

Tiffany & Co. (TIF)

\$127.06 (As of 05/01/20)

Price Target (6-12 Months): **\$108.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 03/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: A

Summary

Shares of Tiffany have declined in the past three months. This can be attributed to soft sales in Japan in fourth quarter of fiscal 2019. Also, disruptions in Hong Kong weighed on Asia-Pacific sales to an extent. Further, the COVID-19 has caused the retailer to undertake store closures or limit hours of operations in some stores. This has dented the company's operations in the Chinese Mainland region. Well, management did not provide any guidance. Nevertheless, the company, which accepted the buyout offer from LVMH, is focused on evolving its brand, enhancing omni-channel experience and firming position in core markets. It remains committed to elevating in-store experience and replenishing product portfolio. Notably, both sales and earnings rose year over year in fiscal fourth quarter. Also, the bottom line beat the Zacks Consensus Estimate.

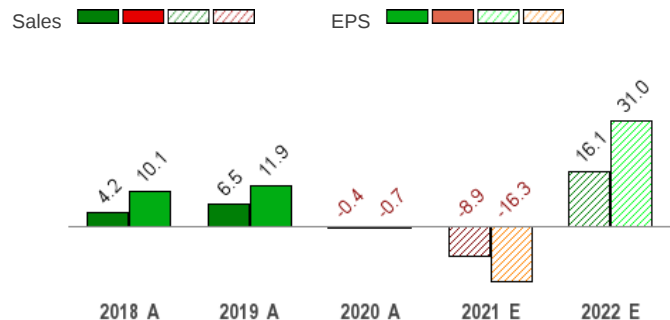
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$134.42 - \$78.60
20 Day Average Volume (sh)	2,220,786
Market Cap	\$15.4 B
YTD Price Change	-4.9%
Beta	1.03
Dividend / Div Yld	\$2.32 / 1.8%
Industry	Retail - Jewelry
Zacks Industry Rank	Bottom 42% (148 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.7%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	2.8%
Expected Report Date	06/02/2020
Earnings ESP	17.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	967 E	1,026 E	1,013 E	1,410 E	4,676 E
2021	646 E	813 E	804 E	1,157 E	4,029 E
2020	1,003 A	1,049 A	1,015 A	1,358 A	4,424 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.76 E	\$0.97 E	\$0.58 E	\$1.99 E	\$5.03 E
2021	\$0.28 E	\$0.80 E	\$0.52 E	\$1.51 E	\$3.84 E
2020	\$1.03 A	\$1.12 A	\$0.65 A	\$1.80 A	\$4.59 A

*Quarterly figures may not add up to annual.

P/E TTM	27.6
P/E F1	33.1
PEG F1	3.0
P/S TTM	3.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/01/2020. The reports text is as of 05/04/2020.

Overview

Founded in 1837 and headquartered in New York, Tiffany & Co. (TIF), through its subsidiaries, is engaged in the designing, manufacturing and retailing activities of fine jewelry, which includes gemstone jewelry and gemstone band rings, diamond rings and wedding bands, gold or platinum jewelry, as well as sterling silver jewelry. Its merchandising offerings include timepieces and clocks; sterling silverware; crystal, glass, china, and other tableware; custom engraved stationery; writing instruments; and fashion accessories.

The company sells its products through catalog and wholesale operations, retail stores, direct marketing, Internet and business-to-business direct selling transactions. As of January 31, 2020, the Company operated 326 stores (124 in the Americas, 91 in Asia-Pacific, 58 in Japan, 48 in Europe, and five in the UAE).

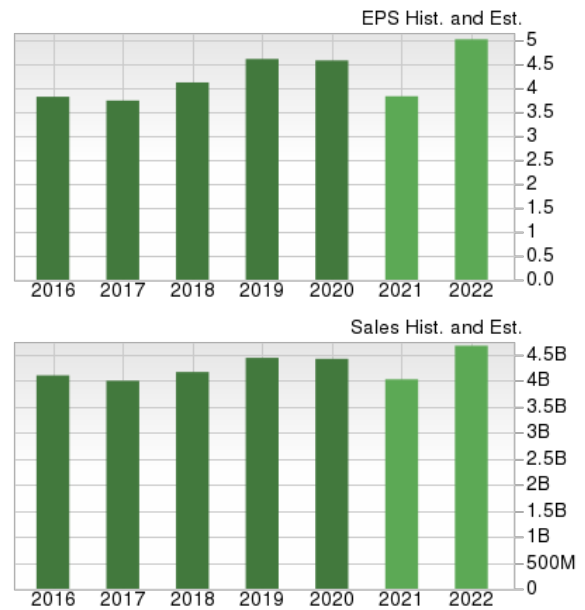
Americas: Includes sales in stores in the United States, Mexico, Canada, Brazil and Chile. Tiffany also distributes a selection of its products through its websites and catalogs of selected merchandise to its list of customers and to mailing lists rented from third parties.

