

Please Turn Off Your Cell Phones



TIFFANY & CO.

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Tiffany & Co.

An IAG Presentation by Jean Tsao

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



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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



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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



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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%



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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



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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”



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Multi-Channel Distribution

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



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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



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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



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Competition

- Ivy Leagues: BULGARI, Rolex



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TIF vs. BULG

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BVLGARI

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



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Competition

- Ivy Leagues: BVLGARI, Rolex
- 2nd tier: Zale, Whitehall Jewelers



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TIF vs. ZALE

	Tiffany & Co	Zale Corp.	Industry
Price	25.55	29.80	-
Market cap	3,572,145,000	1,037,636,000	-
52-week high	42.68	38.00	-
52-week low	19.90	23.37	-
% of 52-high	59.864%	78.421%	-
% above 52-low	28.392%	27.514%	-
Price/Earnings (ttm)	19.7	12.6	13.5
Price/Book (mrq)	3.66	1.23	2.01
Price/Sales (ttm)	2.15	0.5	0.82
Profit margin (ttm)	11.3	4	6.3
Return on assets (ttm)	11.9	5.9	8.1
Return on assets (5-yr. Avg)	10.1	5.6	7.1
Return on equity (ttm)	19.2	9.8	15.3
Return on equity (5-yr. Avg)	18.5	11.2	15.3
Current ratio (mrq)	3.1	2.8	2.3
Debt/Equity (mrq)	0.24	0.13	0.22

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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”



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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.



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Why We Should Not Worry

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



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Did You Know...

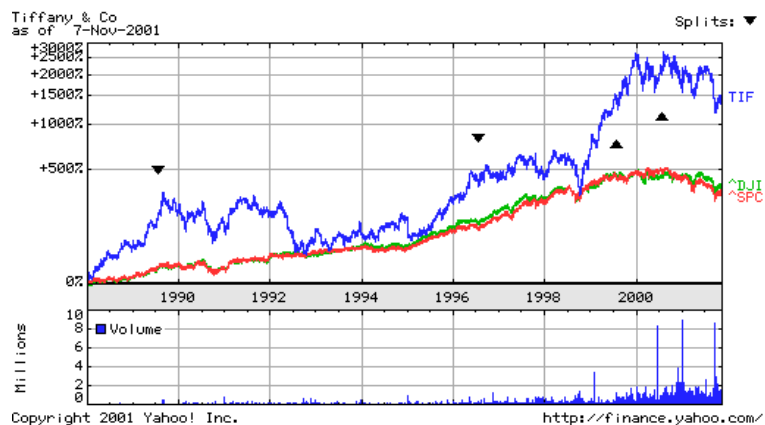
- 1885: Tiffany & Co. revises the Great Seal of the US (Look at the \$1 bill)
- 1926: TIF's standard of purity becomes the official standard for platinum in US
- Can be found in museums
- Designed the Superbowl trophy
- Designed the White House china
- Is an American Icon



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How Has It Been Doing?



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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.



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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!



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Any Questions?

Napkin?



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