

Lorillard

Eat 'em, Drink 'em, Smoke 'em

The Berkshire Anne Hathaway's

By: CMO Tasha Phillips, CNO Nathan Ramos, CAO Jacob Bravo, CIO Ernie Stephenson, CFO April Estes, CEO Phil Bauch, and CPO Eli Von Berg

Lorillard

History

- ◆ Lorillard was founded in 1760 by Pierre Lorillard, making it the first tobacco company in New York City
- ◆ In 2008, spun off from Loews Corporation
- ◆ In 2010, Lorillard celebrated its 250th anniversary, making it the oldest publicly traded company listed on the New York Stock Exchange

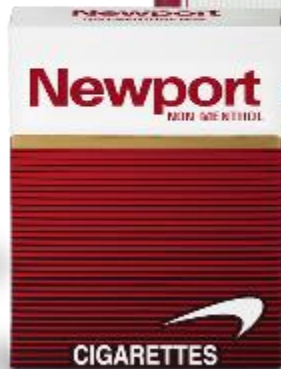
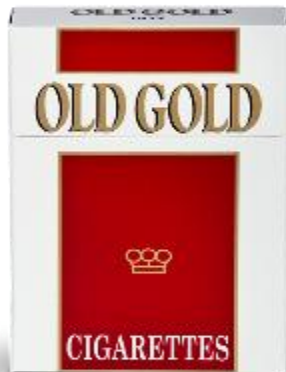
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Today

- ◆ Nation's third largest tobacco company
- ◆ Lorillard Tobacco Company does business in all 50 states, the District of Columbia, Puerto Rico, and other outlying U.S. possessions
- ◆ Oldest continuously operating tobacco company in the United States

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Brands



Lorillard Industry

- Full Flavor

 - Menthol

 - Non-Menthol

- Non-Full Flavor

 - Menthol

 - Non-Menthol

- Discount

- MST (Moist Smokeless Tobacco)

- E-Cigs



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Newport

- ◆ Lorillard's premium cigarette brand
- ◆ Top selling menthol cigarette in the United States
- ◆ Accounted for 88% of sales revenue for 2012

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Competitors

- ◆ Reynolds American (RAI)
- ◆ Altria Group (MO)
- ◆ NJOY
- ◆ eSmoke
- ◆ 21st Century

