

Tiffany & Co (TIF)

Rating	OUTPERFORM
Price (23-Aug-18, US\$)	129.90
Target price (US\$)	142.00
52-week price range (US\$)	139.50 - 87.55
Market cap(US\$ m)	16,139
Enterprise value (US\$ m)	16,143

Target price is for 12 months.

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PRE RESULTS COMMENT

Don't Let a Little Macro Noise Distract from a Major Turnaround Opportunity; Outperform

- Keep an Eye on TIF's Big Brand Turnaround Opportunity Despite Macro Noise:** TIF & luxury peers have underperformed lately amid market fears of a slowdown in Chinese demand (China ~15% of TIF revs). That said, recent luxury reads (LVMH, Kering, Prada, Burberry) indicate Chinese demand remained robust in 2Q. Importantly, we continue to believe TIF's FY18 SSS guide looks extremely conservative (implies a SSS decel to +2.5-6.5% ex-FX in 2Q-4Q vs. +7% in 1Q). We estimate 2Q global SSS +6% ex-FX (Street: +5.7%), with TIF starting to benefit in 2Q from: 1) New Paper Flowers line (launched in US in May & in Europe in June); and 2) Significantly stepped-up brand investments (~\$100m+ in marketing, merchandising, digital/stores). Bigger picture, TIF is finally taking very serious steps toward a long-needed renovation of its supply chain, digital sales and customer engagement capabilities, in-store experience, and product innovation calendar that we think can drive both faster SSS and higher margins vs. historical averages. Coupled with favorable valuation (~14x EBITDA vs. luxury peers 15-16x), we see multiple sources of upside from here. Reiterate Outperform.
- Key P&L Puts and Takes in 2Q: Positives:** 1) New Paper Flowers jewelry launch in May, with global rollout through summer (supported by new "Believe in Dreams" marketing campaign); 2) Significantly stepped-up brand investments starting in 2Q; 3) Lower commodity costs lately could start to add some GM tailwinds to FY19 (in last 3 months, Gold prices down -8%, Platinum -12%, Silver -10%). **Negatives:** 1) Decelerating tourism in both US and Europe (per Macy's, RL, Moncler); 2) FX headwinds: TIF last guided FY18 at ~1.16 Euro (~in-line with today), ~1.34 Pound (vs. 1.28 today) and ~0.157 CNY (vs. 0.145 today), which could add ~\$0.03 EPS drag in FY18.
- Valuation:** Our target price of \$142 is based on ~15x our FY19 EBITDA.

Share price performance



On 23-Aug-2018 the S&P 500 INDEX closed at 2857.6
Daily Aug23, 2017 - Aug23, 2018, 08/23/17 = US\$88.72

Quarterly EPS	Q1	Q2	Q3	Q4
2018A	0.74	0.92	0.80	1.67
2019E	1.14	0.97	0.82	1.77
2020E	1.27	1.08	0.93	1.95

Financial and valuation metrics

Year	1/18A	1/19E	1/20E	1/21E
EPS (CS adj.) (US\$)	4.12	4.70	5.22	5.73
Prev. EPS (US\$)	-	-	-	-
P/E rel. (%)	144.5	156.2	154.8	155.6
Revenue (US\$ m)	4,169.5	4,527.4	4,754.8	5,001.4
EBITDA (US\$ m)	1,001.0	1,058.3	1,137.3	1,221.3
OCFPS (US\$)	7.45	5.44	6.57	7.14
P/OCF (x)	14.3	23.9	19.8	18.2
EV/EBITDA (current)	15.8	15.0	13.9	13.0
Net debt (US\$ m)	-288	4	-49	-121
ROIC (%)	18.21	19.18	20.21	20.96
Number of shares (m)	124.24	IC (current, US\$ m)		2,960.50
BV/share (Next Qtr., US\$)	26.1	EV/IC (x)		5.2
Net debt (Next Qtr., US\$ m)	-232.3	Dividend (current, US\$)		2.00
Net debt/tot eq (Next Qtr., %)	-7.1			

Source: Company data, Thomson Reuters, Credit Suisse estimates

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Figure 1: Luxury Peers Comp Sheet

US\$ in millions, unless otherwise stated

Company	Mkt. Cap. (\$B)	Ent. Val. (\$B)	EV/EBITDA		P/E	
			NTM	3-Yr. Avg.	NTM	3-Yr. Avg.
LVMH	\$173.2	\$184.9	12.5x	nm	22.6x	20.6x
Kering	\$66.9	\$70.8	13.5x	13.0x	20.2x	17.6x
Hermes	\$66.6	\$63.8	23.1x	19.8x	41.1x	34.5x
Richemont	\$44.6	\$38.9	10.6x	11.0x	22.1x	21.5x
Swatch	\$23.3	\$22.1	10.7x	10.6x	19.3x	19.7x
Prada	\$11.9	\$12.1	14.5x	nm	29.7x	nm
Burberry	\$11.8	\$10.8	14.2x	10.4x	27.4x	19.9x
Moncler	\$11.1	\$10.9	17.8x	nm	29.3x	22.0x
Salvatore Ferragamo	\$3.8	\$3.7	13.3x	12.2x	26.5x	nm
Brunello Cucinelli	\$3.0	\$3.0	25.2x	17.6x	48.4x	33.8x
Global Luxury Average			15.5x	13.5x	28.7x	23.7x
Global Luxury Median			13.9x	12.2x	27.0x	21.1x
Tiffany & Co.	\$16.5	\$16.3	14.4x	10.7x	25.7x	20.8x

