which excludes these items that we believe are not indicative of our core operating results, provides investors with important information that is useful in understanding our business results and trends.

Fiscal Year Ended March 31, 2017, Compared to the Fiscal Year Ended March 31, 2016

Net income for the fiscal year ended March 31, 2017, was $106.3 million, or $0.88 per diluted share, compared with fiscal year 2016’s net income of $109.0 million, or $3.92 per diluted share. The fiscal year 2017 results included a one-time reduction of earnings available to common shareholders of $74.4 million, or $2.99 per diluted share, for purposes of determining the amounts reported for basic and diluted earnings per share, from the conversion for cash of the remaining outstanding shares of our Series B 6.75% Convertible Perpetual Preferred Stock under the mandatory conversion in January 2017. That one-time reduction and certain other non-recurring items are detailed in Other Items below. Excluding those items, diluted earnings per share for the fiscal year of $3.97 increased $0.07 compared to the same period last year. Operating income of $178.4 million for the fiscal year ended March 31, 2017, was down $3.3 million compared to the fiscal year ended March 31, 2016. Segment operating income, which excludes non-recurring items, was $188.5 million for fiscal year 2017, an increase of $2.4 million from the prior year, primarily attributable to improved results for the North America segment, partly offset by a decline for the Other Tobacco Operations segment. Revenues of $2.1 billion for fiscal year 2017 were relatively flat compared with the previous year, as the slightly higher volumes and a benefit from earlier receipt of distributions from unconsolidated subsidiaries were offset by lower green leaf costs and lower processing revenues.

Flue-cured and Burley Leaf Tobacco Operations

Other Regions

Operating income for the Other Regions segment for the fiscal year ended March 31, 2017, of $143.3 million, was nearly flat, down only $0.3 million compared to $143.6 million in the previous fiscal year. Total volumes for the segment declined, but overall margins improved, benefitting from lower selling, general, and administrative expenses and timing of receipt of distributions from unconsolidated subsidiaries. Africa volumes were slightly lower, reflecting challenging market conditions in Tanzania which offset volume improvements in other origins. South America’s results were down, continuing the trend noted throughout the fiscal year from lower volumes and higher factory unit costs as a result of the reduced buying program and lower third-party processing volumes there this year. Selling, general, and administrative expenses for the segment were down significantly for the fiscal year on several items, including the favorable comparison to costs incurred in fiscal year 2016 to settle challenges regarding property rights and valuation of forestry land in South America, the reversal of value-added tax reserves, lower net foreign currency and exchange remeasurement losses, and a reduction in provisions for supplier advances compared to the previous fiscal year. Revenues for the segment were down about $116.0 million to $1.4 billion, on the lower sales volumes at lower average green leaf prices and lower processing revenues, offset in part by increased distributions from unconsolidated subsidiaries.

North America

Operating income for the North America segment was $35.2 million for the fiscal year ended March 31, 2017, up $4.0 million compared with the previous year. Earnings improvements were driven mainly by higher sales volumes, partially due to earlier timing of current crop shipments in fiscal 2017. However, margins for the year were lower from a less favorable product mix, as well as reduced factory yields on weather affected U.S. crops. Fiscal year 2017 revenues for the segment increased by $54.6 million to $416.4 million compared to the previous fiscal year, on those higher sales volumes, at lower green leaf prices, and a less favorable product mix.

Other Tobacco Operations

For the fiscal year ended March 31, 2017, the Other Tobacco Operations segment operating income decreased by $1.3 million to $10.0 million compared with the same period last year. Earnings improved modestly for the dark tobacco operations as higher domestic volumes were largely offset by a less favorable sales mix and higher inventory write-downs this year. Results from the oriental joint venture also improved for the period mainly on favorable comparisons due to tax accruals in the prior year. Those improvements were outweighed by higher losses in the special services group, primarily for the new food ingredients business. Higher selling, general, and administrative costs for the segment also contributed to the declines. Revenues for the segment were up by $12.2 million to $231.8 million for the year ended March 31, 2017, mostly due to increased volumes from the timing of shipments of oriental tobaccos into the United States compared to the previous year.

Other Items

Cost of goods sold decreased by about 2% to $1.7 billion for the fiscal year ended March 31, 2017. The decline was consistent with a comparable percentage decline in revenues, mostly as a result of lower green leaf prices. Selling, general, and administrative costs decreased by $14.7 million, or 6%, for the fiscal year ended March 31, 2017, compared with the prior fiscal year. The decline in fiscal year 2017 was mainly due to the favorable comparison to costs incurred in fiscal year 2016 to settle challenges regarding property rights and valuation of forestry land in South America, the reversal of value-added tax reserves, and lower net foreign currency and exchange remeasurement losses compared to the previous fiscal year.

The consolidated effective income tax rates were approximately 34% and 32% for the fiscal years ended March 31, 2017 and 2016, respectively. Income taxes in both fiscal years were lower than the 35% federal statutory rate on a combination of lower net effective tax rates on income from certain foreign subsidiaries, and effects of changes in local currency exchange rates on deferred income tax balances, mainly in Brazil.

In December 2016, 111,072 shares of the Series B 6.75% Convertible Perpetual Preferred Stock were converted into approximately 2.5 million shares of our common stock. In January 2017, we announced a mandatory conversion of all 107,418 remaining outstanding shares of the preferred stock after meeting the requirements to initiate the mandatory conversion under the original terms of the preferred shares. We chose to satisfy the conversion obligation for the mandatory conversion in cash. Although the conversions of the preferred stock into common stock or for cash did not impact net income, the shares converted for cash under the mandatory conversion in January 2017 resulted in a one-time reduction of retained earnings of approximately $74.4 million during the quarter ended March 31, 2017, representing the excess of the conversion cost over the carrying value of those shares. The reduction in retained earnings resulted in a corresponding one-time reduction of earnings available to common shareholders for the fiscal year ending March 31, 2017 for purposes of determining the amounts reported for basic and diluted earnings per share. The effect of the mandatory conversion on diluted earnings per share for the fiscal year ended March 31, 2017, was ($2.99).