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E-Cigarettes

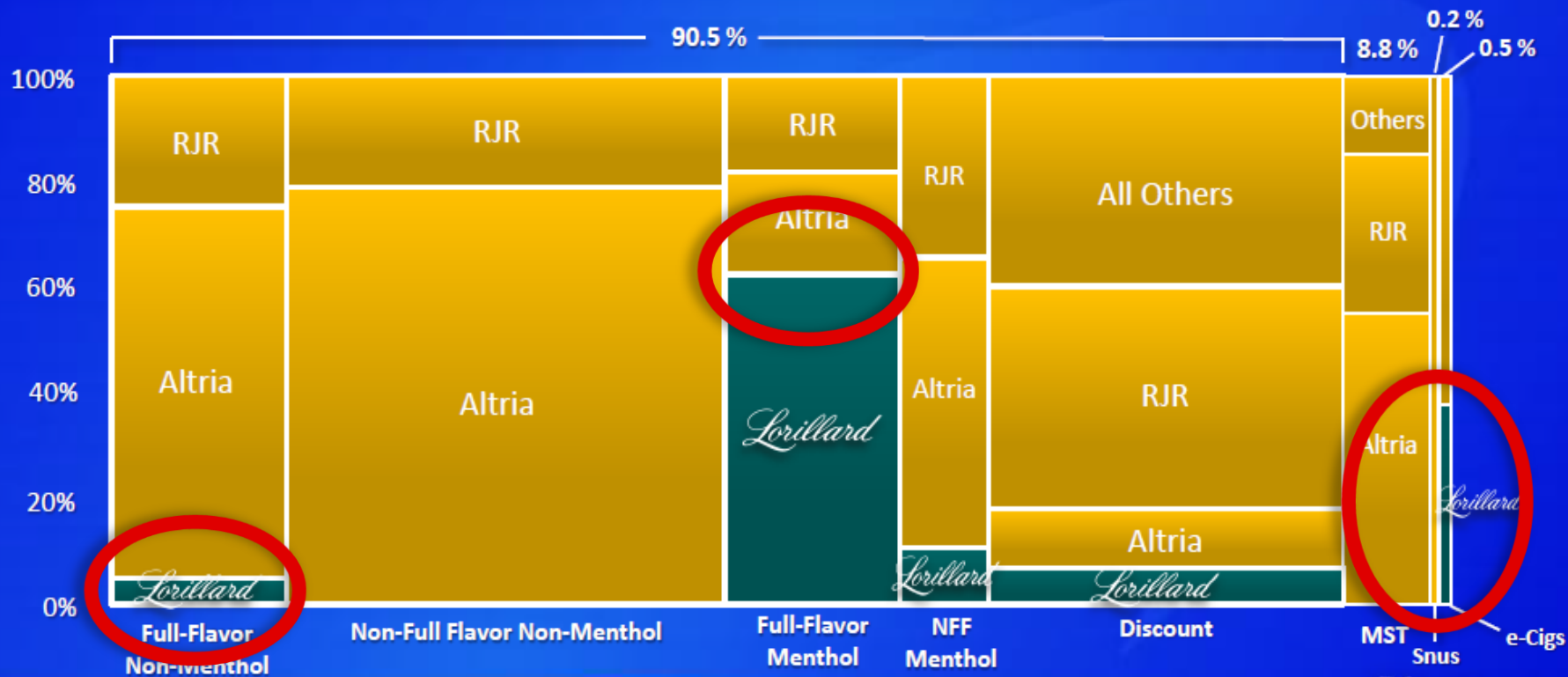


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Market Share

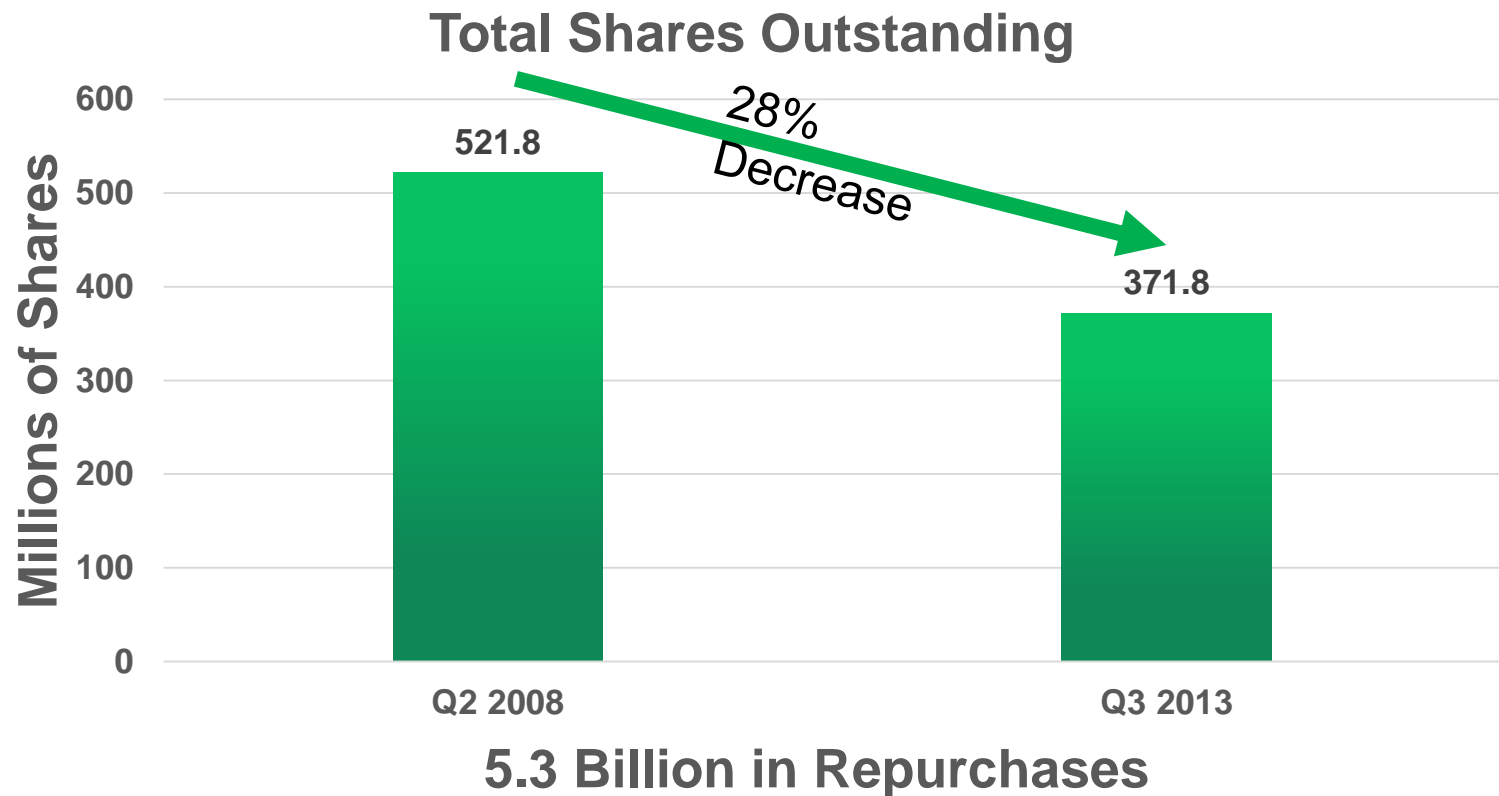
2012 U.S. Tobacco Market Segmentation

15.1 B Packs/Cans



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Share Buybacks



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Effect of Buybacks

- ◆ 2008 – 2009 – Bought back shares and put in Treasury Stock which creates negative balance in T.S. account
- ◆ 2010-2012 – Continued to buy back shares until negative Treasury Stock balance exceeded remaining Shareholder's Equity accounts
- ◆ Q1 2013 – Decide to retire all treasury stock which turns Retained Earnings balance negative and continue to buy back shares

