

# EAT 'EM, DRINK 'EM, SMOKE 'EM



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# History and Overview

- ▣ Spun off from Loews Corporation in 2008.
- ▣ Third largest tobacco company in the United States.
- ▣ Newport
- ▣ Why Lorillard?
- ▣ Competitors

# Buffettology

- ▣ [Lorillard \(Drilona\).xls](#)

# Valueline

- ▣ [LO Valueline.pdf](#)

# Wikinvest

- ▣ [http://www.wikinvest.com/wiki/LO](#)

# Interpretation of Financial Statements

- ▣ Gross Profit Margin- 36%
- ▣ Sales and general Administrative expenses- 19.2%
- ▣ Depreciation as a % of Gross Profit- 1.8%
- ▣ Interest payouts- 1.8%
- ▣ Net earnings trend- Increasing, slight drop between '07 and '08
- ▣ Net earnings/ total revenue- 18.9%
- ▣ Cash and cash Equivalents- \$1.38 Billion

# Financial Statement Cont.

- ▣ Current Ratio- 1.6
- ▣ Long term Debt/ Net earnings- 0.8
- ▣ Preferred Stock- None
- ▣ Treasury Stock- Yes \$1.31 billion
- ▣ ROE- NMF, ROC- 73%
- ▣ Capital Expenditures- \$51 million, \$44 million, \$51 million in 07, 08, 09 respectively
- ▣ Stock buybacks- Approved \$250 million

# Guru Focus

- ▣ Fair Value Calculation Using Discounted Cash Flow Model

# Conscious Investor

- ▣ Default

- ▣ Safety

- ▣ Kill It



# ValueLine

- ▣ How does LO compare to the tobacco industry?
- ▣ How does LO compare to the current portfolio?

# Contingent Liabilities

- ▣ Master Settlement Agreement
  - \$206 billion over 25 years
    - \$1.128 Billion in 2009 (Pre-tax), or about 1/5 sales
  - 46 states
- ▣ Family Smoking Prevention and Tobacco Control Act
- ▣ Engle Progeny Cases
- ▣ Obama Administration
  - \$300 billion to fund smoking cessation and education

# Why Lorillard?

- ▣ MSA
  - Shows favoritism to the major tobacco companies
  - Source of \$ for the states
- ▣ Menthol
  - Appeals to younger consumers & African Americans
  - Cigarette Use by age.gif
  - Education and Smoking.gif
    - ▣ The percentage of daily cigarette smokers increased with age
- ▣ Strong Balance Sheet

Results from the 2007  
National Survey on Drug Use and Health:  
National Findings

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
Substance Abuse and Mental Health Services Administration (SAMHSA)  
Office of Applied Studies (OAS)