

Tiffany & Co. (TIF)

\$115.68 (As of 03/16/20)

Price Target (6-12 Months): **\$123.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/25/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: D

Summary

Shares of Tiffany have declined and underperformed the industry in the past three months. Continued weakness in Hong Kong, along with some in Japan stemming from the recent rise in consumption tax remain concerns. Also, we note that the company's bottom line has been declining for quite some time now with margins remaining under pressure. Nonetheless, the company's interim holiday sales results raise optimism about the final quarter of fiscal 2019. Management is impressed with the sales growth in the Americas, after witnessing softness for quite some time. Also, Chinese Mainland contributed to overall sales increase, recording solid double-digit growth. The company, which accepted the buyout offer from LVMH, remains focused on evolving its brand, enhancing omni-channel experience and firming position in core markets.

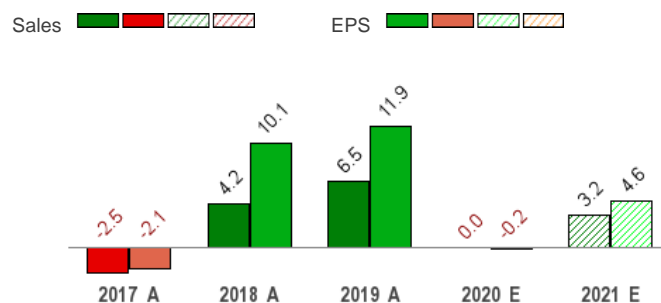
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$134.42 - \$78.60
20 Day Average Volume (sh)	3,915,312
Market Cap	\$14.0 B
YTD Price Change	-13.5%
Beta	1.45
Dividend / Div Yld	\$2.32 / 2.0%
Industry	Retail - Jewelry
Zacks Industry Rank	Top 20% (51 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-23.5%
Last Sales Surprise	-2.1%
EPS F1 Est- 4 week change	-1.7%
Expected Report Date	03/20/2020
Earnings ESP	0.0%
P/E TTM	26.3
P/E F1	24.0
PEG F1	2.2
P/S TTM	3.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,030 E	1,071 E	1,064 E	1,404 E	4,581 E
2020	1,003 A	1,049 A	1,015 A	1,360 E	4,440 E
2019	1,033 A	1,076 A	1,012 A	1,321 A	4,442 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.08 E	\$1.12 E	\$0.70 E	\$1.69 E	\$4.82 E
2020	\$1.03 A	\$1.12 A	\$0.65 A	\$1.72 E	\$4.61 E
2019	\$1.14 A	\$1.17 A	\$0.77 A	\$1.60 A	\$4.62 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/16/2020. The reports text is as of 03/17/2020.

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 December 24, 2019, the company operated 327 stores (125 in the Americas, 91 in Asia-Pacific, 58 in Japan, 48 in Europe, and five in the UAE). Tiffany primarily reports through the following segments -

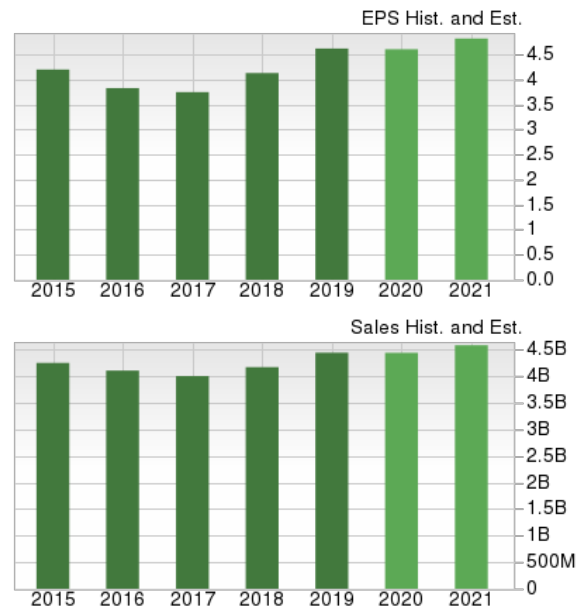
Americas (represented 44% of worldwide net sales in 2018): Includes sales in stores in the United States, Mexico, Canada, Brazil and Chile. Tiffany also distributes a selection of its products through its websites and catalogs of selected merchandise to its list of customers and to mailing lists rented from third parties.

