

LORILLARD, INC.  
Form 425  
July 15, 2014

July 15, 2014  
Reynolds American  
to Acquire Lorillard  
The Next Step in Transforming Tobacco  
Filed by Reynolds American Inc.

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Pursuant to Rule 425 under the Securities Act of 1933

and deemed filed pursuant to Rule 14a-12  
under the Securities Exchange Act of 1934

Subject Company: Lorillard, Inc.

Commission File No. 001- 34097

Date: July 15, 2014

#### Forward Looking Statements

This presentation contains forward-looking information. Future results or events can be impacted by a number of factors that could cause actual results to be materially different from our projections. These factors are listed in Reynolds American's first-quarter 2014 earnings release and in the company's SEC filings. Except as provided by federal

securities  
laws,  
Reynolds  
American  
is  
not  
required  
to  
publicly  
update  
or

revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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#### Web Disclosure

Reynolds American's website, [www.reynoldsamerican.com](http://www.reynoldsamerican.com), is the primary source of publicly disclosed news about Reynolds American and its operating companies.

Those wishing to stay on top of company news can sign up for email alerts by going to Shareholder Tools in the website's Investors Section.

#### Adjusted vs. GAAP

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Reynolds American management uses adjusted (non-GAAP) measurements to set performance goals and to measure the performance of the overall company, and believes that investors' understanding of the underlying performance of the company's continuing operations is enhanced through the disclosure of these metrics. Adjusted (non-GAAP) results are not, and should not be viewed as, substitutes for reported

(GAAP) results. A reconciliation of GAAP to Adjusted results is at the end of this presentation.

Call Participants

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Tom Adams  
Reynolds American  
EVP and CFO  
Murray Kessler  
Lorillard Chairman,

President and CEO  
Susan Cameron  
Reynolds American  
President and CEO



Today's Agenda

Transaction Highlights

Reynolds American: The Transformation Journey

Lorillard: The Newport Success Story

A Compelling Transaction

Financial Highlights

Conclusion

5

Transaction  
Highlights

Transaction Highlights

7

(a)

See page 37 for operating income reconciliation

Transaction

Consideration

\$50.50 in cash and 0.2909 Reynolds American share per Lorillard share

Represents \$68.88 per Lorillard share

Total enterprise value of \$27.4 billion, 13x LTM EBITDA

Lorillard shareholders to own approx. 15% in pro forma Reynolds American

British American Tobacco to invest \$4.7 billion to fund transaction, maintaining 42% ownership

Divest KOOL, Salem, Winston, Maverick and blu to Imperial for \$7.1 billion (pre-tax)

Structure

Value Creation

Timing and

Approvals

Closing expected in first half of 2015

Subject to regulatory and shareholder approvals

Strengthens R.J. Reynolds  
position in U.S. cigarette market

Enhances R.J. Reynolds  
growth and margin profile

Approximately \$800 million of cost savings on run-rate basis pre-divestitures  
(a)

Accretive in first full year; strong double-digit accretion in year two and beyond

Compelling Strategic Rationale

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Unique Portfolio of Iconic Brands

Enhanced Growth Profile

Complementary Geographic Strengths

Stronger Competitive Position

Increased Scale and Significant Synergies

Portfolio of Iconic Brands  
Portfolio of Iconic Brands  
Leading category  
positions  
Strength across  
price points  
Enhanced

growth profile  
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Reynolds American:  
The Transformation Journey  
10

11  
The Transformation Journey  
RAI s  
vision is to achieve market leadership  
by transforming the tobacco industry  
Transformation timeline  
2006

2004  
2009  
2009  
2009  
2012  
2015  
VUSE DIGITAL  
E-CIG  
LORILLARD  
LORILLARD  
ACQUISITION  
ACQUISITION  
RJRT B&W  
RJRT B&W  
MERGER  
MERGER  
ASC ACQUISITION;  
SNUS INTRO  
DISSOLVABLE  
TOBACCO  
TESTING  
SNUS  
NATIONAL  
EXPANSION  
NRT  
NICONOVUM

