Please Turn Off Your Cell Phones
The Industry

- World-wide fine jewelry market > $100 billion
- US - 40%; Japan - 13%; followed by Europe, and East Asia
- South African company De Beers – 70% supply
- 1999-2000 marked the largest sales increases in 10 to 15 years
  - 77 million Baby Boomers
  - More working women

Industry Facts

- US retail diamond jewelry growth - 6%
- Diamond engagement rings - $4bil annually
- What does this mean?
- How does Tiffany & Co. come into the picture?
  - 75% of Tiffany’s sales from Fine Jewelry
  - 20% are from engagement jewelry, diamond jewelry
Let’s Have Breakfast

- Mission: To Be the World’s most respected jeweler
- Internationally renowned retailer, designer, manufacturer, and distributor
- Fine jewelry, timepieces, sterling silverware, china, crystal, stationery, fragrances, and accessories
- ~125 stores worldwide (company owned, shop-in-shops, 3rd party locations)
- $1.7 billion in sales in F2000

The US Market

- ~50% of sales
- 12% of its revenues are from its flagship location on 5th Avenue
  – Recently renovated to increase selling sq. footage by 25%
The International Market

• ~41% of sales
• Japan: 2nd largest market (~27%)
  – Contributed 28% to revenue & 40% to earnings in FY2000
  – Agreement with Mitsukoshi, Ltd. (upscale department store)
• New Store in Beijing, China (Dec., 2001)
• Europe brings in 4% of international revenues
  – Prior to 1986, TIF had no presence in Europe
  – Australia, and new store in Rome, 3rd in London

You Know The Brand

• Strong Brand Equity
  – Classy, sophisticated
• Association with high quality, excellent customer service, and the robin’s egg blue box
• “Accessible to Aspirational”
Multi-Channel Distribution

- Retail Stores
- Catalogue
- Corporate Division
- E-Commerce presence
  - Its own website
  - 5% Stake in Della.com (theweddingchannel.com)

Operations & Strategies

- Old School vs. Specialized Merchandising
- Rhode Island silver-manufacturing center
  - Lower costs, increase operating profit
  - Tight control of quality
- Licensed Agreements with designers
- Patented designs – Lucida diamond cut
- Discontinued wholesale business in 2000
- Supply
  - 14.9% stake ($71 million) in Aber Diamond Corporation (to begin supply in 2003) ➔ higher quality diamonds, cut cost
Plans For Expansion

- Expand sq. footage by 5-8% annually for the next 7-10 years
- 3 to 5 stores annually in the US starting 2002 to 75 locations from 43
- 3 stores annually in Japan to 60 to 65 locations from 47
- Expand without diluting its brand equity

Competition

- Ivy Leagues: BULGARI, Rolex
TIF vs. BULG

TIFFANY & CO.  BVLGARI

- Approximately the same # of stores worldwide
- Jewelry vs. Watches
- TIFFANY – US & Asia
- BVLGARI – Europe
- Gross Profit Margin: 57% vs. 48%

Competition

- Ivy Leagues: BVLGARI, Rolex
- 2nd tier: Zale, Whitehall Jewelers
TIF vs. ZALE

<table>
<thead>
<tr>
<th>Tiffany &amp; Co</th>
<th>Zale Corp.</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>25.55</td>
<td>29.80</td>
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<tr>
<td>Market cap</td>
<td>3,572,145,000</td>
<td>1,037,636,000</td>
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<tr>
<td>52-week high</td>
<td>42.68</td>
<td>38.00</td>
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<tr>
<td>52-week low</td>
<td>19.90</td>
<td>23.37</td>
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<tr>
<td>% of 52-high</td>
<td>59.864%</td>
<td>78.421%</td>
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<tr>
<td>% above 52-low</td>
<td>28.392%</td>
<td>27.514%</td>
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<tr>
<td>Price/Earnings (ttm)</td>
<td>19.7</td>
<td>12.6</td>
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<tr>
<td>Price/Book (mrq)</td>
<td>3.66</td>
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<td>Price/Sales (ttm)</td>
<td>2.15</td>
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<td>Profit margin (ttm)</td>
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<td>Return on assets (ttm)</td>
<td>11.9</td>
<td>5.9</td>
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<td>Return on assets (5-yr. Avg)</td>
<td>10.1</td>
<td>5.6</td>
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<tr>
<td>Return on equity (ttm)</td>
<td>19.2</td>
<td>9.8</td>
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<tr>
<td>Return on equity (5-yr. Avg)</td>
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<td>11.2</td>
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<tr>
<td>Current ratio (mrq)</td>
<td>3.1</td>
<td>2.8</td>
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<tr>
<td>Debt/Equity (mrq)</td>
<td>0.24</td>
<td>0.13</td>
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</tbody>
</table>

Competition

- Ivy Leagues: BULGARI, Rolex
- 2nd tier: Zale, Whitehall Jewelers
- 3rd tier: Mom and Pop Jewelers
- De Beers – effective retailer?
- Gucci, LVMH, other “high-end brands”? 
  – TIFFANY AND CO. is NOT a “Rag Trade”
Risks

- Slow economy, slow Holiday Sales
- Fluctuations in foreign currency
  - TIF: foreign exchange contracts
- Loss of designer license agreements
  - Chances of this are tiny
- Inability to obtain raw materials
  - TIF: contract with Aber Diamond Corp.

Why We Should Not Worry

- Strength of the TIFFANY brand
- Vast market in the US and abroad
- Dynamic marketing program
- Technologically advanced
- Diversification
- History (?)
Did You Know…

• 1885: Tiffany & Co. revises the Great Seal of the US (Look at the $1 bill)
• 1926: TIF’s standard of purity becomes the official standard for platinum in US
• Can be found in museums
• Designed the Superbowl trophy
• Designed the White House china
• Is an American Icon

How Has It Been Doing?
Valuation Assumptions

- 3-stage FCFE model
- 1st stage: now to year 2 (2%)
- 2nd stage: years 3 – 9 (12%)
- 3rd stage: year 10 until forever (5%)
- “Bottom-Up” Beta = 1.01
- CONSERVATIVE
- Remember, model is not taking brand equity into account.

Valuation

- Net Present Value of Equity 4,571,074
- # of outstanding shares 145,897
- Intrinsic Value $31.33
- Current Price $25.70
- Potential Upside 21.91%

Recommendation: BUY NOW!
Any Questions?

Napkin?