Results for the year ended March 31, 2017, also included restructuring and impairment costs of $4.4 million ($0.10 per diluted share). Results for the year ended March 31, 2016, included restructuring and impairment costs of $2.4 million ($0.06 per diluted share) and a gain of $3.4 million ($0.08 per diluted share) on remeasuring our interest in a tobacco processing joint venture to fair value upon acquiring our partner's 50% ownership in the third fiscal quarter.

Fiscal Year Ended March 31, 2016, Compared to the Fiscal Year Ended March 31, 2015

Net income for the fiscal year ended March 31, 2016, was $109.0 million, or $3.92 per diluted share, compared with net income for the fiscal year ended March 31, 2015, of $114.6 million, or $4.06 per diluted share. Those results included certain non-recurring items, detailed in Other Items below, which increased diluted earnings per share by $0.02 and $0.46 for the years ended March 31, 2016 and 2015, respectively. Excluding those items in both years, net income for fiscal year 2016 increased $6.8 million ($0.30 per diluted share) compared to the same period in fiscal year 2015. Segment operating income, which excludes those items, was $186.1 million for fiscal year 2016, an increase of $18.8 million, or 11%, from fiscal year 2015. That improvement was primarily attributable to a reduction in selling, general, and administrative costs, as well as improved gross margins on fiscal year 2016's modestly higher sales volumes. Revenues of $2.1 billion for fiscal year 2016 declined 7% compared with fiscal year 2015, driven mainly by lower green leaf costs and lower processing revenues, partly mitigated by the increase in volumes.

Flue-cured and Burley Leaf Tobacco Operations

Other Regions

Operating income for the Other Regions segment for the fiscal year ended March 31, 2016, was $143.6 million, up 14% compared to $125.8 million for the fiscal year ended March 31, 2015. Better margins, fewer inventory write-downs, and lower selling, general, and administrative expenses drove the earnings improvement. These positive factors outweighed lower margins in Europe and the currency translation effects of a stronger U.S. dollar which negatively impacted results from that region. Strong volumes in most regions were offset by declines in Africa on smaller crop sizes in some origins compared to fiscal year 2015. Selling, general, and administrative expenses for the segment were down significantly for the fiscal year ended March 31, 2016, largely on reductions in local currency-denominated expenses from devaluation of foreign currencies, mainly in South America and Africa, and lower incentive compensation costs. Revenues for the segment were down about 12% to $1.5 billion, driven mostly by lower average green leaf prices and the modestly reduced volumes.

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North America

Operating income for the North America segment for the fiscal year ended March 31, 2016, of $31.1 million was flat compared with the fiscal year ended March 31, 2015. Earnings improvements from sales volume increases, due in part to old crop sales in the first fiscal quarter of fiscal year 2016, and the previously announced change in business with Philip Morris International, Inc. in the United States from a toll processing model to sales of processed tobacco, were offset by lower margins and lower earnings from Guatemala and Mexico. In addition, processing volumes declined significantly compared with fiscal year 2015 as a result of that change in business, and a portion of crop volumes sold under this new arrangement carried over as shipments in fiscal year 2017. Fiscal year 2016 revenues for the segment increased by 19% to $361.8 million compared to fiscal year 2015, on higher sales volumes at lower green leaf prices, a less favorable product mix, and lower processing revenues.

Other Tobacco Operations

For the fiscal year ended March 31, 2016, the Other Tobacco Operations segment operating income increased by $1.0 million to $11.3 million compared with the fiscal year ended March 31, 2015. Earnings were up significantly for the dark tobacco operations on higher volumes, better margins, and lower selling, general, and administrative costs. That improvement was partly offset by lower results from the oriental joint venture as benefits from improved margins and lower overhead costs were outweighed by higher currency remeasurement losses and tax accruals. The special services group incurred losses for fiscal year 2016, mainly from startup and production testing costs for the new food ingredients business. Revenues for the segment were down by $7.4 million to $219.6 million for the fiscal year ended March 31, 2016, as the higher volumes for the dark tobacco operations were more than offset by reduced volumes at lower prices from the timing of shipments of oriental tobaccos into the United States compared to the fiscal year ended March 31, 2015.

Other Items

Cost of goods sold decreased by about 8% to $1.7 billion for the fiscal year ended March 31, 2016, primarily due to lower green leaf prices and the effects of local-currency devaluations on factory costs compared with the fiscal year ended March 31, 2015. Selling, general, and administrative costs decreased by $23.5 million for the fiscal year ended March 31, 2016, compared with the fiscal year ended March 31, 2015. The decline for fiscal year 2016 was mainly driven by reductions in local currency-denominated expenses from devaluation of foreign currencies in South America and Africa, and lower incentive compensation costs, reduced in part by higher net currency and exchange losses in Asia, as well as costs to settle challenges regarding property rights and valuation in South America.

Interest expense of $15.7 million for the fiscal year ended March 31, 2016, declined by about 8% compared to the fiscal year ended March 31, 2015. The reduction was mostly due to lower average short-term borrowings for seasonal working capital, offset in part by higher effective interest rates on long-term bank loans from fixed interest rate swaps entered on those loans in the fourth quarter of fiscal 2015. The consolidated effective tax rate for the fiscal year ended March 31, 2016, was approximately 32% compared to about 24% for the fiscal year ended March 31, 2015. Income taxes for fiscal year 2015 were reduced by a non-recurring benefit of $8.0 million arising from the partial payment of the European Commission fine by our Italian subsidiary in June 2014. In both fiscal year 2016 and 2015, the decrease from the 35% U.S. statutory rate was also influenced by lower net effective tax rates on income from certain foreign subsidiaries, as well as the effects of changes in local currency exchange rates on deferred income tax balances.