Asia-Pacific: Consists of sales in China, Korea, Hong Kong, Taiwan, Australia, Singapore, Macau, Malaysia and New Zealand and Thailand.

Japan: Consists of sales in Japan.

Europe: Includes sales in stores in the the U.K., Italy, Germany, France, Spain, Switzerland, the Netherlands, Russia, Austria, Belgium, the Czech Republic and Ireland.

Other: The Other segment primarily consists of retail sales transacted in five company-operated stores in the United Arab Emirates and wholesale distribution in the Emerging Markets region; wholesale sales of diamonds; and licensing agreements.



Reasons To Sell:

- ▼ **Soft Sales in Japan, Coronavirus a Concern:** In Japan, sales decreased 8% to \$180 million, while comparable sales declined at the same rate during the fourth quarter of fiscal 2019. Sales were hurt by customers' response to the increase in consumption tax imposed on Oct 1, 2019. Also, disruptions in Hong Kong weighed on Asia-Pacific sales to an extent. Another major concern with which the company is grappling with is the coronavirus outbreak that has led to supply-chain disruptions, slowdown in production activities and reduced demand for several commodities. In the view of implementation of safety measures and drop in store footfall, companies are temporarily shutting down their brick-and-mortar stores, curtailing work hours and operating in shifts, or permitting employees to work remotely. Given the prevalent scenario, Tiffany is either closing stores or limiting hours of operations in some stores. This, in fact, has largely dented the company's operations in the Chinese Mainland region. Notably, shares of the company have lost 5.6%, while the industry declined 6% in the past three months.
- ▼ **Margins Remained Under Pressure:** Gross margin, an important financial metric, remained under pressure during the fourth quarter of fiscal 2019 as well. After shrinking 50 basis points during the third quarter, gross margin contracted by an equivalent basis points to 63.3% in the quarter under review. During the fiscal year, gross margin shriveled 90 basis points to 62.4% on account of shift in sales mix toward higher price point jewelry, which normally carries a lower gross margin. Operating margin shrunk 50 basis points to 19.8% during the quarter and 120 basis points to 16.6%.
- ▼ **Stock Looks Stretched:** Considering price-to-earnings (P/E) ratio, Tiffany looks pretty overvalued when compared with the industry as well as the S&P 500. The stock has a trailing 12-month P/E ratio of 27.62, which is above the median level of 27 but below the high level of 30.52 scaled in the past one year. On the contrary, the trailing 12-month P/E ratio for the industry and the S&P 500 is 21 and 17.37, respectively.
- ▼ **Prone to Currency Fluctuations:** Tiffany generates a significant amount of net sales outside the U.S. Due to high exposure to international markets the company remains prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside of the U.S. An increase in price may have an adverse impact on the demand for the products. Net sales fall victim of the adverse foreign currency fluctuations that lowers the value of the sales generated in the overseas market and also result in reduced spending by tourists.
- ▼ **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their sentiment. This may adversely impact its growth and profitability.