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Capital Expenditures



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Litigation

- ◆ Four types of litigation
 - ◆ Individual
 - ◆ Engle Progeny Suits
 - ◆ Class actions
 - ◆ Health-care reimbursement
 - ◆ Kent filter
- ◆ Other litigation
 - ◆ FDA related

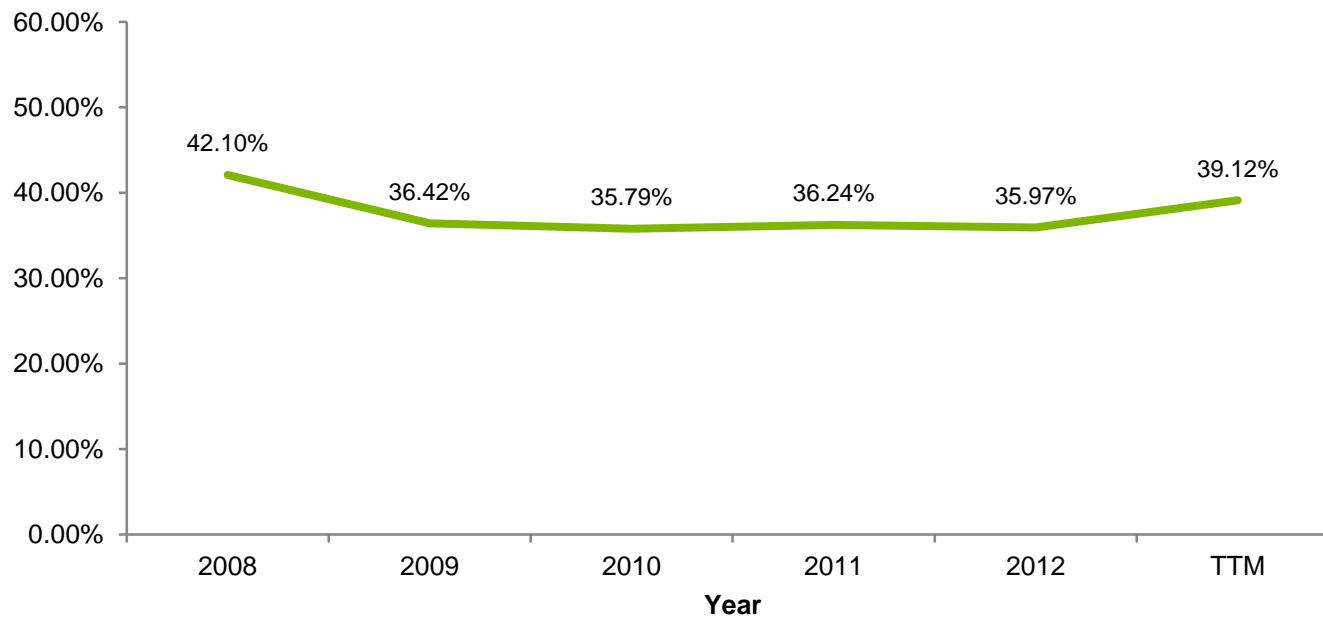
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Risk Factors

- ◆ **Significant Litigation**
- ◆ **Derive majority of revenue from one brand**
- ◆ **Only one manufacturing facility**
- ◆ **Regulation of cigarettes by FDA**
- ◆ **Limitation on advertising and marketing**
- ◆ **Regulation of electronic cigarettes**
- ◆ **Sales of cigarettes are subject to hefty taxes**
- ◆ **Dependency on domestic cigarette business, which continues to contract**
- ◆ **Small number of suppliers for leaf tobacco**