Results for the year ended March 31, 2016, included restructuring and impairment costs of $2.4 million ($0.06 per diluted share) and a gain of $3.4 million ($0.08 per diluted share) on remeasuring our interest in a tobacco processing joint venture to fair value upon acquiring our partner's 50% ownership in the third fiscal quarter. Results for the year ended March 31, 2015, included an income tax benefit of $8.0 million ($0.28 per diluted share) arising from a subsidiary's payment of a portion of a fine, restructuring costs of $4.9 million ($0.11 per diluted share), and a gain of $12.7 million ($0.29 per diluted share), from updated projections related to the favorable outcome in fiscal year 2014 of litigation in Brazil regarding previous years' excise tax credits.

Accounting Pronouncements

See "Accounting Pronouncements" in Note 1 to the consolidated financial statements in Item 8 of this Annual Report for a discussion of recent accounting pronouncements issued by the Financial Accounting Standards Board ("FASB") that will become effective and be adopted by the Company in future reporting periods.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our working capital requirements in fiscal year 2017 were lower than those in fiscal year 2016 due in part to reduced purchase volumes in Brazil. Our buying program in Brazil was reduced in fiscal year 2017 due to the smaller size of the Brazilian crop, largely from El Nino weather patterns, and unsustainable green leaf prices. Similar to last year, our shipments were heavily weighted to the second half of the fiscal year. In fiscal year 2017, we generated $250.3 million in cash flows from our operating activities, and our liquidity was sufficient to meet our needs, including the $178.4 million cash settlement of the mandatory conversion of the remainder of our Series B 6.75% Convertible Perpetual Preferred Stock ("Series B Preferred Stock") in the fourth fiscal quarter. We also continued our conservative financial policies, maintained our discipline on using our free cash flow, and returned funds to shareholders.

Our liquidity and capital resource requirements are predominately short-term in nature and primarily relate to working capital required for tobacco crop purchases. Working capital needs are seasonal within each geographic region. The geographic dispersion and the timing of working capital needs permit us to predict our general level of cash requirements, although crop sizes, prices paid to farmers, shipment and delivery timing, and currency fluctuations affect requirements each year. Peak working capital requirements are generally reached during the first and second fiscal quarters. Each geographic area follows a cycle of buying, processing, and shipping tobacco, and in many regions we also provide agricultural materials to farmers during the growing season. The timing of the elements of each cycle is influenced by such factors as local weather conditions and individual customer shipping requirements, which may change the level or the duration of crop financing. Despite a predominance of short-term needs, we maintain a portion of our total debt as long-term to reduce liquidity risk. We also periodically have large cash balances that we utilize to meet our working capital requirements.

We believe that our financial resources are adequate to support our capital needs for at least the next twelve months. Our seasonal borrowing requirements primarily relate to purchasing crops in South America and Africa and can increase from March to September by more than $300 million. The funding required can vary significantly depending upon such factors as crop sizes, the price of leaf, the relative strength of the U.S. dollar, and the timing of shipments and customer payments. We deal with this uncertainty by maintaining substantial credit lines and cash balances. In addition to our operating requirements for working capital, we expect to spend around $35 to $45 million during fiscal year 2018 for capital expenditures to maintain our facilities and invest in opportunities to grow and improve our businesses. We also expect to provide about $8 million in funding to our pension plans. We have no long-term debt maturing before fiscal year 2020. After balancing our capital structure, any excess cash flow from operations after dividends and capital expenditures will be available to fund expansion, purchase our stock, or otherwise enhance shareholder value.

Cash Flow

Our operations generated about $250.3 million in operating cash flows in fiscal year 2017. That amount was about $63.8 million higher than the $186.5 million we generated in fiscal year 2016, largely due to lower working capital requirements in fiscal year 2017 on the reduced purchase volumes in Brazil, as well as earlier shipment timing in North America and increased trade payables and accrued expenses in Brazil and Africa. During the fiscal year ended March 31, 2017, we spent $35.6 million on capital projects, settled the mandatory conversion of our Series B Preferred Stock for $178.4 million in cash, and returned $60.9 million to shareholders in the form of dividends. At March 31, 2017, cash balances totaled $284.0 million.

Working Capital

Working capital at March 31, 2017, was about $1.3 billion, down $98.9 million from last year's level of about $1.4 billion, largely due to reduced purchase volumes in Brazil, earlier shipment timing in North America, and increased trade payables and accrued expenses in Brazil and Africa in fiscal year 2017 compared to fiscal year 2016. Tobacco inventories of $565.9 million at March 31, 2017, were down $71.2 million compared to inventory levels at the end of the prior fiscal year, largely on the lower purchase volumes and earlier shipments. We usually finance inventory with a mix of cash, notes payable, and customer deposits, depending on our borrowing capabilities, interest rates, and exchange rates, as well as those of our customers. We generally do not purchase material quantities of tobacco on a speculative basis. However, when we contract directly with farmers, we are often obligated to buy all stalk positions, which may contain less marketable leaf styles. Our uncommitted tobacco inventories decreased by approximately $4.6

million to $116.2 million, or about 21% of tobacco inventory, at March 31, 2017. Uncommitted inventories at March 31, 2016, were $120.8 million, which represented 19% of tobacco inventory. The level of these uncommitted inventories is influenced by timing of farmer deliveries of new crops, as well as the receipt of customer orders.

Share Activity

During December 2016, holders of 111,072 shares of our Series B Preferred Stock voluntarily exercised their conversion rights. These shares were converted into 2,487,118 shares of our common stock. In January 2017, we exercised our option to mandatorily convert all remaining outstanding shares of our Series B Preferred Stock and elected to settle our conversion obligation in cash. Holders of the Series B Preferred Stock received the product of the conversion rate, 22.4306, and the average volume weighted average price of Universal's common stock during the cash settlement averaging period for each share of Series B Preferred Stock converted. The cash settlement occurred on January 31, 2017, and totaled approximately $178.4 million on the 107,418 shares of Series B Preferred Stock converted. We used cash on hand for the settlement. All rights of the holders with respect to the Series B Preferred Stock terminated upon conversion. The Series B Preferred Stock dividends, totaling approximately $15 million per annum, are no longer paid.

