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Altria to Spin Off International Unit

By THE ASSOCIATED PRESS

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NEW YORK (AP) -- The Marlboro man is packing his saddle bags.

With the Wednesday announcement that it would spin off its Philip Morris International cigarette business, Altria Group Inc. moved forward on a plan that will ultimately put the biggest seller of Marlboro brand cigarettes in Lausanne, Switzerland.

The spinoff will shrink Altria to include Philip Morris USA, the biggest cigarette maker in the U.S., and a 29 percent stake in London-based SABMiller PLC, which brews Miller Lite beer.

When the spinoff is complete, Altria plans to close its Fifth Avenue headquarters in Midtown Manhattan and lose about 400 jobs in the process, with some employees possibly relocating to a new headquarters to be established in Richmond, Va., where Philip Morris USA is based. That plan is projected to save at least $250 million annually.

Its chief executive, Louis Camilleri, will take over the larger Philip Morris International, to be run out of its Switzerland headquarters and a smaller New York office. The company's primary listing would be on the New York Stock Exchange.

The move is a return of sorts for Camilleri, who joined Philip Morris Europe in 1978 and worked for the international division until the mid-1990s.

The spinoff is designed to give the overseas maker of Marlboros and other cigarette brands more freedom to pursue sales growth in emerging markets, and some anti-tobacco critics have said that gives it the chance to unleash its marketing on nonsmoking women and children in poor, developing countries.

"They're building a firewall between themselves and the increasingly negative and regulatory environment in the states," said Damon Moglen of the Campaign for Tobacco-Free Kids. That firewall could help shield Altria from U.S. legal and regulatory issues, which include pending legislation to give the Food and Drug Administration authority to restrict tobacco advertising, regulate warning labels and remove hazardous ingredients.

And in the so-called Kessler lawsuit, Altria and other tobacco companies have been ordered to stop using the words "light" and "low-tar" in marketing cigarettes. U.S. District Judge Gladys Kessler ruled that would also apply to PMI, but enforcement of her decision is on hold as the case is appealed.

The company's board announced Wednesday that it would finalize its decision and give the exact timing of the spinoff at its board meeting on Jan. 30.

PMI's current CEO Andre Calantzopoulos has agreed to become its chief operating officer and president, reporting to Camilleri.

Succeeding Camilleri at Altria would be Michael E. Szymanczyk, the current CEO of Philip Morris USA.

The proposal must be cleared by the Internal Revenue Service and the Securities and Exchange Commission, the company said in a statement.

A spinoff of PMI would be the latest step in a restructuring process started in March when New York-based Altria Group Inc. spun off its majority stake in Kraft Foods Inc.

Under a spinoff, Altria shareholders would get shares in a stand-alone Philip Morris International.

PMI has operations in more than 160 countries and sales that are more than double those at the U.S. unit, with 2006 revenues at $48.26 billion compared to Philip Morris USA's $18.47 billion.

Last year, Philip Morris International sold 831 billion cigarettes, making it the world's largest nongovernment tobacco company in terms of volume. It holds 15.4 percent of the global market and its growth is expected to continue at a healthy clip.

Morgan Stanley analyst David Adelman believes the breakup is a good long-term strategy.

"There is little evidence that the existing holding company structure added real operational value (whereas it unequivocally adds cost)," Adelman told investors in a research report Wednesday. He said that separately the businesses could be more aggressive on share buybacks, cutting costs and introducing new products. Both should benefit from an improvement in the cigarette pricing environment, Adelman said.

To capture sales overseas, PMI has bought majority stakes in existing foreign tobacco companies, such as in Mexico, the Dominican Republic and Pakistan.

Altria's overall reorganization had been delayed as the company defended itself against a slew of lawsuits in the U.S. and waited until it could assure investors that it had secured a more predictable litigation environment.

Several class-action lawsuits are still pending. Adelman said ''it would be naive to deny'' there is a chance plaintiffs in those cases could seek to stop the PMI spinoff, although he thinks they wouldn't ultimately succeed. None challenged Altria in its Kraft spinoff.

Philip Morris USA -- with nearly half of the total U.S. cigarette market -- has reported consistently declining cigarette sales as Americans smoke less. Volume fell 3.3 percent in its most recent quarter, while volume at PMI rose by 3.3 percent in the same period.

In anticipation of a breakup of the Philip Morris businesses, Altria has in recent months prepared the two units to operate independently, including forming plans to separate their manufacturing operations.

Altria plans to close a plant in North Carolina and shift all domestic manufacturing to Richmond by the end of 2010. All international manufacturing, including the production of about 57 billion cigarettes now made in the U.S., will be moved to overseas plants by the third quarter of next year, the company said in June.

To offset its declining cigarette sales, Philip Morris USA is increasing its marketing of moist chewing tobacco and other smokeless products, most recently ramping up introduction of smokeless Marlboro products to try to capture brand loyalists.

Philip Morris USA also sells cigarettes under the Virginia Slims, Parliament and Basic brands.

After the announcement, Standard & Poor's rating agency revised its outlook on Altria debt to stable from positive, citing a slightly weaker risk profile. Moody's credit rating agency affirmed its stable outlook. S&P said the Altria had about $9.1 billion outstanding debt as of June 30.

The company announced it would increase its regular quarterly dividend by 8.7 percent to 75 cents. The higher dividend will be paid Oct. 10 to shareholders of record as of Sept. 14.

Altria shares rose 73 cents to $69.80 on Wednesday.

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