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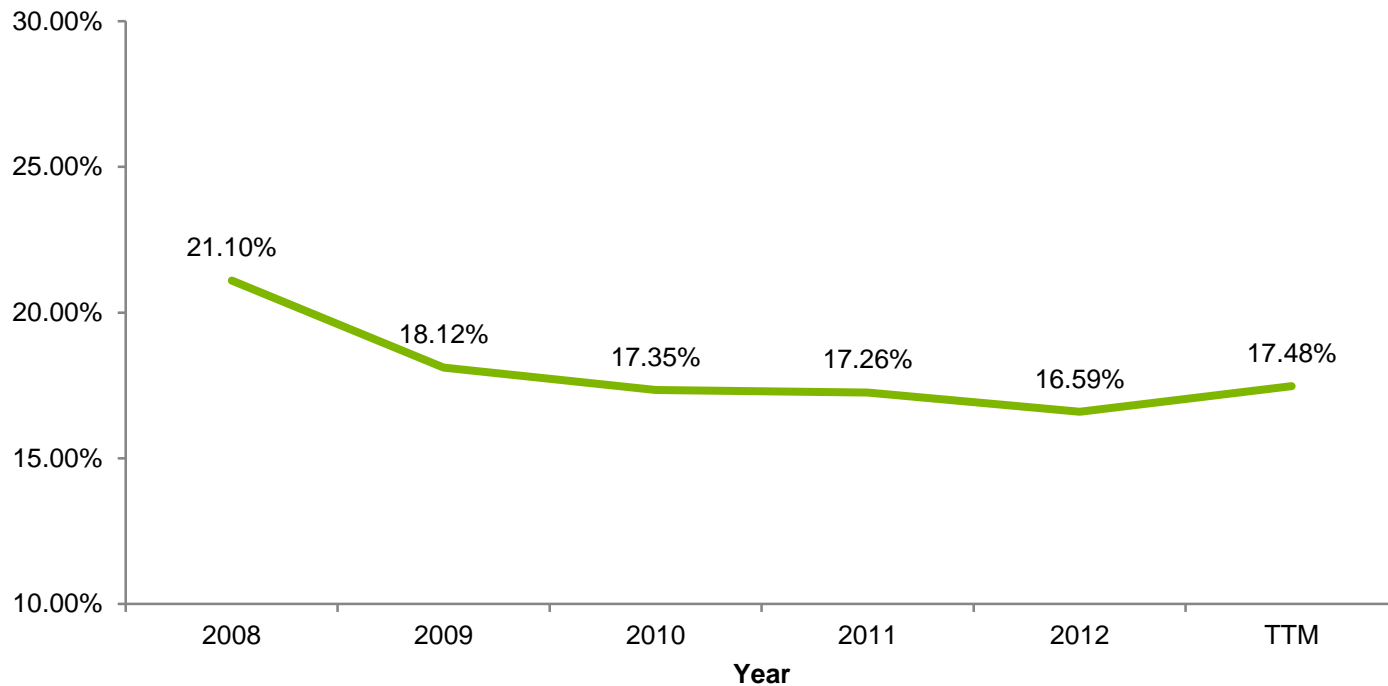
Gross Profit Margin



Exceeds 20% threshold

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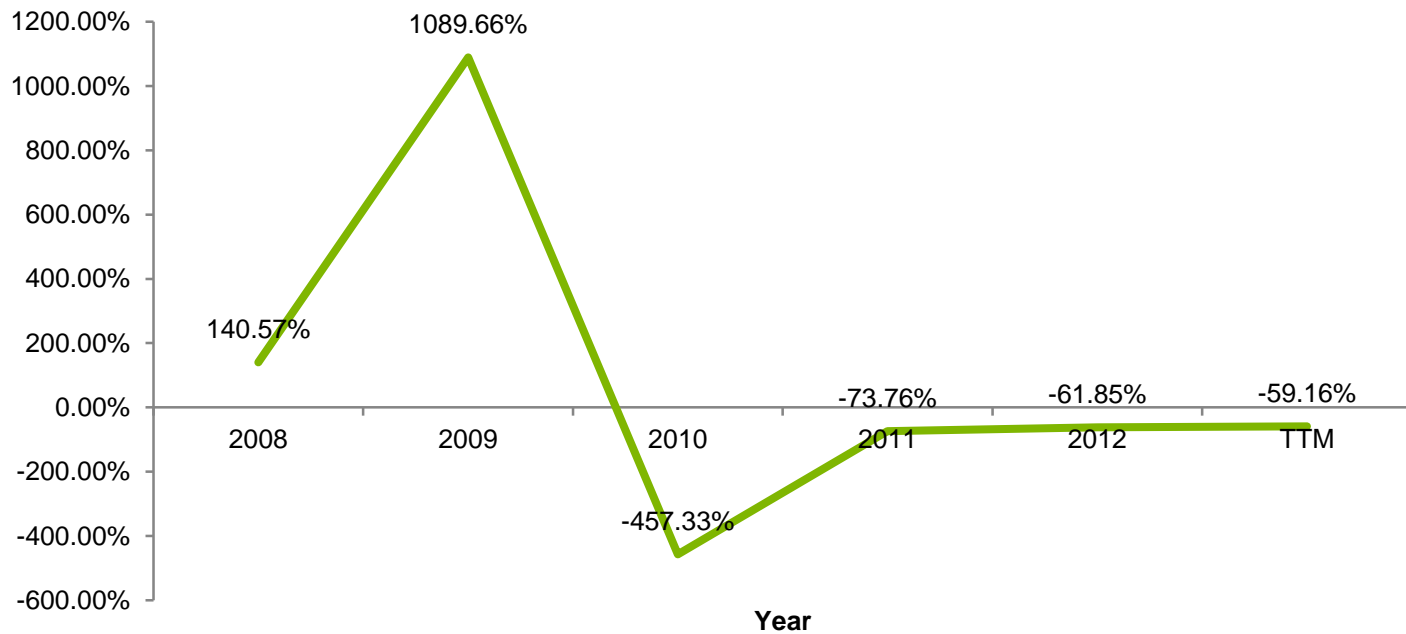
Net Profit Margin