Our Board of Directors approved our current share repurchase program in November 2015. The program expires in November 2017, authorizes the purchase of up to $100 million of our common and preferred stock. Under the current authorization, we may purchase shares from time to time on the open market or in privately negotiated transactions at prices not exceeding prevailing market rates. In determining our level of common share repurchase activity, our intent is to use only cash available after meeting our anticipated capital investment, dividend, and working capital requirements. Repurchases of shares under the repurchase program may vary based on management discretion, as well as changes in cash flow generation and availability. During fiscal year 2017, we did not purchase any shares of our common or preferred stock under this program. At March 31, 2017, our available authorization under our current share repurchase program was $100 million, and approximately 25.3 million common shares were outstanding.

Capital Spending

Our capital expenditures are generally limited to those that add value, replace or maintain equipment, increase efficiency, or position us for future growth. In deciding where to invest capital resources, we look for opportunities where we believe we can earn an adequate return, leverage our assets and expertise, and enhance our farmer base. During fiscal years 2017 and 2016, we invested $35.6 million and $47.2 million, respectively, in our property, plant, and equipment. Depreciation expense was approximately $35.9 million and $36.8 million, respectively, in fiscal years 2017 and 2016. Generally, our capital spending on maintenance projects is at a level below depreciation expense in order to maintain strong cash flow. In addition, from time to time, we undertake projects that require capital expenditures when we identify opportunities to improve efficiencies, add value for our customers, and position ourselves for future growth. We currently plan to spend approximately $35 to $45 million in fiscal year 2018 on capital projects for maintenance of our facilities and other investments to grow and improve our businesses.

Outstanding Debt and Other Financing Arrangements

We consider the sum of notes payable and overdrafts, long-term debt (including any current portion), and customer advances and deposits, less cash, cash equivalents, and short-term investments on our balance sheet to be our net debt. We also consider our net debt plus shareholders' equity to be our net capitalization. Net debt increased by $23.3 million to $154.9 million during the fiscal year ended March 31, 2017. The increase primarily reflects lower cash balances due mainly to the cash settlement of our Series B Preferred Stock mandatory conversion in the fourth fiscal quarter. Net debt as a percentage of net capitalization was approximately 11% at March 31, 2017, up from 9% at March 31, 2016, and it remains lower than our target limit for peak borrowings of 30% to 40% of net capitalization. As of March 31, 2017, we had $430 million available under a committed revolving credit facility that will mature in December 2019, and we, together with our consolidated affiliates, had approximately $307 million in uncommitted lines of credit, of which approximately $248 million were unused and available to support seasonal working capital needs. The financial covenants under our committed revolving credit facility require us to maintain certain levels of tangible net worth and observe restrictions on debt levels. As of March 31, 2017, we were in compliance with all covenants of our debt agreements. We also have an active, undenominated universal shelf registration filed with the SEC in November 2014 that provides for future issuance of additional debt or equity securities. We have no long-term debt maturing in fiscal year 2018.

Derivatives

From time to time, we use interest rate swap agreements to manage our exposure to changes in interest rates. Currently, we have interest rate swap agreements that convert the variable benchmark LIBOR rate on our two outstanding term loans to fixed rates. With the swap agreements in place, the effective interest rates on our $150 million five-year term loan and $220 million seven-year term loan were 2.94% and 3.48%, respectively, as of March 31, 2017. These agreements were entered into to eliminate the variability of cash flows in the interest payments on our variable rate five- and seven-year term loans and are accounted for as cash flow hedges. Under the swap agreements, we receive variable rate interest and pay fixed rate interest. At March 31, 2017, the fair value of our open interest rate hedge swaps was a net asset of approximately $2 million.

We also enter forward contracts from time to time to hedge certain foreign currency exposures, primarily related to forecast purchases of tobacco and related processing costs in Brazil, as well as our net monetary asset exposure in local currency there. We generally account for our hedges of forecast tobacco purchases as cash flow hedges. At March 31, 2017, the fair value of those open contracts was an immaterial net asset. We also had other forward contracts outstanding that were not designated as hedges, and the fair value of those contracts was a net asset of approximately $0.8 million at March 31, 2017. For additional information, see Note 8 to the consolidated financial statements in Item 8.

Pension Funding

Funds supporting our ERISA-regulated U.S. defined benefit pension plan increased by $10 million during fiscal year 2016 to $207 million, as contributions and asset returns exceeded benefit payments. The accumulated benefit obligation ("ABO") and the projected benefit obligation ("PBO") were both approximately $223 million as of March 31, 2017. The ABO and PBO are calculated on the basis of certain assumptions that are outlined in Note 10 to the consolidated financial statements in Item 8. We expect to make contributions of about $8 million to our pension plans, including $6 million to our ERISA-regulated plan, during the next year. It is our policy to regularly monitor the performance of the funds and to review the adequacy of our funding and plan contributions.

Contractual Obligations

Our contractual obligations as of March 31, 2017, were as follows:

(in thousands of dollars)	Total	2018	2019-2020	2021-2022	After 2022
Notes payable and long-term debt [1]	$479,404	$73,007	$173,012	$233,385	$—
Operating lease obligations	50,774	11,512	15,706	9,859	13,697
Inventory purchase obligations:					
Tobacco	690,111	622,408	67,703	—	—
Agricultural materials	43,103	43,103	—	—	—
Other purchase obligations	5,314	5,314	—	—	—
Total	$1,268,706	$755,344	$256,421	$243,244	$13,697

(1) Includes interest payments. Interest payments on $429.1 million of variable rate debt were estimated based on rates as of March 31, 2017. The Company has entered into interest rate swaps that effectively convert the interest payments on the $370.0 million outstanding balance of its two bank term loans from variable to fixed. The fixed rate has been used to determine the contractual interest payments for all periods.