### Proven Strategies for Growth

Achieve long-term growth of key investment brands

Premium and super-premium cigarette growth brands focused on equity-building initiatives

Key value brand is #1 in U.S. value category

Smoke-free growth brands focused on achieving category leadership

Create and cultivate new, meaningful revenue streams

Through the creation of our expanded portfolio and continued investment in our innovative portfolio

Confident in reasonable, science-based regulatory decisions

Proactively shape the external environment

Transforming tobacco through responsible and sustainable growth

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Strong Existing Portfolio of  
Key Brands

Camel (Premium) and Camel SNUS

Pall Mall (Value)

Natural American Spirit (Super Premium)

Grizzly (Smokeless)

VUSE Digital Vapor Cigarettes

Next-Generation Products

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R.J. Reynolds  
Portfolio Market Share Transitioning to Growth Brands  
14  
Focus on Growth Brands  
Source: Information Resource Inc. / Capstone



RAI's Adjusted Operating  
Margin Doubled Since 2004

15

Reconciliation of GAAP to Adjusted results is in Appendix

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Superior Total Shareholder Returns

Source: Bloomberg through June 30, 2014

Outpacing S&P 500 over the long term

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VUSE: The Game Changer

2013 expansion to Colorado  
its first major  
market

Quickly became #1 e-cigarette brand in the state

Tripled the size of the state's total  
e-cigarette category

Strong repeat purchases; 80% of VUSE sales  
are replacement cartridges

Expanded to Utah, Wisconsin and Illinois  
in first half 2014

First wave of national expansion  
additional  
15,000 outlets in late June 2014

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VUSE Market Leadership

Colorado ECIG Share of Market Performance

Source Data:

MSAi-STR ECIG All Volume Colorado (24 weeks ending 6/22/2014)

19  
Lorillard:  
The Newport Success Story

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#2 U.S. Cigarette Brand

#1 Menthol Brand in U.S.

Represents approximately

85% of Lorillard's total net  
sales

Newport is a Marquee Brand

Newport is a Marquee Brand



21  
21  
VOLUME  
(BN STICKS)  
SHARE OF  
SHIPMENTS  
Source: STW MSAi  
0.8%

1.2%  
2.4%  
4.2%  
4.8%  
6.5%  
7.5%  
9.2%  
12.0%  
12.6%  
4.1  
7.2  
15.1  
24.0  
24.3  
31.4  
31.2  
32.8  
33.6  
33.7  
1972  
1977  
1982  
1987  
1992  
1997  
2002  
2007  
2012  
2013

That Has Experienced Historic  
That Has Experienced Historic  
Growth  
Growth

22

Supported by Strong Growth  
Supported by Strong Growth  
Factors  
Factors  
Newport Share of Menthol  
Cigarette Shipments  
Source: STW MSAi.

Newport has capitalized on  
menthol category growth

Fastest growing premium  
menthol brand

Attractive demographic profile

32.2%

37.4%

30%

32%

34%

36%

38%

40%

2003

2005

2007

2009

2011

2013

Attractive  
Premium  
Value Certainty  
Share in Potential  
Upside of  
Transaction

Participate in value creation potential via pro forma  
ownership of approximately 15% of Reynolds American's  
equity

Attractive consideration mix of stock and cash

Receives \$50.50 per share in cash and 0.2909 of a share of Reynolds American stock

Strong divestiture package

Lorillard shareholders to receive premium of 40.4% to stock price prior to initial media speculation (February 28, 2014)

Multiple of 13x LTM EBITDA

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Attractive Transaction for

Attractive Transaction for

Lorillard Shareholders

Lorillard Shareholders

A Compelling  
Transaction

Superior technology and compelling early results

Expanding the e-cig category

No. 4 brand in the U.S.