Asia-Pacific (represented 28% of worldwide net sales in 2018): Consists of sales in China, Korea, Hong Kong, Taiwan, Australia, Singapore, Macau, Malaysia and New Zealand and Thailand.

Japan (represented 15% of worldwide net sales in 2018): Consists of sales in Japan.

Europe (represented 11% of worldwide net sales in 2018): 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 Buy:

▲ **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.

Tiffany, which accepted the buyout offer from LVMH, remains focused on evolving its brand, enhancing omni-channel experience and firming position in core markets.

▲ **Interim Holiday Sales Rise:** The company 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. The company came out with preliminary sales data for the interim time period extending over Nov 1 to Dec 24, also known as the "2019 interim holiday period." In the said time frame, the jewelry retailer's worldwide net sales rose about 1-3%, courtesy of enhanced global trends. Strength in Chinese Mainland. 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, recording solid double-digit 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 undertook several initiatives during the interim holiday period. It concluded the expansion of its flagship store in Shanghai, which is now the company's largest Asian store. Further, the company renovated its flagship store in London and inaugurated its third store in Kyoto, Japan. Most recently, Tiffany introduced a store in the United States, which is its fifth outlet in New York City.

▲ **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.

▲ **Store Update:** Tiffany is focused on opening smaller stores that offer selected collections of lower priced higher-margin product, which in turn boosts store productivity. The company concentrates on improving sales per square foot through an increase in customer traffic and converting them into potential buyers by targeted advertising, ongoing sales training and customer-oriented initiatives. During fiscal 2018, this designer and retailer of fine jewelry opened 10 company-operated stores, shuttered four locations and relocated 10 stores. During the first nine months of fiscal 2019, Tiffany opened five company-operated stores and shuttered three locations.

Reasons To Sell:

▼ **Dismal Stock Performance:** Shares of Tiffany have fallen 13.4% compared with the industry's decline of 3.3% in the past three months. Continued weakness in Hong Kong, along with some in Japan stemming from the recent rise in consumption tax remain concerns. The company's preliminary sales data for the interim time period extending over Nov 1 to Dec 24 showed that sales declined 9-11% in Japan, while comparable sales plunged 11-13%. Also, we note that the company's bottom line has been declining for quite some time now. After falling 10% and 4% during the first and second quarters of fiscal 2019, earnings plummeted 15.6% in the third quarter. Lower operating margins and higher effective tax rate hurt the bottom line.

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.

▼ **Margins Remained Under Pressure:** Gross margin, an important financial metric, remained under pressure during the third quarter of fiscal 2019 as well. After shrinking 130 basis points during the second quarter, gross margin contracted 50 basis points to 61.7% in the quarter under review, on account of changes in sales mix toward higher price point jewelry, along with unfavorable impacts from higher wholesale diamond sales. Operating margin shrank 80 basis points to 11.7%.

▼ **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 26.29, which is below the median level of 22.55 and the high level of 30.54 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 20.31 and 16.89, 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.

Last Earnings Report

Tiffany Q3 Earnings & Revenues Fall Short of Estimates

Tiffany & Co. which recently accepted the buyout proposal from LVMH Moët Hennessy - Louis Vuitton SE (or LVMH), posted third-quarter fiscal 2019 results. During the quarter, both earnings and sales missed the Zacks Consensus Estimate, with the latter marking its fifth straight miss. Moreover, earnings per share decreased year over year and margins were under pressure.

Tiffany continued to battle foreign-currency woes, soft spending by foreign tourists in the Americas and the Asia Pacific and headwinds in Hong Kong. Nonetheless, management is impressed with the strength of its underlying business, which benefited from higher sales from local customers. This, in turn, stemmed from solid growth in Chinese Mainland, somewhat countered by sluggishness in the Americas.

The company is focused on evolving its brand, evident from its recent colorful extension of Tiffany T, the introduction of Tiffany & Love fragrance pillars, the launch of the men's collection and the 'Very, Very Tiffany Holiday campaign.'

Moreover, Tiffany is encouraged about its deal with LVMH and looking forward to becoming a part of the same. Tiffany is likely to benefit from LVMH's prominent presence in European and Asian markets. The news has been boosting investors' sentiments in this Zacks Rank #3 (Hold) stock that has surged as much as 52.6% in the past three months compared with the industry's growth of 52.1%.