In addition to principal and interest payments on notes payable and long-term debt, our contractual obligations include operating lease payments, inventory purchase commitments, and capital expenditure commitments. Operating lease obligations represent minimum payments due under leases for various production, storage, distribution, and other facilities, as well as vehicles and equipment. Tobacco inventory purchase obligations primarily represent contracts to purchase tobacco from farmers. The amounts shown above are estimates since actual quantities purchased will depend on crop yield, and prices will depend on the quality of the tobacco delivered. About 43% of our crop year contracts to purchase tobacco are with farmers in Brazil. We have partially funded our tobacco purchases in Brazil and in other regions with advances to farmers and other suppliers, which totaled approximately $104 million, net of allowances, at March 31, 2017. In addition, we have guaranteed bank loans to farmers in Brazil that relate to a portion of our tobacco purchase obligations there. At March 31, 2017, we were contingently liable under those guarantees for outstanding balances of approximately $17 million (including accrued interest), and we had recorded a liability of approximately $1 million for the fair value of those guarantees. As tobacco is purchased and the related bank loans are repaid, our contingent liability is reduced.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing the financial statements in accordance with GAAP, we are required to make estimates and assumptions that have an impact on the assets, liabilities, revenue, and expense amounts reported. These estimates can also affect our supplemental information disclosures, including information about contingencies, risks, and financial condition. We believe, given current facts and circumstances, that our estimates and assumptions are reasonable, adhere to GAAP, and are consistently applied. However, changes in the assumptions used could result in a material adjustment to the financial statements. Our critical accounting estimates and assumptions are in the following areas:

Inventories

Inventories of tobacco are valued at the lower of cost or market with cost determined under the specific cost method. Raw materials are clearly identified at the time of purchase. We track the costs associated with raw materials in the final product lots, and maintain this identification through the time of sale. We also capitalize direct and indirect costs related to processing raw materials. This method of cost accounting is referred to as the specific cost or specific identification method. We write down inventory for changes in market value based upon assumptions related to future demand and market conditions if the indicated market value is below cost. Future demand assumptions can be impacted by changes in customer sales, changes in customers’ inventory positions and policies, competitors’ pricing policies and inventory positions, and varying crop sizes and qualities. Market conditions that differ significantly from those assumed by management could result in additional write-downs. We experience inventory write-downs routinely. Inventory write-downs in fiscal years 2017, 2016, and 2015 were $10.9 million, $11.9 million, and $18.6 million, respectively. The Company incurred a higher level of inventory write-downs in fiscal year 2015 primarily due to the effects of oversupply conditions in the global leaf tobacco markets.

Advances to Suppliers and Guarantees of Bank Loans to Suppliers

In many sourcing origins, we provide tobacco growers with agronomy services and seasonal crop advances of, or for, seed, fertilizer, and other supplies. These advances are short term in nature and are customarily repaid upon delivery of tobacco to us. In several origins, we have also made long-term advances to tobacco farmers to finance curing barns and other farm infrastructure. In Brazil, we also guarantee bank loans made to farmers for seasonal crop financing. In some years, due to low crop yields and other factors, individual farmers may not deliver sufficient volumes of tobacco to repay maturing advances. In those cases, we may extend repayment of the advances into the following crop year or satisfy the guarantee by acquiring the loan from the bank. In either situation, we will incur losses whenever we are unable to recover the full amount of the loans and advances. At each reporting period, we must make estimates and assumptions in determining the valuation allowance for advances to farmers and the liability to accrue for our obligations under bank loan guarantees. At March 31, 2017, the gross balance of advances to suppliers totaled approximately $134 million, and the related valuation allowance totaled approximately $27 million. The fair value of the loan guarantees for farmers in Brazil was a liability of approximately $1 million at March 31, 2017.

Recoverable Value-Added Tax Credits

In many foreign countries, we pay significant amounts of value-added tax (“VAT”) on purchases of unprocessed and processed tobacco, crop inputs, packing materials, and various other goods and services. In some countries, VAT is a national tax, and in other countries it is assessed at the state level. Items subject to VAT vary from jurisdiction to jurisdiction, as do the rates at which the tax is assessed. When we sell tobacco to customers in the country of origin, we generally collect VAT on those sales. We are normally permitted to offset our VAT payments against those collections and remit only the incremental VAT collections to the tax authorities. When tobacco is sold for export, VAT is normally not assessed. In countries where our tobacco sales are predominately for export markets, we often do not generate enough VAT collections on downstream sales to fully offset our VAT payments. In those situations, we can accumulate unused VAT credits. Some jurisdictions have procedures that allow companies to apply for refunds of unused VAT credits from the tax authorities, but the refund process often takes an extended period of time and it is not uncommon for refund applications to be challenged or rejected in part on technical grounds. Other jurisdictions may permit companies to sell or transfer unused VAT credits to third parties in private transactions, although approval for such transactions must normally be obtained from the tax authorities, limits on the amounts that can be transferred may be imposed, and the proceeds realized may be heavily discounted from the face value of the credits. Due to these factors, in some countries we can accumulate significant balances of VAT credits over time. We review these balances on a regular basis, and we record valuation allowances on the credits to reflect amounts that we do not expect to recover, as well as discounts anticipated on credits we expect to sell or transfer. In determining the appropriate valuation allowance to record in a given jurisdiction, we must make various estimates and assumptions about factors affecting the ultimate recovery of the VAT credits. At March 31, 2017, the gross balance of recoverable tax credits (primarily VAT) totaled approximately $45 million, and the related valuation allowance totaled approximately $13 million.

Goodwill

We review the carrying value of goodwill for potential impairment on an annual basis and at any time that events or business conditions indicate that it may be impaired. As permitted under Accounting Standards Codification Topic 350 ("ASC 350"), at March 31, 2017 and 2016, we elected to base our initial assessment of potential impairment on qualitative factors. Those factors did not indicate any impairment of our recorded goodwill. In fiscal years prior to basing our initial assessment on qualitative factors, we followed the quantitative approach in ASC 350 in assessing the fair value of our goodwill, which involved the use of discounted cash flow models (Level 3 of the fair value hierarchy under GAAP). Under our current qualitative assessment, we would also use those discounted cash flow models to measure any expected impairment indicated by the assessment. The calculations in these models are not based on observable market data from independent sources and therefore require significant management judgment with respect to operating earnings growth rates and the selection of an appropriate discount rate. Significant adverse changes in our operations or our estimates of future cash flows for a reporting unit with recorded goodwill, such as those caused by unforeseen events or changes in market conditions, could result in an impairment charge. Over 90% of our goodwill balance relates to our reporting unit in Brazil.