Exceeds 10% threshold

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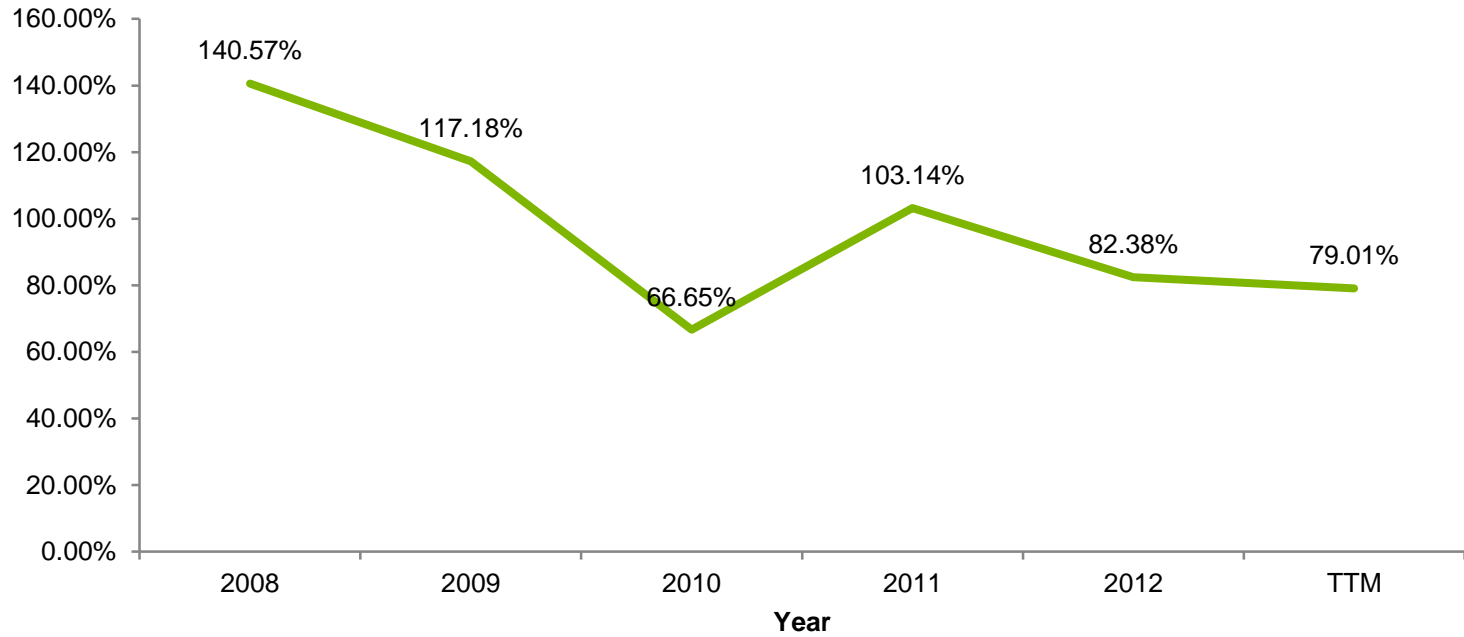
Return on Equity



Doesn't exceed 15% threshold

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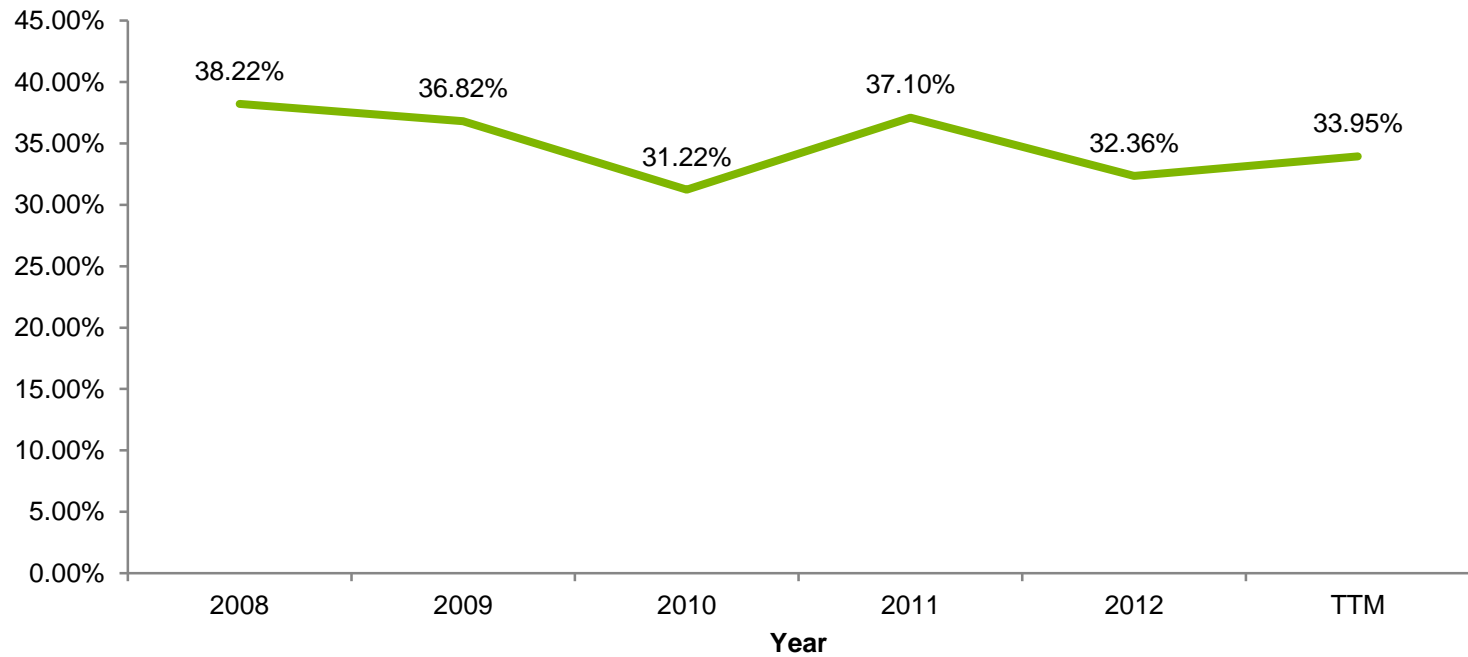
Return on Capital