Largest traditional value brand



No. 2 brand in the U.S.

No. 1 menthol brand in the U.S.

Fastest growing brand in the U.S.

Super premium

No. 1 brand in the moist-snuff industry

Growing share and volume

No. 3 brand in the U.S.

Growing market share in premium category

25

Unique Portfolio of Iconic Brands

Unique Portfolio of Iconic Brands

Source: Information Resource Inc. / Capstone  
Stand-Alone  
Pro Forma  
R.J. Reynolds  
Portfolio Market Share  
Focus On  
Growth Brands  
25%

75%

70%

30%

90%

10%

2004

2013

2013

All Other Brands

Growth Brands

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Enhanced Growth Profile

Enhanced Growth Profile

27

Source: Information Resource Inc. / Capstone as of Q2 2014

33%

R.J. Reynolds

6%

Lorillard

WEST

29%

R.J. Reynolds  
12%  
Lorillard  
MIDWEST  
NORTHEAST  
19%  
TOTAL U.S.  
27%

R.J. Reynolds  
13%  
Lorillard  
SOUTHEAST  
27%

R.J. Reynolds  
12%

Lorillard  
19%

R.J. Reynolds  
23%

Lorillard  
21%

4%

Camel  
Newport

11%

9%

Camel  
Newport

6%

Camel  
Newport

7%

11%

Camel  
Newport

10%

11%

Camel  
Newport

Complementary Geographic

Complementary Geographic

Strengths

Strengths

28

(a)

(a)

Tobacco related net sales, net of excise taxes (\$ in billions)

(b)

Represents net revenues from smokeable products and smokeless products

(c)

Represents Imperial Tobacco Americas

tobacco net sales for FY ended September 30, 2013

Imperial

Pro Forma

Imperial

(c)

2013 Net Sales

Stronger Competitive Position

Stronger Competitive Position

\$6.5

\$6.5

\$4.3

\$4.3

\$16.9

(b)

\$10.8

\$8.2

\$5.0

\$3.4

\$1.0

\$0.6

Altria

Reynolds

American

Pro Forma

Reynolds

American

Lorillard

Vector

Increased Scale  
Increased Scale  
29  
REYNOLDS  
AMERICAN  
LORILLARD  
LESS:



DIVESTITURES  
ILLUSTRATIVE  
COMBINED  
DOMESTIC CIGARETTE  
VOLUME

(a)  
(BN STICKS; 2013)  
DOMESTIC CIGARETTE  
MARKET  
SHARE

(b)  
(%; 2013)  
2014E

NET  
SALES

(c)  
(\$BN)  
2014E  
OPERATING  
INCOME

(c)  
(\$BN)  
Note: Figures may not add up due to rounding

67.8  
39.3  
(19.6)  
87.6  
28.1%  
13.0%  
(7.0%)  
34.1%  
\$8.4  
\$5.2  
(\$2.3)  
\$11.3  
\$3.1  
\$2.1  
(\$1.2)  
\$4.0  
\$4.8+

synergies)  
(including run-rate

(a)  
2013 reported cigarette volumes R.J. Reynolds, Santa Fe, Lorillard

(b)  
2013 domestic cigarette market share R.J. Reynolds, Santa Fe, Lorillard. Information Resources Inc. / Capstone

(c)  
Source: FactSet consensus for Reynolds American and Lorillard

(d)  
Defined as net sales less variable manufacturing costs, FDA expense, MSA expense and tobacco quota buyout

Brand  
Contribution  
(d)

Proven  
Proven  
Track  
Track  
Record  
Record  
of  
of

Execution  
Execution  
30

Intense focus on efficiency,  
productivity improvements

Embedded across all areas

Results reflected in strong  
operating margin improvement

RAI Adjusted

Operating Margin

36.7%

Reconciliation of GAAP to Adjusted results in Appendix  
Cost Management Track Record

