



Tiffany & Co. (TIF)

Updated June 5th, 2018 by Jonathan Weber

Key Metrics

Current Price: \$134	5 Year CAGR Estimate: 0.6%	Quality Percentile: N/A
Fair Value Price: \$93	5 Year Growth Estimate: 6.3%	Momentum Percentile: N/A
% Fair Value: 145%	5 Year Valuation Multiple Estimate: -7.2%	Total Return Percentile: N/A
Dividend Yield: 1.5%	5 Year Price Target \$125	Valuation Percentile:

Overview & Current Events

Tiffany & Co. is a company that manufactures and sells primarily jewelry, as well as timepieces, leather goods, china, crystal, etc. Tiffany has a long history that dates back to the founding of the company in 1837. Tiffany is headquartered in New York, NY, and is currently valued at \$16.6 billion.

Tiffany's most recent quarterly results were announced on May 23, the company reported first quarter earnings per share of \$1.14, a 54% increase compared to the prior year's first quarter. Revenues were up by 15% (to \$1.0 billion), primarily driven by a very strong 10% comparable store sales increase. Tiffany's guidance is for EPS of \$4.60 during 2018, with revenues growing by a high-single digit pace during the current fiscal year.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$2.33	\$2.12	\$2.93	\$3.61	\$3.25	\$3.73	\$4.20	\$3.83	\$3.74	\$4.13	\$4.60	\$6.25
DPS	\$0.66	\$0.68	\$0.95	\$1.12	\$1.25	\$1.34	\$1.48	\$1.58	\$1.75	\$1.95	\$2.15	\$3.00

Tiffany has recorded a 6.5% earnings per share growth rate in the 2008-2017 time frame, which is not overly high, but not bad either. Tiffany's results did not grow very consistently, though, there were several down years – and not only during the financial crisis.

During the last decade growth was driven by both revenue increases as well as margin expansion. Revenue growth, in turn, can be achieved in several ways. Tiffany can increase sales at existing stores, it can open new stores and it can grow its online sales. From a margin perspective higher sales at its existing locations are the most impactful and thus preferable way for revenue to grow, as fixed costs at existing locations (rent, employees, security, etc.) do not grow, but higher comparable sales drive gross profits and allow for growing margins thanks to operating leverage. Comparable sales are something the company cannot manipulate itself, though. Much depends on how much consumers want to spend on discretionary goods, which, in turn, depends on the strength of the economy and disposable incomes. Tiffany can more easily affect its revenue growth by opening new stores, which the company keeps doing, primarily in growth markets such as the Asia-Pacific region (where the store count rose by 3.5% over the last year). Tiffany operates ecommerce presences as well and plans to expand its investments in this segment over the remainder of the year, which poises well for future revenue growth, although its brick-and-mortar stores will remain the main revenue creator.

Tiffany benefits from a strong economy in the US as well as in the Asia-Pacific region, where consumers have increased their spending recently thanks to rising disposable incomes, which positively impacts the demand for high-priced consumer goods such as the jewelry Tiffany offers.

Tiffany currently operates a \$1 billion share repurchase program (enough to buy back roughly 6% of its shares), Tiffany also keeps growing its dividend. Since 2008 the growth rate was 13% a year; recently growth has slowed down a bit.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	15.2	15.1	16.5	19.0	19.0	20.9	22.8	21.9	18.8	22.7	29.1	20.0
Avg. Yld.	1.9%	2.1%	2.0%	1.6%	2.0%	1.7%	1.5%	1.9%	2.5%	2.1%	1.5%	2.0%

Tiffany trades at 29 times this year's expected earnings, which is a quite high valuation that can be explained by the 30% surge in Tiffany's share price during May, primarily as a result of better than expected Q1 results. The 29x P/E ratio is not sustainable in the long run, though, which is why total returns will most likely be significantly pressured by valuation declines over the coming years.

Tiffany's dividend yields 1.5% right now, which is a nice bonus, but which isn't compelling enough for income focused investors to consider Tiffany as a dividend investment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	53.1%	43.9%	48.8%	51.7%	46.7%	49.2%	49.0%	48.6%	48.8%	47.6%	49.0%	50.0%
Debt/A	48.8%	46.0%	41.7%	43.5%	43.6%	42.5%	45.0%	42.8%	40.5%	40.6%	40.0%	40.0%
Int. Cov.	13.6	8.1	11.1	14.7	11.9	5.1	12.7	15.5	15.7	19.1	19.5	20.0
Payout	28.3%	32.1%	32.4%	31.0%	38.5%	35.9%	35.2%	41.3%	46.8%	47.2%	46.7%	48.0%
Std. Dev.	53.7%	47.4%	33.5%	39.4%	26.2%	18.9%	23.7%	22.5%	28.7%	17.3%	23.0%	22.0%

Tiffany has relatively strong fundamentals. The company produces a high amount of gross profits with its assets, and at the same time is financed conservatively. Its liabilities to assets ratio stands at only 40%, among those liabilities less than \$900 million consist of long-term debt. The relatively low debt levels are also why Tiffany has a very strong interest coverage ratio. The company is thus well-positioned for a rising-rates environment and could easily increase its leverage if necessary (e.g. to make an acquisition).

Tiffany is an admired and well-recognized brand with a long history (in an industry where existing brands are not likely to be replaced by new market entrants), which serves as a major competitive advantage. It is very unlikely that this will change in the foreseeable future, Tiffany therefore should continue to perform well operationally as long as conditions for the jewelry industry remain good.

Due to jewelry being a discretionary way for consumers to spend money, Tiffany is somewhat cyclical, as customers purchase less during times when the economy is weak. During the last financial crisis Tiffany remained highly profitable, though, and in 2010 the 2008 profits were surpassed again.

Final Thoughts & Recommendation

Tiffany achieved strong Q1 results, which made its share price rally a lot. Right now shares are looking too expensive, as valuation declined will hinder total returns going forward. Tiffany looks like a relatively high-quality company overall – it just isn't a compelling investment at 29 times this year's earnings.

Total Return Breakdown by Year