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Risks

- **Accepted the Buyout Offer:** Tiffany's shareholders have approved merger with LVMH Moët Hennessy Louis Vuitton SE or LVMH. The latter has entered into a deal to acquire Tiffany for more than \$16 billion. Industry experts believe that the acquisition of Tiffany — which would become part of growing luxury portfolio comprising Bulgari, Christian Dior, Dom Perignon, Fendi, Sephora and Guerlain — will add sheen to LVMH's jewelry and watch segments. Meanwhile Tiffany, which operates more than 300 stores worldwide, will also gain from LVMH's prominent presence in European and Asian markets.
 - **Decent Q4 Performance:** Tiffany remains focused on evolving its brand, enhancing omni-channel experience and solidifying position in core markets. It remains optimistic about new product launches and related marketing campaigns. Also, the company is enhancing its Tiffany T collection. These efforts along with a focus on store expansions have been bolstering its performance. Notably, both sales and earnings improved year over year during fourth-quarter fiscal 2019. Also, the bottom line beat the Zacks Consensus Estimate. The company posted adjusted earnings of \$1.80 per share that outdid the consensus mark of \$1.72 and came ahead of the prior-year adjusted earnings of \$1.60. Net sales rose 3%, while comparable sales grew 3%. We note that sales in the Americas rose 4%, while in the Asia-Pacific region the metric grew 8%. In Europe, sales advanced 4%. Management is impressed with the sales growth in the Americas, after witnessing softness for quite some time. Also, Chinese Mainland contributed to overall sales growth.
 - **Strategic Endeavors:** Tiffany holds a significant position in the world jewelry market due to its distinctive brand appeal. The company is steadily introducing new jewelry designs, new watch collection and fragrance, and additional jewelry SKUs. It also introduced "build-your-own program" on its website under which customers are allowed to personalize their own charm bracelets. Further, Tiffany is allowing customers to personalize their ring. The company also renewed its licensing agreement with Luxottica Group — slated to expire on December 31, 2027 — for the development, production and global distribution of sunglasses and prescription frames under its brand. Tiffany introduced company-operated e-commerce website in China. The company in a joint venture with Reliance Brands Limited is entering the Indian market. Tiffany's efforts to enhance store operations are yielding results. To this end, the company has undertaken several initiatives. The company renovated its flagship stores in Shanghai, Hong Kong, London and Sydney. The company opened a concept store in Tokyo, several pop-up stores worldwide and Tiffany Blue Box Café in Shanghai and Hong Kong.
 - **Catalysts Driving Growth:** Tiffany is well positioned to augment its top and bottom lines performance in the long run by leveraging capital investments made over the past several years in distribution, manufacturing and diamond sourcing processes. The company remains focused on evolving its brand, enhancing omnichannel experience, solidifying position in core markets, increasing operating model efficiency and enriching overall organization. The company remains committed to elevating in-store experience and replenishing product portfolio. Focus on renewing product portfolio is evident from the launch of PAPER FLOWERS, which comprises solid collection in diamonds and platinum and the introduction of TIFFANY TRUE, an innovative engagement ring design. The company is also looking at other revenue generating avenues, and this includes expansion of its watch business. The company also intends to expand its distribution network by adding stores in both new and existing markets. With about half of the total sales generated internationally, we believe that the company is well diversified from a regional perspective as well.
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Last Earnings Report

Tiffany's Q4 Earnings Surpass Estimates, Sales Up Y/Y

Tiffany & Co. posted fourth-quarter fiscal 2019 results. During the quarter, both earnings and sales improved year over year and the bottom line beat the Zacks Consensus Estimate. Notably, sales improved in most regions, apart from Japan. Also, disruptions in Hong Kong weighed on Asia-Pacific sales to an extent, though it was compensated by strength in the Chinese Mainland.

Tiffany's fiscal 2019 show reflected a positive impact of product introductions. To this end, it remains encouraged with the product additions made to the men's category. Also, the company is enhancing its Tiffany T collection. These efforts along with a focus on store expansions have been bolstering its performance. However, the COVID-19 outbreak has caused the retailer to undertake store closures or limit hours of operations in some stores. This, in fact, has largely dented the company's operations in the Chinese Mainland region.

Well, management did not provide any business guidance due to its pending transaction with LVMH Moët Hennessy - Louis Vuitton SE (or LVMH).

Quarter Ending 01/2020

Report Date	Mar 20, 2020
Sales Surprise	-0.15%
EPS Surprise	4.65%
Quarterly EPS	1.80
Annual EPS (TTM)	4.60

Q4 Highlights

The company posted adjusted earnings of \$1.80 per share that cruised ahead of the Zacks Consensus Estimate of \$1.72. In the year-ago period, the company's adjusted earnings came in at \$1.60 per share. Including costs related to the proposed takeover by LVMH, Tiffany reported fourth-quarter fiscal 2019 earnings of \$1.66 per share compared with \$1.67 reported in the year-ago period. Lower gross margin, increased SG&A expenses and higher effective tax rate could be accountable for the decline.

Net sales rose 3% to \$1,357.8 million compared with the Zacks Consensus Estimate of \$1,360 million. Also, the company's comparable sales (comps) grew 3% year over year. At constant currency, both metrics rose 3% each. Further, excluding the Hong Kong market, worldwide net sales and comps grew 5% each.