2009 Nicovum

2006 American Snuff  
Company

2004 Brown &  
Williamson

2002 Santa Fe Natural  
Tobacco Company  
Integration Experience

10%

15%

20%

25%

30%

35%

40%

2004

2007

2010

2013



Terms and Structure  
Terms and Structure

Transaction Consideration

\$50.50 in cash per Lorillard share

0.2909 RAI shares per Lorillard share

Reference price of \$60.16, based on July 2, 2014 close

Total transaction value of \$27.4 billion (based on RAI share price of \$63.18 as of July 14, 2014)

Imperial will be acquiring brands from R.J. Reynolds and Lorillard, as well as Lorillard's operations

To include manufacturing facilities, salesforce and Lorillard headquarters

BAT will invest \$4.7 billion

Maintain its 42% stake in RAI

Reference price of \$60.16, based on July 2, 2014 close

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33  
Enhanced  
Financial Profile  
Continued Return  
of Capital  
Strong  
Balance Sheet



Enhances growth and margin profile

Accretive in first full year

Strong double-digit accretion in second year and beyond

Maintain current dividend policy until close

Target 75% dividend payout policy thereafter

Strong cash flow generation profile

Expect to maintain investment grade

Focus on deleveraging in near term

3.6x leverage at close, moving to < 3.0x within 24 months

Bridge facility in place; replace with permanent financing

Attractive Transaction for

Attractive Transaction for

Reynolds American Shareholders

Reynolds American Shareholders

Revenue and Cost Synergy

Potential

34

Cost savings from elimination of redundancies and  
assumption of meaningful part of Lorillard operations by  
Imperial

Approximately \$800 million of cost savings on run-rate basis  
Cost Savings

Complementary geographic strengths  
Revenue  
Opportunities

\$200-250 million pre-tax one-time and integration costs

Additional one-time costs associated with manufacturing  
transition  
Implementation

Leverage R.J. Reynolds  
sales force to expand Newport  
presence

Divestiture to Imperial Tobacco

35

Imperial to acquire a portfolio of brands with the proposed transaction

KOOL, Salem and Winston (currently R.J. Reynolds  
brands)

Maverick and blu (currently Lorillard's brands)

Imperial to purchase Lorillard's operations

Purchase price of \$7.1 billion

Represents a multiple of ~9x EBITDA (based on Imperial's disclosure before its expected tax benefits)

Transition period, during which R.J. Reynolds will contract manufacture KOOL, Salem and Winston for Imperial, and Imperial will contract manufacture Newport for R.J. Reynolds

Anticipated Transaction

Sources & Uses (\$ in billions)

36

(a)

Net of taxes

(b)

Based on RAI share price of \$63.18 on July 14, 2014

Sources of Funds

Excess Cash

\$0.5

Divestiture Proceeds

(a)

4.4

New Debt

9.0

Stock Issued

to Lorillard

(b)

6.6

4.7

Total Sources

\$25.3

Proceeds from

BAT

Uses of Funds

\$24.9

Transaction Costs

0.4

Total Uses

\$25.3

Purchase of Lorillard Equity

Illustrative 2014 Operating Income

Bridge

37

(a)

(b)

Reynolds American Operating Income

(a)



\$3.1bn

Plus: Lorillard

Operating Income

(a)

\$2.1bn

Less: Divestiture

Brand Contribution

(b)

\$1.2bn

Plus: Run

Rate Synergies

\$0.8bn+

Illustrative Pro Forma Operating Income

\$4.8bn+

2014 FactSet consensus

Defined as net sales less variable manufacturing costs, FDA expense, MSA expense and tobacco quota buyout

Source: FactSet consensus and Reynolds American Management



#### Key Next Steps

Closing expected in the first half of 2015

Shareholder approvals

Regulatory clearance



Compelling Strategic Rationale  
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Unique Portfolio of Iconic Brands  
Enhanced Growth Profile  
Complementary Geographic Strengths  
Stronger Competitive Position  
Increased Scale and Significant Synergies



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Appendix

Reynolds American Inc.