Exceeds 15% threshold

Lorillard

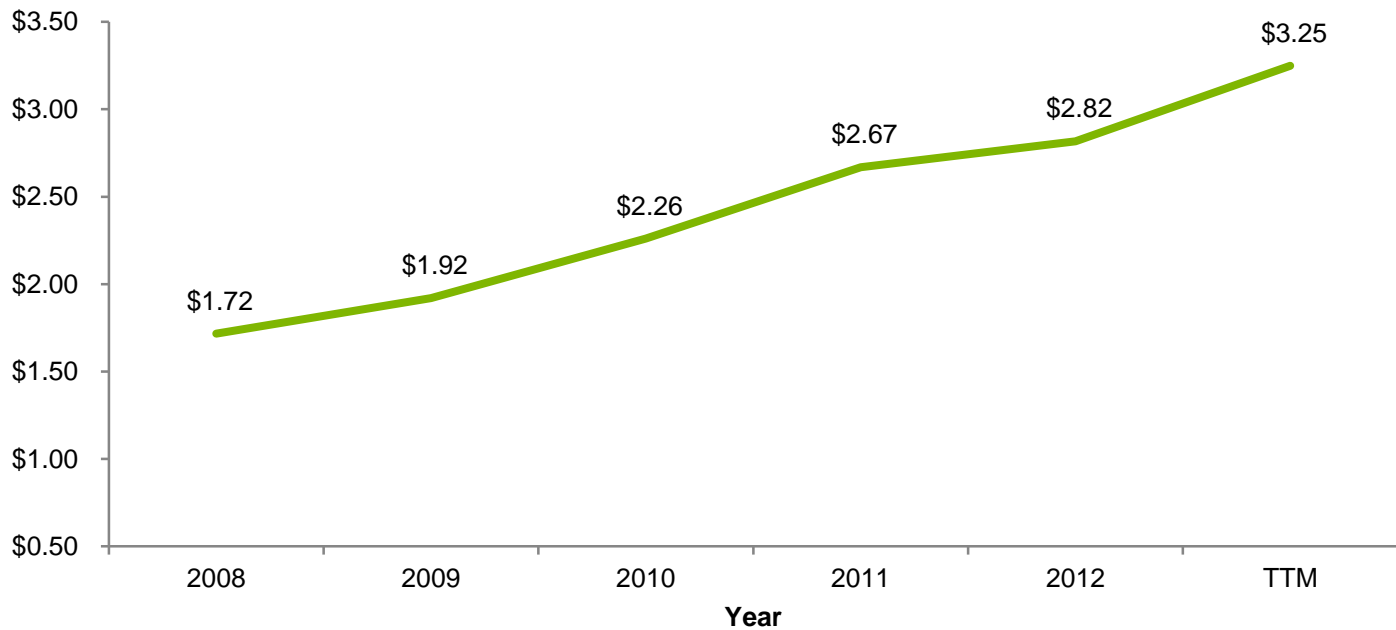
Return on Assets



Exceeds 15% threshold

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Earnings per Share



Increasing Trend

Interpretation of Financial Statements

Balance Sheet		Criteria	Pass?
Current Ratio:	1.828225	> 1	Yes
Obligation Ratio:	3.11	< 5 years	Yes
DD&A % of GP:	1.55%	≤ 10%	Yes
Interest % of OP:	8.02%	≤ 15%	Yes
Net Profit Margin:	17.48%	X ≥ 10%	Yes
Earnings Predictability:	100	> 80	Yes