Sales improved 6% and 2% for Jewelry collections and Engagement jewelry, respectively, while Designer jewelry sales remained flat year over year.

Let's Delve Deeper

Geography-wise, sales in the Americas rose 4% to \$640 million and comps grew 3%. The company witnessed higher sales across most parts of the region, courtesy of higher spending by loyal customers.

In the Asia-Pacific region, sales grew 8% to \$342 million, while comps rose 7%. This was attributable to improved wholesale sales. Further, sales remained sturdy in the Chinese Mainland, partly offset by strong disruptions in Hong Kong. Also, increased spending by local customers was somewhat countered by soft spending by foreign tourists.

In Japan, sales decreased 8% to \$180 million and comps declined at the same rate. Sales were hurt by customers' response to the increase in consumption tax imposed on Oct 1, 2019.

In Europe, sales advanced 4% to \$168 million, with comps growing 5%. Sales were boosted by growth across most parts of the region on higher spending by local as well as foreign customers. Other net sales declined 9% to \$26 million due to soft wholesale sales of diamonds, while comps rose 11%.

Gross margin contracted 50 basis points to 63.3% in the quarter under review, on account of changes in sales mix toward higher price point jewelry.

SG&A expenses rose 3% to \$590.4 million primarily due to increased merger-related costs, greater labor and incentive compensation expenses, and higher store occupancy and depreciation charges, somewhat negated by lower marketing spending. Excluding merger-related costs, SG&A costs dipped 1% in the quarter.

Store Update

During the fiscal, this designer and retailer of fine jewelry opened nine company-operated stores and shuttered four. As of Jan 31, 2020, the company operated 326 stores (124 in the Americas, 91 in Asia-Pacific, 58 in Japan, 48 in Europe and five in the UAE).

Other Financial Details

Tiffany ended the quarter with cash, cash equivalents and short-term investments of \$897.4 million and total debt of \$1 billion, reflecting 31% of stockholders' equity. In fiscal 2019, the company repurchased roughly 1.8 million shares for \$163.4 million. Tiffany did not make any buybacks in the fourth quarter owing to restrictions described in the merger agreement with LVMH.

Recent News

Tiffany Declares Quarterly Dividend – Feb 20, 2020

Tiffany declared a quarterly dividend of 58 cents per share. The dividend is payable Apr 10, 2020 to shareholders of record at the close of business Mar 20, 2020.

Tiffany Accepts Takeover Offer of Louis Vuitton Owner – Nov 25, 2019

Tiffany accepted the buyout offer of LVMH Moët Hennessy Louis Vuitton SE or LVMH. The latter has entered into a deal to acquire Tiffany for more than \$16 billion. This takeover will provide LVMH a competitive edge in the fast-growing product categories and expand footprint in the U.S. luxury market.

LVMH's latest offer was \$135 a share in cash versus the earlier bid of \$120 made in October. Industry experts believe that the acquisition of Tiffany — which would become part of growing luxury portfolio comprising Bulgari, Christian Dior, Dom Perignon, Fendi, Sephora and Guerlain — will add sheen to LVMH's jewelry and watch segments. Meanwhile Tiffany, which operates more than 300 stores worldwide, will also gain from LVMH's prominent presence in European and Asian markets.

Valuation

Tiffany shares are down 5.2% in the year-to-date period but up 20% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 5.8% and 1.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 11.2% and 2.8%, respectively.

The S&P 500 index is down 12% in the year-to-date period and 3.7% in the past year.

The stock is currently trading at 30.87X forward 12-month earnings, which compares to 26.47X for the Zacks sub-industry, 27.84X for the Zacks sector and 20.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.38X and as low as 14.29X, with a 5-year median of 21.05X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$108 price target reflects 26.24X forward 12-month earnings.