Quarter Ending **10/2019**

Report Date	Dec 05, 2019
Sales Surprise	-2.11%
EPS Surprise	-23.53%
Quarterly EPS	0.65
Annual EPS (TTM)	4.40

Q3 Highlights

The company reported quarterly earnings of 65 cents per share that came much below the Zacks Consensus Estimate of 85 cents and declined 15.6% from the year-ago period. Lower operating margins and higher effective tax rate hurt the bottom line.

Net sales were nearly flat at \$1,014.6 million, which missed the Zacks Consensus Estimate of \$1,036 million. Also, the company's comparable sales (comps) remained flat year over year. At constant currency, both worldwide net sales and comps rose 1%. Further, excluding the Hong Kong market, worldwide net sales and comps grew 4% and 3%, respectively.

Sales across Jewelry Collections and Engagement Jewelry were unchanged year over year. Nonetheless, sales across Designer Jewelry climbed 1% on a reported basis.

Let's Delve Deeper

Geography-wise, sales in the Americas fell 4% to \$423 million and comps declined 4%. The decline was witnessed in most parts of the Americas, due to reduced spending by foreign tourists as well as local shoppers.

In the Asia-Pacific region, sales remained flat at \$294 million, while comps dropped 2%. This was attributable to currency headwinds. Further, considerable disruptions in Hong Kong and reduced expenditure by foreign tourists hurt sales, whereas strength in Chinese Mainland and local customer sales offered some respite.

In Japan, sales grew 19% to \$169 million and comps rose at the same rate. Adverse currency movements also dented sales in Europe, which fell 3% to \$111 million, with comps remaining flat. Other net sales decreased 13% to \$17 million, while comps dropped 3%.

Gross margin contracted 50 basis points to 61.7% in the quarter under review, on account of changes in sales mix toward higher price point jewelry, along with unfavorable impacts from higher wholesale diamond sales. Operating margin shrank 80 basis points to 11.7%.

SG&A expenses rose about 1% to \$507.2 million primarily due to higher store occupancy and depreciation charges, somewhat negated by lower marketing spending and a decline in labor and incentive compensation costs.

Store Update

During the year-to-date period, this designer and retailer of fine jewelry opened five company-operated stores and shuttered three. As of Oct 31, 2019, the company operated 323 stores (124 in the Americas, 90 in Asia-Pacific, 56 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 \$529.6 million and total debt of \$974 million, reflecting 31% of stockholders' equity.

In the quarter, the company repurchased roughly 883,000 shares for \$78 million. Year to date, Tiffany repurchased nearly 1.79 million shares for \$163.4 million.

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 Releases Interim Holiday Sales Data – Dec 26, 2019

Tiffany came out with preliminary sales data for the interim time period extending over Nov 1 to Dec 24, also known as the “2019 interim holiday period.” In the said time frame, the jewelry retailer’s worldwide net sales rose about 1-3%, courtesy of enhanced global trends. Strength in Chinese Mainland was a major driver, countered by persistent softness in Hong Kong and hurdles in Japan.

Markedly, preliminary sales were up 2-4% in the Americas, 5-7% in the Asia-Pacific and 3-5% in Europe. On the contrary, sales declined 9-11% in Japan. Further, preliminary comparable sales (comps) grew 2-4% in the Americas, 7-9% in the Asia-Pacific and 4-6% in Europe but plunged 11-13% in Japan.

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 13.4% in the year-to-date period but up 18.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 7.3% and 20.3%, respectively, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 7.5% but the sector is down 12.8%.

The S&P 500 index is down 25.8% in the year-to-date period and 16.5% in the past year.

The stock is currently trading at 23.53X forward 12-month earnings, which compares to 16.71X for the Zacks sub-industry, 19.85X for the Zacks sector and 13.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.82X and as low as 14.29X, with a 5-year median of 20.75X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$123 price target reflects 24.94X 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	23.53	16.71	19.85	13.88
	5-Year High	28.82	21.77	26.2	19.34
	5-Year Low	14.29	11.8	19.07	13.88
	5-Year Median	20.75	15.74	23.01	17.42
P/S F12M	Current	3.05	1.39	0.82	2.55
	5-Year High	3.75	1.93	1.11	3.43
	5-Year Low	1.78	0.92	0.8	2.54
	5-Year Median	2.62	1.52	0.92	3
EV/EBITDA TTM	Current	15.95	9.19	12.53	8.81
	5-Year High	18.25	14.2	16.23	12.88
	5-Year Low	7.82	5.08	10.82	8.31
	5-Year Median	11.33	8.82	12.49	10.78

