



Tiffany & Co. (TIF)

Updated November 29th, 2018 by Jonathan Weber

Key Metrics

Current Price:	\$93	5 Year CAGR Estimate:	9.0%	Volatility Percentile:	79.1%
Fair Value Price:	\$94	5 Year Growth Estimate:	6.3%	Momentum Percentile:	47.1%
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.3%	Growth Percentile:	58.1%
Dividend Yield:	2.4%	5 Year Price Target	\$128	Valuation Percentile:	61.4%
Dividend Risk Score:	C	Retirement Suitability Score:	C	Total Return Percentile:	55.9%

Overview & Current Events

Tiffany & Co. is a company that manufactures and sells primarily jewelry, as well as timepieces, leather goods, china, and crystal. 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 \$11.3 billion.

Tiffany reported its third quarter earnings results on November 28. The company generated revenues of \$1.01 billion during the quarter, which represents an increase of 3.5% compared to the prior year's quarter. Revenues grew through higher comparable store sales primarily, which were up 3.0% year over year. Tiffany missed comparable store sales estimates, though, as analysts had forecasted a comps sales growth rate of 5.4%. The weaker than expected comps sale performance was also the main reason for lower-than-expected revenues. The analyst community had forecasted sales of \$1.05 billion. Comparable store sales were strong in the US (up 5% year over year) and in the Asia-Pacific region (up 4% year over year), but were flat in Europe and grew only marginally in Japan. Tiffany generated earnings-per-share of \$0.77 during the quarter, slightly less than the \$0.80 that the company earned during the previous year's quarter. For the first nine months of 2018, Tiffany earned \$3.08 per share, 25% more than during the first nine months of the previous year. The market reacted very negatively to the earnings report, despite the fact that profits were slightly higher than what analysts had forecasted. Tiffany's shares declined by 12% on the day of the earnings report.

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	\$4.72	\$6.41
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
Shares	124	126	127	127	127	128	129	127	125	125	121	114

Tiffany has recorded a 6.5% earnings-per-share growth rate in the 2008-2017 time frame. Results have been somewhat cyclical, though. Earnings 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 all by 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. During Q3 Tiffany has recorded a solid, but weaker than expected 8% comps sales growth rate. 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. Tiffany operates an ecommerce business as well and plans to expand its investments in this segment over the remainder of the year. This bodes well for future revenue growth, although its brick-and-mortar stores will remain the company's main sales funnel. Tiffany benefits from a strong economy in the US as well as in the Asia-Pacific region, where consumers are increasing their spending thanks to rising disposable incomes. This positively impacts the demand for high-priced consumer goods such as the jewelry Tiffany offers. Tiffany also continuously buys back shares, which leads to a declining share count over the years.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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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	19.7	20.0
Avg. Yld.	1.9%	2.1%	2.0%	1.6%	2.0%	1.7%	1.5%	1.9%	2.5%	2.1%	2.4%	2.3%

Tiffany's shares are trading at marginally less than 20 times this year's forecasted earnings. The current valuation is relatively in line with how shares were valued historically, thus shares look fairly valued at current prices.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Payout	28.3%	32.1%	32.4%	31.0%	38.5%	35.9%	35.2%	41.3%	46.8%	47.2%	45.6%	46.8%