Reconciliation of GAAP to Adjusted Results

(Dollars in Millions) and (Unaudited)

2004

1,2

2005

2006

2007

2008

2009

2010

2011

2012

2013

GAAP Operating Income:

\$882

\$1,459

\$1,930

\$2,418

\$567

\$1,763

\$2,432

\$2,399

\$2,214

\$3,132

The GAAP results include the following  
expense (income):

B&W/Lane GAAP results

328

Proforma adjustments

(128)

Premerger B&W integration costs

35

Trademark and other intangible asset impairment charges

199

200

90

65

318

567

32

48

129

32

Restructuring charge

5

2

1

90

56

149

Merger integration costs

130

107

45

RAI settlements

50

Phase II growers'trust offset



(69)	
(27)	
RAI returned goods reserve adjustment	
38	
Federal tobacco buyout assessment	
81	
(9)	
Loss on sale of assets	
24	
Implementation costs	
60	
23	
24	
Scott lawsuit	
139	
Engle progeny lawsuits	
64	
37	
18	
Other tobacco-related litigation charges	
5	
34	
Asset impairment and exit charges	
38	
One-time benefit from NPM Partial Settlement	
(219)	
MTM pension/postretirement adjustment	
-	
-	
-	
(43)	
1,527	
49	
110	
145	
329	
-	
Total adjustments	
588	
387	
127	
22	
1,935	
672	
240	
419	
649	
(111)	
Adjusted operating income	
\$1,470	

\$1,846  
 \$2,057  
 \$2,440  
 \$2,502  
 \$2,435  
 \$2,672  
 \$2,818  
 \$2,863  
 \$3,021  
 Net income per diluted share:  
 Reported GAAP  
 \$1.37  
 \$1.77  
 \$2.05  
 \$2.35  
 \$0.76  
 \$1.64  
 \$1.92  
 \$2.40  
 \$2.24  
 \$3.14  
 Non-GAAP adjusted  
 \$1.42  
 \$1.96  
 \$2.03  
 \$2.37  
 \$2.44  
 \$2.36  
 \$2.63  
 \$2.81  
 \$2.97  
 \$3.19  
 Net Sales  
 \$8,323  
 \$8,256  
 \$8,510  
 \$9,023  
 \$8,845  
 \$8,419  
 \$8,551  
 \$8,541  
 \$8,304  
 \$8,236  
 Operating margins:  
 GAAP  
 10.6%  
 17.7%  
 22.7%  
 26.8%  
 6.4%

20.9%

28.4%

28.1%

26.7%

38.0%

Adjusted

17.7%

22.4%

24.2%

27.0%

28.3%

28.9%

31.2%

33.0%

34.5%

36.7%

(1)  
Includes proforma GAAP adjustments as if the merger of B&W/Lane had been completed on January 1, 2004.

(2)  
Not adjusted to reflect change in accounting for pension and postretirement.

RAI management uses adjusted (non-GAAP) measurements to set performance goals and to measure the performance of the company. RAI management believes that investors' understanding of the underlying performance of the company's continuing operations is enhanced through the use of adjusted (non-GAAP) results.

Adjusted (non-GAAP) results are not, and should not, be viewed as, substitutes for reported (GAAP) results.

### **Cautionary Statement Regarding Forward-Looking Statements**

Statements included in this communication that are not historical in nature, including financial estimates and statements as to regulatory approvals and the expected timing, completion and effects of the proposed transactions, constitute forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. When used in this communication and in documents incorporated by reference, forward-looking statements include, without limitation, statements regarding the benefits of the proposed transactions, including future financial and operating results, the combined company's plans, expectations, beliefs, intentions and future strategies, and other statements that are not historical facts, that are signified by the words anticipate, believe, estimate, expect, intend, may, objective, outlook, plan, project, possible, potential, should and similar expressions. The statements regarding future events or the future performance or results of the combined company inherently are subject to a variety of risks, contingencies and uncertainties that could cause actual results, performance or achievements to differ materially from those described in or implied in the forward-looking statements.