The table below shows summary valuation data for TIF

Valuation Multiples - TIF					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	30.87	26.47	27.84	20.71
	5-Year High	34.38	26.47	27.84	20.71
	5-Year Low	14.29	11.8	19.06	15.19
	5-Year Median	21.05	15.74	23.17	17.44
P/S F12M	Current	3.67	1.38	0.99	3.28
	5-Year High	3.76	1.92	1.11	3.44
	5-Year Low	1.78	0.91	0.8	2.54
	5-Year Median	2.67	1.5	0.93	3.01
EV/EBITDA TTM	Current	16.61	11.23	15.08	10.66
	5-Year High	18.25	11.63	16.33	12.87
	5-Year Low	7.82	5.08	10.9	8.27
	5-Year Median	11.44	8.72	12.55	10.78

As of 05/01/2020

Industry Analysis Zacks Industry Rank: Bottom 42% (148 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Fossil Group, Inc. (FOSL)	Neutral	3
Guess?, Inc. (GES)	Neutral	3
L Brands, Inc. (LB)	Neutral	3
Movado Group Inc. (MOV)	Neutral	3
Ralph Lauren Corporation (RL)	Neutral	4
Tapestry, Inc. (TPR)	Neutral	4
Capri Holdings Limited (CPRI)	Underperform	5
Signet Jewelers Limited (SIG)	Underperform	3

Industry Comparison Industry: Retail - Jewelry				Industry Peers		
	TIF	X Industry	S&P 500	FOSL	MOV	SIG
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	C	-	-	B	A	B
Market Cap	15.42 B	237.46 M	20.61 B	191.20 M	227.56 M	475.30 M
# of Analysts	9	2	14	1	1	2
Dividend Yield	1.83%	0.00%	2.11%	0.00%	0.00%	16.30%
Value Score	D	-	-	A	A	A
Cash/Price	0.06	0.08	0.06	1.19	0.88	0.94
EV/EBITDA	16.53	2.48	11.87	8.76	2.48	5.46
PEG Ratio	3.00	2.69	2.47	NA	NA	1.88
Price/Book (P/B)	4.61	0.67	2.67	0.38	0.65	0.39
Price/Cash Flow (P/CF)	18.74	9.25	10.66	5.14	6.72	1.16
P/E (F1)	33.01	17.35	19.01	NA	13.91	15.01
Price/Sales (P/S)	3.48	1.20	2.10	0.09	0.32	0.08
Earnings Yield	3.02%	5.76%	5.05%	-67.72%	7.19%	6.72%
Debt/Equity	0.57	0.57	0.72	0.93	0.25	1.60
Cash Flow (\$/share)	6.75	0.71	7.01	0.77	1.53	8.68
Growth Score	C	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	5.28%	3.89%	10.88%	-57.44%	3.89%	-14.60%
Proj. EPS Growth (F1/F0)	-16.32%	-17.47%	-7.32%	-725.81%	-54.78%	-84.41%
Curr. Cash Flow Growth	3.40%	10.79%	5.92%	-63.28%	-31.56%	-60.42%
Hist. Cash Flow Growth (3-5 yrs)	2.30%	0.24%	8.55%	-39.32%	-3.81%	-4.93%
Current Ratio	3.99	1.91	1.23	1.89	4.25	1.91
Debt/Capital	36.20%	42.43%	43.84%	48.13%	20.62%	67.77%
Net Margin	12.23%	1.72%	11.08%	-2.36%	6.09%	1.72%
Return on Equity	17.39%	17.39%	16.44%	-6.26%	7.17%	20.61%
Sales/Assets	0.69	0.69	0.54	1.38	0.83	1.00
Proj. Sales Growth (F1/F0)	-8.92%	0.00%	-1.42%	-21.14%	0.00%	-11.68%
Momentum Score	A	-	-	F	D	F
Daily Price Chg	-0.68%	-1.08%	-2.39%	-0.75%	-6.36%	-3.18%
1 Week Price Chg	-2.17%	-3.67%	-1.74%	-4.86%	-2.34%	-4.99%
4 Week Price Chg	-2.52%	3.83%	17.07%	28.57%	-6.70%	63.05%
12 Week Price Chg	-5.68%	-15.24%	-18.53%	-41.68%	-38.45%	-62.08%
52 Week Price Chg	17.24%	-38.53%	-9.82%	-69.53%	-70.92%	-55.80%
20 Day Average Volume	2,220,786	106,187	2,641,413	1,008,250	335,646	3,617,290
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	2.81%	-14.18%	-6.62%	-1,606.67%	0.00%	-63.11%
(F1) EPS Est 12 week change	-21.66%	-41.57%	-13.28%	-1,806.67%	-54.78%	-83.49%
(Q1) EPS Est Mthly Chg	-3.42%	-3.42%	-11.97%	-1,066.67%	0.00%	-49.02%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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