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Buffettology

<u>Qualitative Review</u>			
What type of business advantage?	Net Profit Margin	Decreasing	competitive
	Working Capital	<u>Statistical Array Analysis</u>	
	Shareholder's	Increasing trends?	
	Return on Total	Sales per Share	Yes
		Cashflows per Share	Yes
Can you easily enter the market?		Earnings per Share	Yes
Is it heavily unionized?		Dividends Declared per Share	Yes
Does it require heavy capital expenditures?		Capital Spending per Share	Yes
Does it require a lot of working capital?		Book Value per Share	No
Can inventory be sold at a discount?	Return on Shareholders' Equity	Revenues (Sales)	Yes
Are there chronic quality control problems?	Common Shares	Gross Profit Margin	Fairly Stable
Is the company overvalued?	Long-Term Debt	Operating Profit Margin	Fairly Stable
Will the company be a market leader in 10 years?	LT Debt Payable	Number of Stores	None
	All Dividends	Net Profit	Yes
If I gave you \$1 million, would you invest in "no" your business?	Annual Growth Rate Analysis	Room for Growth	

igarette Producer

ybacks

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DuPont Analysis

Net Profit Margin

Total Asset Turnover

Financial Leverage Multiplier

17.48%

X

1.944

X

-1.740

= Not Calculable

Conscious Investor 3-year Default

Earnings Per Share (EPS)

	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12
	1.350							
	6.835							
	19.79							
	52.70							
	11.40							
	7.00							
	15.35							
	9.49							
	45							

STRETD®

current year 25 Oct 2013

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Price 49.59

EPStm 3.190

PE Ratio 13.53

HGrowth 11.51 %

Payout 67 %

Investment Period 5 years

Tax - dividends 0 %

Tax - capital gains 0 %

Calculate 13.83% per year

Sync with TARG

EPStm	Years	HGROWTH	STAEGR™
Calc		11.51%	98.21%
Calc		13.53%	97.69%
Current NPM		16.59	Chart
Current ROE		0.00	Chart
Current PE		15.55	Chart
Current Price		49.59	Chart
Current PR		74%	Chart
Req Return		15.0 %	
EPStm		3.190	
PE Ratio		13.53	
HGrowth		11.51 %	
Payout		67 %	
Investment Period		5 years	
Tax - dividends		1 %	
Tax - capital gains		0 %	
Calculate		13.83% per year	
Calculate		\$47.00	
		Sync with STRET	

Conscious Investor 6-year Default

Carroll

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current year 25 Oct 2013

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Investment Period years

Tax - dividends %

Tax - capital gains %

Calculate per year

Sync with TARG

Price

EPSttm

PE Ratio

HGrowth %

Payout %

Tax - dividends %

Tax - capital gains %

Calculate

Sync with STRET

ROWTH	STAEGR™
11.93%	96.14%
ROWTH	STAEGR™
19.72%	94.78%
nt NPM	<input type="text" value="59"/> <input type="button" value="Chart"/>
nt ROE	<input type="text" value="0"/> <input type="button" value="Chart"/>
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current year 25 Oct 2013

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Investment Period years

Tax - dividends %

Tax - capital gains %

Calculate per year

Sync with TARG

Price

EPSttm

PE Ratio %

HGrowth %

Tax - dividends %

Tax - capital gains %

Calculate

Sync with STRET

Conscious Investor Safety

STRETD®

current year 25 Oct 2013

Dividend Reinvestment Strategy

Buy additional shares
 Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Price	49.59
EPSttm	3.190
PE Ratio	12.63
HGrowth	10.72 %
Payout	67 %

Investment Period years

Tax - dividends %
Tax - capital gains %

per year

Conscious Investor Kill it

Carrollard

STRETD®

current year

Price

EPSttm

PE Ratio

HGrowth %

Payout %

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Investment Period years

Tax - dividends %

Tax - capital gains %

per year

Conscious Investor Kill it again

Carrollard

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current year 25 Oct 2013

Dividend Reinvestment Strategy

Buy additional shares
 Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Price	49.59
EPSttm	3.190
PE Ratio	8
HGrowth	5 %
Payout	67 %

Investment Period years

Tax - dividends %
Tax - capital gains %

per year

Discounted Cash Flow- 5-year EBITDA Growth

Financial Data of Lorillard, Inc.

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)		20.30	8.10
EBITDA Growth (%)		16.10	18.10
Earning Growth (%)		14.00	18.40
Free Cash Flow Growth (%)		12.50	37.90

Earnings Per Share : \$?

Growth Rate In the Next: Years : % ?

Business Predictability **Not Rated**

Terminal Growth Rate: % ?

Years of Terminal Growth: ?

Discount Rate: % ?



DCF Reverse DCF ^{NEW}

Tangible Book Value: \$ Add to Fair Value ?

Growth Value: \$ 38.1 ?

Terminal Value: \$ 30.32 ?

= Fair Value: \$ 68.42 ?

Result may not be accurate due to the low predictability of business

Margin Of Safety: 26%

Discounted Cash Flow- 5-Year Earnings Growth

Financial Data of Lorillard, Inc.

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)		20.30	8.10
EBITDA Growth (%)		16.10	18.10
Earning Growth (%)		14.00	18.40
Free Cash Flow Growth (%)		12.50	37.90

Earnings Per Share : \$?