Fair Value Measurements

We hold various financial assets and financial liabilities that are required to be measured and reported at fair value in our financial statements, including money market funds, trading securities associated with deferred compensation plans, interest rate swaps, forward foreign currency exchange contracts, and guarantees of bank loans to tobacco growers. We follow the relevant accounting guidance in determining the fair values of these financial assets and liabilities. Money market funds are valued based on net asset value ("NAV"), which is used as a practical expedient to measure the fair value of those funds (not classified within the fair value hierarchy). Quoted market prices (Level 1 of the fair value hierarchy) are used in most cases to determine the fair values of trading securities. Interest rate swaps and forward foreign currency exchange contracts are valued based on dealer quotes using discounted cash flow models matched to the contractual terms of each instrument (Level 2 of the fair value hierarchy). The fair value of the guarantees of bank loans to tobacco growers, which was approximately $1 million at March 31, 2017, is derived using an internally-developed discounted cash flow model. The model requires various inputs, including historical loss percentages for comparable loans and a risk-adjusted interest rate. Because significant management judgment is required in determining and applying these inputs to the valuation model, our process for determining the fair value of these guarantees is classified as Level 3 of the fair value hierarchy. At March 31, 2017, a 1% increase in the expected loss percentage for all guaranteed farmer loans would not have had a material effect on the fair value of the guarantee obligation. In addition, a 1% change in the risk-adjusted interest rate would not have had a material effect on the fair value of the guarantee obligation. We incorporate credit risk in determining the fair values of our financial assets and financial liabilities, but that risk did not materially affect the fair values of any of those assets or liabilities at March 31, 2017.

Income Taxes

Our consolidated effective income tax rate is based on our expected taxable income, tax laws and statutory tax rates, and tax planning opportunities in the various jurisdictions in which we operate. Significant judgment is required in determining the effective tax rate and evaluating our tax position. We are subject to the tax laws of many jurisdictions, and could be subject to a tax audit in each of these jurisdictions, which could result in adjustments to tax expense in future periods. In the event that there is a significant, unusual, or one-time item recognized in our results, the tax attributed to that discrete item would be recorded at the same time as the item.

We have no undistributed earnings of consolidated foreign subsidiaries that are classified as permanently or indefinitely reinvested. We assume that all undistributed earnings of our foreign subsidiaries will be repatriated back to their parent entities in the United States where the funds are best placed to meet our cash flow requirements. In addition, we strive to mitigate economic, political, and currency risk by following a disciplined annual approach to the distribution of excess capital back to the U.S. Based on these assumptions, in our income tax expense for each reporting period we fully provide for all additional U.S. income taxes that are expected to be due on these distributions.

Our accounting for uncertain tax positions requires that we review all significant tax positions taken, or expected to be taken, in income tax returns for all jurisdictions in which we operate. In this review, we must assume that all tax positions will ultimately be audited, and either accepted or rejected based on the applicable tax regulations by the tax authorities for those jurisdictions. We must recognize in our financial statements only the tax benefits associated with tax positions that are “more likely than not” to be accepted upon audit, at the greatest amount that is considered “more likely than not” to be accepted. These determinations require significant management judgment, and changes in any given quarterly or annual reporting period could affect our consolidated income tax rate.

Tax regulations require items to be included in taxable income in the tax return at different times, and in some cases in different amounts, than the items are reflected in the financial statements. As a result, our effective tax rate reflected in the financial statements is different than that reported in our tax returns. Some of these differences are permanent, such as expenses that are not tax deductible, while others are related to timing issues, such as differences in depreciation methods. Timing differences create deferred tax assets and liabilities. Deferred tax liabilities generally represent tax expense recognized in our financial statements for which payment has been deferred or income taxes related to expenses that have not yet been recognized in the financial statements, but have been deducted in our tax return. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future tax returns for which we have already recorded the tax benefit in our financial statements. We record valuation allowances for deferred tax assets when the amount of estimated future taxable income is not likely to support the use of the deduction or credit. Determining the amount of such valuation allowances requires significant management judgment, including estimates of future taxable income in multiple tax jurisdictions where we operate. Based on our periodic earnings forecasts, we project the upcoming year's taxable income to help us evaluate our ability to realize deferred tax assets.

The functional currency in most of our significant foreign operations is the U.S. dollar, as export tobacco sales are generally made in dollars. Purchasing and processing costs are usually incurred in local currency. When the U.S. dollar is weakening relative to the local currency, purchasing and processing costs increase in dollar terms, resulting in higher cost inventory. The sale of that inventory in dollars generates less taxable income in local currency, which results in lower income taxes owed when translated into U.S. dollars. This causes the effective income tax rate on dollar income to be lower than the statutory rate in the local country. The reverse can occur when the local currency is weakening relative to the U.S. dollar, thereby causing the effective income tax rate on dollar earnings to be above the statutory rate. This impact on our effective income tax rate in a country can be significant during a normal crop cycle. A prolonged period of strengthening or weakening over more than one crop may increase the impact if we sell material quantities of old crop inventories. Lower-taxed foreign source income increases our ability to use foreign tax credits. Higher-taxed foreign source income has the reverse effect. When these changes occur in our larger operations, such as our operations in Brazil, they can have a material impact on our overall tax position.

For additional disclosures on income taxes, see Notes 1 and 4 to the consolidated financial statements in Item 8.