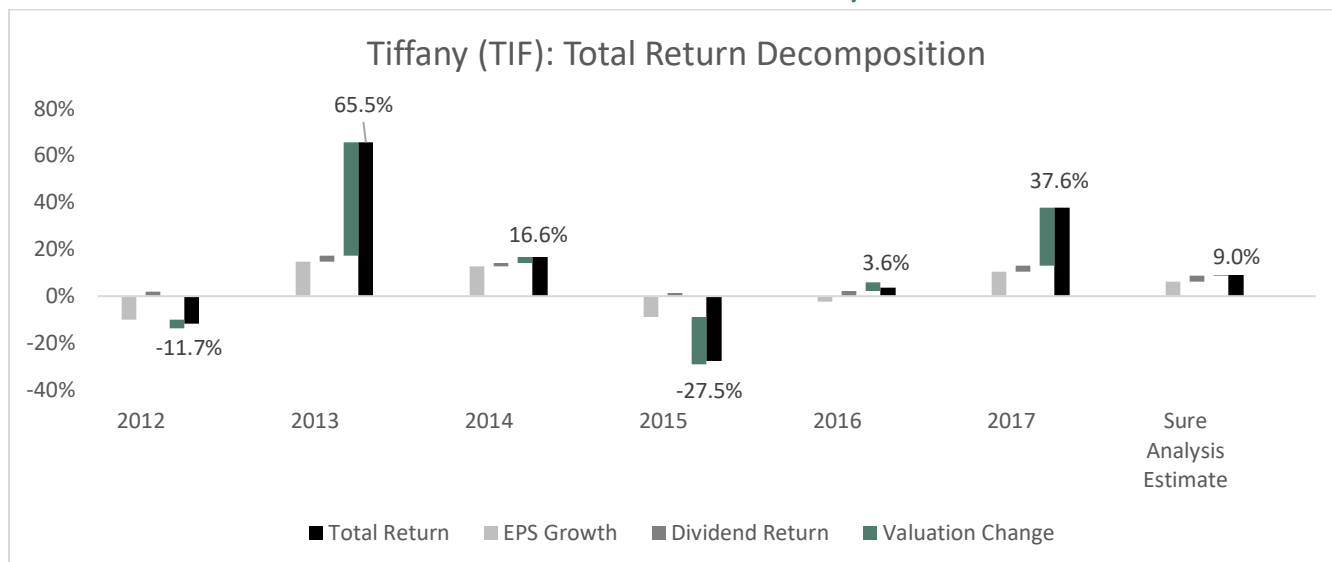
Tiffany has strong fundamentals. The company generates attractive margins, and at the same time Tiffany is financed conservatively. Its liabilities to assets ratio stands at only 40%. Among those liabilities only \$880 million consist of long-term debt. The relatively low debt levels are also why Tiffany has a strong interest coverage ratio. The company will not have any problems with rising interest rates that are to be expected over the coming years.

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. This 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's business 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's share price is very volatile. Shares have declined by 35% from the peak set in summer. Tiffany's comps sales during Q3 were not as strong as expected, but overall results still looked solid, and management has not made any changes to the company's guidance for the current year. Shares look fairly valued right here, and promise solid total returns over the coming years, which is why we rate them a hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	2849	2710	3085	3643	3794	4031	4250	4105	4002	4170
Gross Profit	1646	1530	1822	2151	2163	2340	2537	2491	2490	2605
Gross Margin	57.8%	56.5%	59.1%	59.0%	57.0%	58.1%	59.7%	60.7%	62.2%	62.5%
SG&A Exp.	1154	1090	1227	1443	1466	1556	1646	1731	1769	1810
D&A Exp.	136	139	148	146	164	181	194	203	209	207
Operating Profit	492	440	595	708	697	785	891	760	721	795
Operating Margin	17.3%	16.3%	19.3%	19.4%	18.4%	19.5%	21.0%	18.5%	18.0%	19.1%
Net Profit	220	265	368	439	416	181	484	464	446	370
Net Margin	7.7%	9.8%	11.9%	12.1%	11.0%	4.5%	11.4%	11.3%	11.1%	8.9%
Free Cash Flow	-21	606	172	-29	26	-67	368	565	483	693
Income Tax	134	124	179	226	227	74	253	246	231	390

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	3102	3488	3736	4159	4631	4752	5181	5122	5098	5468
Cash & Equivalents	160	786	682	434	505	346	730	844	928	971
Accounts Receivable	164	159	186	184	174	189	195	206	227	231
Inventories	1601	1428	1625	2073	2234	2327	2362	2225	2158	2254
Total Liabilities	1514	1605	1558	1810	2020	2018	2330	2192	2069	2220
Accounts Payable	224	232	259	113	122	117	118	128	109	202
Long-Term Debt	776	754	688	712	959	1004	1117	1096	1107	1004
Shareholder's Equity	1588	1883	2177	2349	2599	2720	2835	2911	3014	3233
D/E Ratio	0.49	0.40	0.32	0.30	0.37	0.37	0.39	0.38	0.37	0.31

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	7.2%	8.0%	10.2%	11.1%	9.5%	3.9%	9.7%	9.0%	8.7%	7.0%
Return on Equity	13.3%	15.3%	18.1%	19.4%	16.8%	6.8%	17.4%	16.1%	15.1%	11.8%
ROIC	9.7%	10.6%	13.4%	14.8%	12.6%	5.0%	12.6%	11.6%	10.9%	8.8%
Shares Out.	124	126	127	127	127	128	129	127	125	125
Revenue/Share	22.54	21.61	24.03	28.22	29.66	31.27	32.72	31.80	31.89	33.33
FCF/Share	-0.17	4.83	1.34	-0.22	0.20	-0.52	2.83	4.37	3.85	5.54

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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