As of 03/16/2020

Industry Analysis Zacks Industry Rank: Top 20% (51 out of 253)



Top Peers

Ralph Lauren Corporation (RL)	Outperform
Signet Jewelers Limited (SIG)	Outperform
Fossil Group, Inc. (FOSL)	Neutral
Guess?, Inc. (GES)	Neutral
L Brands, Inc. (LB)	Neutral
Movado Group Inc. (MOV)	Neutral
Tapestry, Inc. (TPR)	Neutral
Capri Holdings Limited (CPRI)	Underperform

Industry Comparison Industry: Retail - Jewelry				Industry Peers		
	TIF Neutral	X Industry	S&P 500	FOSL Neutral	MOV Neutral	SIG Outperform
VGM Score	F	-	-	A	C	B
Market Cap	14.01 B	240.99 M	16.36 B	179.54 M	240.99 M	552.77 M
# of Analysts	7	2	13	1	1	2
Dividend Yield	2.01%	0.00%	2.63%	0.00%	7.64%	14.02%
Value Score	F	-	-	A	A	B
Cash/Price	0.03	0.09	0.06	0.89	0.40	0.25
EV/EBITDA	15.28	3.34	10.54	8.37	3.34	17.32
PEG Ratio	2.08	1.27	1.46	NA	NA	0.36
Price/Book (P/B)	4.42	0.69	2.26	0.36	0.69	0.53
Price/Cash Flow (P/CF)	17.83	7.61	8.80	4.61	4.64	0.48
P/E (F1)	22.93	10.96	13.18	NA	6.67	2.88
Price/Sales (P/S)	3.19	0.64	1.78	0.08	0.34	0.09
Earnings Yield	4.17%	10.78%	7.56%	-4.23%	15.00%	34.66%
Debt/Equity	0.59	0.59	0.70	0.93	0.25	2.13
Cash Flow (\$/share)	6.49	0.71	7.01	0.77	2.25	22.15
Growth Score	D	-	-	C	F	D
Hist. EPS Growth (3-5 yrs)	4.46%	0.78%	10.85%	-57.44%	5.50%	-12.21%
Proj. EPS Growth (F1/F0)	3.56%	-1.50%	5.72%	51.61%	-3.68%	0.69%
Curr. Cash Flow Growth	10.63%	10.79%	6.15%	-63.28%	28.95%	77.26%
Hist. Cash Flow Growth (3-5 yrs)	3.95%	10.16%	8.55%	-39.32%	3.26%	19.15%
Current Ratio	4.10	1.98	1.24	1.89	3.52	2.12
Debt/Capital	37.06%	42.43%	42.57%	48.13%	20.54%	73.09%
Net Margin	12.41%	1.82%	11.64%	-2.36%	7.99%	-3.09%
Return on Equity	16.98%	16.98%	16.74%	-6.26%	9.73%	20.27%
Sales/Assets	0.73	0.79	0.54	1.38	0.86	1.08
Proj. Sales Growth (F1/F0)	3.19%	0.22%	3.50%	-8.65%	NA	NA
Momentum Score	D	-	-	C	C	A
Daily Price Chg	-9.58%	-14.58%	-12.67%	-20.23%	-17.43%	-25.53%
1 Week Price Chg	-3.59%	-12.69%	-11.01%	-9.55%	-12.25%	-32.92%
4 Week Price Chg	-13.85%	-17.23%	-32.63%	-44.53%	-37.94%	-59.49%
12 Week Price Chg	-13.36%	-25.67%	-30.17%	-54.19%	-52.47%	-49.47%
52 Week Price Chg	18.83%	-49.56%	-23.26%	-76.80%	-69.57%	-61.02%
20 Day Average Volume	3,915,312	153,763	3,457,426	2,291,689	246,445	2,216,436
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.70%	0.00%	-0.48%	NA	0.00%	0.00%
(F1) EPS Est 12 week change	-3.25%	4.50%	-0.93%	-200.00%	NA	12.25%
(Q1) EPS Est Mthly Chg	1.42%	0.71%	-0.60%	NA	NA	0.00%

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	F
Growth Score	D
Momentum Score	D
VGM Score	F

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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