Pension and Other Postretirement Benefit Plans

The measurement of our pension and other postretirement benefit obligations and costs at the end of each fiscal year requires that we make various assumptions that are used by our actuaries in estimating the present value of projected future benefit payments to all plan participants. Those assumptions take into consideration the likelihood of potential future events such as salary increases and demographic experience. The assumptions we use may have an effect on the amount and timing of future contributions to our plans. The plan trustee conducts an independent valuation of the fair value of pension plan assets. The significant assumptions used in the calculation of our pension and other postretirement benefit obligations are:

- Discount rate – The discount rate is based on investment yields on a hypothetical portfolio of actual long-term corporate bonds rated AA that align with the cash flows for our benefit obligations.
- Salary scale – The salary scale assumption is based on our long-term actual experience for salary increases, the near-term outlook, and expected inflation.
- Expected long-term return on plan assets – The expected long-term return on plan assets reflects asset allocations and investment strategy adopted by the Pension Investment Committee of the Board of Directors.
- Retirement and mortality rates – Retirement rates are based on actual plan experience along with our near-term outlook. Early retirement assumptions are based on our actual experience. Mortality rates are based on standard industry group annuity mortality tables which are updated to reflect projected improvements in life expectancy.
- Healthcare cost trend rates – For postretirement medical plan obligations and costs, we make assumptions on future inflationary increases in medical costs. These assumptions are based on our actual experience, along with third-party forecasts of long-term medical cost trends.

From one fiscal year to the next, the rates we use for each of the above assumptions may change based on market developments and other factors. The discount rate reflects prevailing market interest rates at the end of the fiscal year when the benefit obligations are actuarially measured and will increase or decrease based on market patterns. The expected long-term return on plan assets may change based on changes in investment strategy for plan assets or changes in indicated longer-term yields on specific classes of plan assets. Based on the high percentage of retired and inactive participants in our ERISA-regulated domestic defined benefit pension plan (approximately 75% of total participants), as well as the high funded status of the plan, the Pension Investment Committee adopted changes to the underlying plan assets to move toward a liability-driven investment strategy. We reduced our expected long-term return on assets assumption for the actuarial valuations in both fiscal years 2015 and 2016, primarily to reflect those changes. We also adopted revised mortality tables in fiscal year 2015 based on updated actuarial studies reflecting improvements in life expectancy. In addition to the changes in actuarial assumptions from year to year, actual plan experience affecting our net benefit obligations, such as actual returns on plan assets and actual mortality experience, will differ from the assumptions used to measure the obligations. The effects of these changes and differences increase or decrease the obligation we record for our pension and other postretirement benefit plans, and they also create gains and losses that are accumulated and amortized over future periods, thus affecting the expense we recognize for these plans over those periods. Changes in the discount rate from year to year generally have the largest impact on our projected benefit obligation and annual expense, and the effects may be significant, particularly over successive years where the discount rate moves in the same direction.

As of March 31, 2017, the effect of the indicated increase or decrease in the selected pension and other postretirement benefit valuation assumptions is shown below. The effect assumes no change in benefit levels.

(in thousands of dollars)	Effect on 2017 Projected Benefit Obligation Increase (Decrease)	Effect on 2018 Annual Expense Increase (Decrease)
Changes in Assumptions for Pension Benefits		
Discount Rate:		
1% increase	$ (26,653)	$ (2,597)
1% decrease	32,337	2,872
Expected Long-Term Return on Plan Assets:		
1% increase	—	(2,264)
1% decrease	—	2,264
Changes in Assumptions for Other Postretirement Benefits		
Discount Rate:		
1% increase	(3,055)	(347)
1% decrease	3,603	165
Healthcare Cost Trend Rate:		
1% increase	769	38
1% decrease	(688)	(37)

A 1% increase or decrease in the salary scale assumption would not have a material effect on the projected benefit obligation or on annual expense for the Company's pension benefits. See Note 10 to the consolidated financial statements in Item 8 for additional information on pension and other postretirement benefit plans.

Other Estimates and Assumptions

Other management estimates and assumptions are routinely required in preparing our financial statements, including the determination of valuation allowances on accounts receivable and the fair value of long-lived assets. Changes in market and economic conditions, local tax laws, and other related factors are considered each reporting period, and adjustments to the accounts are made based on management’s best judgment.

OTHER INFORMATION REGARDING TRENDS AND MANAGEMENT'S ACTIONS

Our financial performance depends on our ability to obtain an appropriate price for our products and services, to secure the tobacco volumes and quality desired by our customers, and to maintain efficient, competitive operations. We continually monitor issues and opportunities that may impact the supply of and demand for leaf tobacco, the volumes of leaf tobacco that we handle, and the services we provide.

Supply

Global flue-cured and burley tobacco production decreased in our fiscal year 2017, largely due to smaller crops in Brazil following adverse weather conditions there. This was the second fiscal year of declines in crop sizes following oversupplied tobacco markets in fiscal year 2015. Crop sizes for flue-cured tobaccos available for export are expected to increase modestly in fiscal year 2018, primarily on the recovery of the Brazilian tobacco crops due to better weather conditions, while burley crops sizes are expected to decrease. Though we believe that flue-cured tobacco is in a slight oversupply position and burley tobacco production levels are largely in balance with anticipated demand, imbalances in certain leaf styles or types may remain through fiscal year 2018.

Production

Worldwide flue-cured tobacco production outside of China decreased by about 13% in fiscal year 2017 to 1.8 billion kilos, including an approximately 19% reduction in Brazil following El Nino weather patterns there. Worldwide burley crops decreased by about 9% in fiscal year 2017. We estimate that at March 31, 2017, industry uncommitted flue-cured and burley inventories, excluding China, totaled about 83 million kilos, a decrease of about 28% from March 31, 2016 levels.

In the near term, flue-cured tobacco production is expected to increase driven by the recovery of the Brazilian crop, partially offset by smaller crops in many other flue-cured tobacco growing origins. We expect that flue-cured production (excluding China) will increase by about 9%, to about 1.9 billion kilos, in fiscal year 2018, including about a 35% increase in the size of the Brazilian flue-cured crop. Worldwide burley production is forecast to decrease by about 8%. We also forecast that oriental tobacco and dark air-cured production will decline by 5% and 15%, respectively, in fiscal year 2018. Over the long term, we believe that global tobacco production will continue a slight decline in line with slightly declining total demand. South America, Asia, Africa, and North America will remain key sourcing regions for flue-cured and burley tobaccos.