Growth Rate In the Next: Years : % ?

Business Predictability **Not Rated**

Terminal Growth Rate: % ?

Years of Terminal Growth: ?

Discount Rate: % ?



DCF Reverse DCF ^{NEW}

Tangible Book Value: \$ Add to Fair Value ?

Growth Value: \$ 34.32 ?

Terminal Value: \$ 25.26 ?

= Fair Value: \$ 59.58 ?

Result may not be accurate due to the low predictability of business

Margin Of Safety: 15%

Discounted Cash Flow- Break Even

Financial Data of Lorillard, Inc.

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)		20.30	8.10
EBITDA Growth (%)		16.10	18.10
Earning Growth (%)		14.00	18.40
Free Cash Flow Growth (%)		12.50	37.90

Earnings Per Share : \$

Growth Rate In the Next: Years : %

Business Predictability **Not Rated**

Terminal Growth Rate: %

Years of Terminal Growth:

Discount Rate: %



DCF Reverse DCF ^{NEW}

Tangible Book Value: \$ Add to Fair Value

Growth Value: \$ 30.29

Terminal Value: \$ 20.16

= Fair Value: \$ 50.45

Result may not be accurate due to the low predictability of business

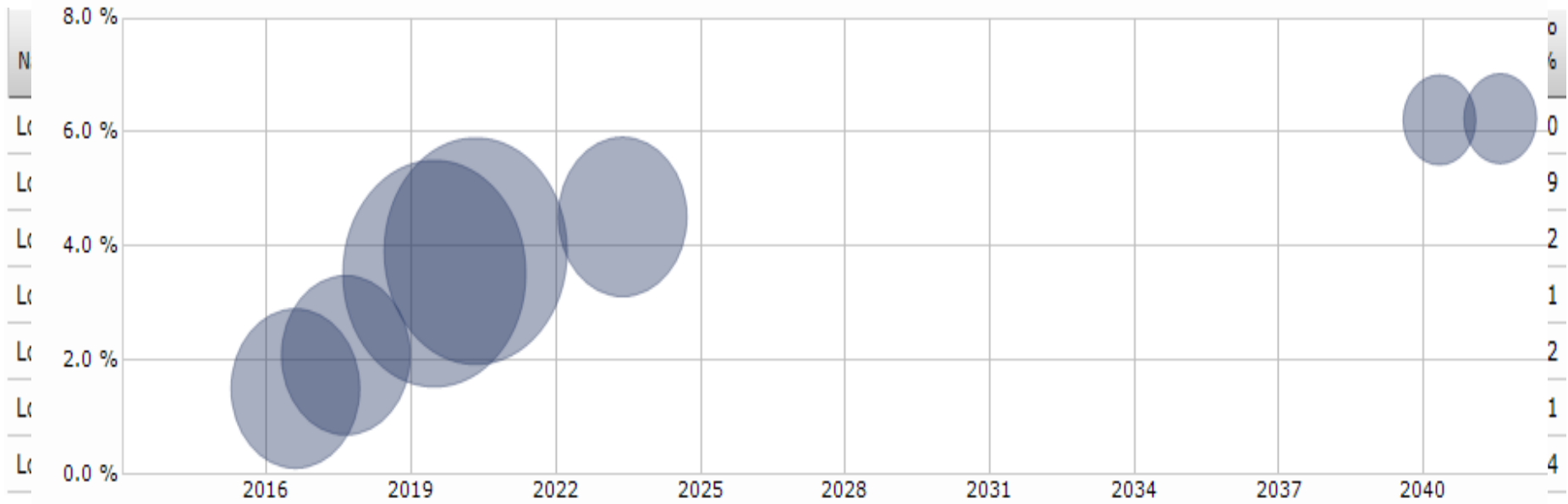
Margin Of Safety: 0%

Morningstar Debt Analysis

Yield to Maturity

● Debt ● Preferred ● Convertible

● ● ● Circle size determined by issue amount



Van den Berg Metrics



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Comparison

	Ticker	Price / Earnings	EV / EBITDA	Price / Book	▲ P... Sales
▷	LO ⓘ	16.0	9.9	-	2.9
▷	RAI ⓘ	18.1	11.3	5.5	3.4
▷	MO ⓘ	17.0	10.2	21.0	4.3
	Summary	17.0	10.5	22.3	3.5

Recent News

- ◆ Lawsuits continue over asbestos in Kent cigarette filters
- ◆ Blue E-Cigarettes help Lorillard Capture Half of the U.S. Market
- ◆ Acquired British-based SKYCIG

Conclusion

- ◆ Tremendous share buybacks
- ◆ Shareholder oriented
- ◆ Low capital expenditures
- ◆ Poised for growth

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Recommendation

- ◆ Due to the recent appreciation of Lorillard, the Berkshire Anne Hathaway's would like to:
- ◆ Write a put with a strike price of 50, and a limit order on the premium of 1.50
- ◆ Annualized rate of return on premium of 21%