Among the risks, contingencies and uncertainties that could cause actual results to differ from those described in the forward-looking statements are the following: the occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement, Asset Purchase Agreement or Subscription Agreement; the risk that the necessary shareholder approvals may not be obtained; the risk that the necessary regulatory approvals may not be obtained or may be obtained subject to conditions that are not anticipated; the risk that the proposed transactions will not be consummated in a timely manner; risks that any of the closing conditions to the proposed transactions may not be satisfied or may not be satisfied in a timely manner; risks related to disruption of management time from ongoing business operations due to the proposed transactions; failure to realize the benefits expected from the proposed transactions; failure to promptly and effectively integrate the acquisition; and the effect of the announcement of the proposed transactions on the ability of Reynolds American, Lorillard and Imperial to retain customers and retain and hire key personnel, maintain relationships with suppliers, and on their operating results and businesses generally. Discussions of additional risks, contingencies and uncertainties are contained in Reynolds American's and Lorillard's filings with the Securities and Exchange Commission, or the SEC.

Due to these risks, contingencies and other uncertainties, you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of such statements. Except as provided by federal securities laws, Reynolds American is under no obligation to, and expressly disclaims any obligation, to update, alter or otherwise revise any forward-looking statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

### **Additional Information**

Reynolds American will file with the SEC, a registration statement on Form S-4 that will include the Joint Proxy Statement of Reynolds American and Lorillard that also constitutes a prospectus of Reynolds American. Reynolds American and Lorillard plan to mail to their respective

shareholders the Joint Proxy Statement/Prospectus in connection with the transactions. INVESTORS AND SHAREHOLDERS ARE URGED TO READ THE JOINT PROXY STATEMENT/PROSPECTUS AND OTHER RELEVANT DOCUMENTS FILED OR TO BE FILED WITH THE SEC CAREFULLY WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT REYNOLDS AMERICAN, LORILLARD, THE TRANSACTIONS AND RELATED MATTERS. Investors and shareholders will be able to obtain free copies of the Joint Proxy Statement/Prospectus and other documents filed with the SEC by Reynolds American and Lorillard through the website maintained by the SEC at [www.sec.gov](http://www.sec.gov). In addition, investors and shareholders will be able to obtain free copies of the Joint Proxy Statement/Prospectus and other documents filed with the SEC by Reynolds American by contacting Reynolds American Investor Relations at [raiinvestorrelations@reynoldsamerican.com](mailto:raiinvestorrelations@reynoldsamerican.com) or by calling (336)741-5165 or at Reynolds American's website at [www.reynoldsamerican.com](http://www.reynoldsamerican.com), and will be able to obtain free copies of the Joint Proxy Statement/Prospectus and other documents filed with the SEC by Lorillard by contacting Lorillard Investor Relations at [investorrelations@lortobco.com](mailto:investorrelations@lortobco.com) or by calling (336)335-7000 or at Lorillard's website at [www.lorillard.com](http://www.lorillard.com).

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Reynolds and Lorillard and certain of their respective directors and executive officers and employees may be considered participants in the solicitation of proxies from the respective shareholders of Reynolds and stockholders of Lorillard in respect of the transactions contemplated by the Joint Proxy Statement/Prospectus. Information regarding the persons who may, under the rules of the SEC, be deemed participants in the solicitation of the respective shareholders of Reynolds and stockholders of Lorillard in connection with the proposed transactions, including a description of their direct or indirect interests, by security holdings or otherwise, will be set forth in the Joint Proxy Statement/Prospectus when it is filed with the SEC. Information regarding Reynolds's directors and executive officers is contained in Reynolds's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which is filed with the SEC. Information regarding Lorillard's directors and executive officers is contained in Lorillard's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which is filed with the SEC.