China

China is a significant cigarette market. However, most of the cigarettes consumed in China and the leaf tobacco used in those cigarettes are produced domestically. Therefore, we normally view the Chinese market independently when evaluating worldwide leaf tobacco supply and demand. Recently, the Chinese domestic cigarette consumption level has decreased. We believe that China's domestic leaf production now exceeds their domestic needs for the local cigarette market, and we have seen a build-up of domestic leaf inventory there. China is currently demonstrating efforts to re-align their domestic leaf production and inventories to balance their needs, and these efforts could influence global supply/demand in the short term.

Pricing

Factors that affect green tobacco prices include global supply and demand, market conditions, production costs, foreign exchange rates, and competition from other crops. We work with farmers to maintain tobacco production and to secure product at price levels that are attractive to both the farmers and our customers. Our objective is to secure compliant tobacco that is produced in a cost-effective manner under a sustainable business model with the desired quality for our customers. In some areas, tobacco competes with agricultural commodity products for farmer production. If prices for soybeans, wheat, rice, and seed oils rise in certain origins, green tobacco prices may have to rise to maintain tobacco production levels. In the past, leaf shortages in specific markets or on a worldwide basis have also led to green tobacco price increases.

Demand

Industry data shows that over the past ten years, total world consumption of cigarettes fell at the compound annual rate of 0.8%. We believe that growth in world consumption of cigarettes peaked several years ago and is declining. As a result, we expect that near term global demand for leaf tobacco will continue to slowly decline in line with declining cigarette consumption.

Our sales consist primarily of flue-cured and burley tobaccos. Those types of tobacco, along with oriental tobaccos, are used in American-blend cigarettes which are primarily smoked in Western Europe and the United States. English-blend cigarettes which use flue-cured tobacco are mainly smoked in the United Kingdom and Asia and other emerging markets. Industry data shows that consumption of American-blend cigarettes has declined at a compound annual rate of 2.6% for the ten years ended in 2016. As cigarette consumption declines in developed markets and increases in the emerging markets, there may be less demand for burley and oriental tobaccos and more demand for flue-cured tobacco. However, demand is affected by many factors, including regulation, product taxation, illicit trade, alternative tobacco products, and Chinese imports. To the extent that domestic leaf production and inventory durations in China do not meet requirements for Chinese cigarette blends, that tobacco could be sourced from other origins where we have major market positions. On a year-to-year basis, we are also susceptible to fluctuations in leaf supply due to crop sizes and leaf demand as manufacturers adjust inventories or respond to changes in cigarette markets. With higher projected crop year 2017 leaf tobacco production, we currently expect supply for flue-cured tobacco to be in a slight oversupply position and burley tobacco to be largely in line with anticipated demand. However, inventories held by our customers may affect their near-term demand for leaf tobacco. We also sell oriental tobacco, which is used in American-blend cigarettes, and dark tobacco, which is used in cigars and other smokeless products. While we expect demand for oriental tobacco and dark tobacco used in cigar filler to be generally in line with supply, we are seeing an undersupply of dark tobacco used for cigar wrappers.

Regulation and Product Taxation

Decreased social acceptance of smoking and increased pressure from anti-smoking groups have had an ongoing adverse effect on the percentage of the population using tobacco products, particularly in the United States and Western Europe. Also, many foreign governments have taken or proposed steps to restrict or prohibit cigarette advertising and promotion, to increase taxes on cigarettes, to prohibit smoking in public areas, and to discourage cigarette consumption. A number of such measures are included in the Framework Convention on Tobacco Control ("FCTC"), which was negotiated under the auspices of the WHO and offers guidelines for discouraging or controlling tobacco use. Countries that are parties to the FCTC may choose the level of implementation of the guidelines that is most suitable with their approach to tobacco control. For example, recently China imposed a ban on smoking in public places, and in the United Kingdom and Australia, laws have been passed mandating plain packaging, the removal of branding on cigarette packages. We cannot predict the extent to which government efforts to reduce tobacco consumption might affect the business of our primary customers. However, a significant decrease in worldwide tobacco consumption, as well as shifts to modified risk tobacco products brought about by existing or future governmental laws and regulations, could reduce demand for leaf tobacco and services and could have a material adverse effect on our results of operations.

In addition, certain recommendations by the WHO, through the FCTC, may cause shifts in customer usage of certain types and styles of tobacco. As seen in Canada, Brazil, and the European Union, efforts have been taken to eliminate flavorings from tobacco products. Such decisions could cause a change in requirements for certain tobaccos in particular countries. Shifts in customer demand from one type of tobacco to another could create sourcing issues as requirements move from one origin to another. Furthermore, instruction at the farm level may be required to produce the changing styles of tobacco needed by tobacco product manufacturers. Given our established and well-developed programs at the farm level worldwide, we are particularly well positioned to meet manufacturer requirements.

In 2009, the U.S. Congress passed the Family Smoking Prevention and Tobacco Control Act ("the Act"). This legislation authorizes the FDA to regulate the manufacturing and marketing of all tobacco products. The FDA has banned flavored cigarettes, restricted youth access to tobacco products, banned advertising claims regarding certain tobacco products, established new smokeless tobacco warnings, and issued new cigarette health warnings. In addition, the FDA established the Center for Tobacco Products ("CTP"). The CTP has focused on establishing the scientific foundation and regulatory framework for regulating tobacco products in the United States. On May 10, 2016, the FDA released “deeming” regulations that extend FDA oversight to all tobacco products including electronic nicotine delivery systems, cigars, hookah tobacco, pipe tobacco, dissolvables, and “novel and future products.” The regulations require that tobacco product manufacturers register tobacco products that existed on February 15, 2007, and to seek FDA authorization to sell any products modified or introduced after such date. All such submissions require manufacturers to list ingredients in their products. Regulations impacting