Source: Company data, Credit Suisse estimates, Thomson Reuters Datastream

Figure 2: Global Luxury Trends Commentary

Region	Commentary
China	<p>"I think that overall, the trends with the Chinese cluster in Q2 were still very positive and we didn't see any deceleration compared to Q1 even if there was some reallocation in terms of expenditures from one country to another with a softer trend in Europe, acceleration in some Asian countries and still a very sustained performance in Mainland China for Gucci. And so far, we can't say that there was an impact, negative impact of the overall environment on the Chinese demand."</p> <p>- Jean-Marc Duplaix; Kering, CFO, July 26, 2018 Earnings Call</p>
	<p>"So Chinese demand in recent weeks, I will comment only on Q1 versus Q2 and obviously, on the brands where we can measure it with some accuracy. The answer is no. If you take Louis Vuitton's Chinese demand in Q1 and Q2, we had a slight improvement in Q2 compared to Q1. So we cannot really mention any slowing down in Chinese demand. And for the other businesses, obviously, it's less accurate, but I think the same trend applies. So the threats that we discussed are there, but I don't think they have materialized yet in any way."</p> <p>- Jean-Jacques Guiony; LVMH, CFO, July 24, 2018 Earnings Call</p>
	<p>"There was a strong growth in Asia and U.S. as well as solid progress in Japan and Europe. The growth was also driven by the positive growth from all nationalities with a notable strength from Chinese and other Asian consumers."</p> <p>- Alessandra Cozzani; Prada, CFO, Aug 1, 2018 Earnings Call</p>
Hong Kong	<p>"And Hong Kong returned to growth in the full year, positively impacted by both local and tourist spend in the final quarter. The Chinese consumer, our largest nationality globally, grew mid-single digits in full year '18."</p> <p>- Julie Brown; Burberry; CFO, COO, & Director, May 16, 2018 Earnings Call</p>
Europe	<p>"With a slight slowdown in the tourism in Europe that we have noticed, not only us, but also for the data that you can get for global group. We have seen a decrease in the tourist in Europe, but at the same times, we have seen a slight increase since a couple of months in the tourist of Chinese in the other neighboring country, mainly, Singapore, Hong Kong, Japan, and Korea."</p> <p>- Roberto Eggs; Moncler; Chief Marketing & Operating Officer, July 25, 2018 Earnings Call</p>
	<p>"The U.K. was impacted by some exceptional prior year comps due to Brexit and closed the year with a low single-digit growth. Continental Europe was impacted by reduced tourist spend in half 2. And wholesale in EMEA was broadly stable."</p> <p>- Julie Brown; Burberry; CFO, COO, & Director, May 16, 2018 Earnings Call</p>

Source: Company data, Credit Suisse estimates, Thomson Reuters Datastream

TIF 2Q18 Earnings: Cheat Sheet

Figure 3: Things to Remember from TIF's Conference Calls

Things to Remember—One Year Ago (2Q17)	Things to Remember—One Quarter Ago (1Q18)
<ul style="list-style-type: none"> Revenue: +3% YOY (+4.1% ex-FX) <ul style="list-style-type: none"> Americas: +1% YOY (+1% ex-FX) <ul style="list-style-type: none"> <i>Drivers:</i> No drag from NYC flagship, softness due to lower foreign tourist spend; price -6% & units +6% APAC: +2% YOY (+2% ex-FX) <ul style="list-style-type: none"> <i>Drivers:</i> Higher wholesale, new store openings, positive China SSS; price ex-FX -17% and units +19% Japan: +1% YOY (+7% ex-FX) <ul style="list-style-type: none"> <i>Drivers:</i> Spending by locals, partially offset by wholesale decline; price ex-FX +3% and units +2% Europe: +3% YOY (+5% ex-FX) <ul style="list-style-type: none"> <i>Drivers:</i> Increased wholesale sales and new store contribution; price ex-FX -1% and units +7% SSS: -1% ex-FX (-2% incl. FX) <ul style="list-style-type: none"> Americas: -1% ex-FX (-1% incl. FX) APAC: -7% ex-FX (-7% incl. FX) Japan: +9% ex-FX (+3% incl. FX) Europe: 0% ex-FX (-2% incl. FX) GM +40bp YOY: Favorable product costs and mix shift benefit, partially offset by higher wholesale diamond sales 2017 Guidance (as of 8/24/17) <ul style="list-style-type: none"> Net Sales: +LSD% on reported and ex-FX basis GM: Up YOY, favorable input costs & exp. mgmt. <ul style="list-style-type: none"> +LSD worldwide price increase in early 2017 SG&A: Increase slightly faster than sales OPM: In-line w/ 2016 19.0% ex-charges (prev. up YOY) Tax Rate: ~33% (prev. consistent 34.2% rate YOY) Adj. EPS: +MSD YOY <ul style="list-style-type: none"> 2H EPS improving YOY, with growth in 4Q OCF: ~\$700m; Capex: \$250m; FCF: ~\$450m Stores: sq. ft. +2% YOY; Open: 10; Relocate: 7; Close: 7 	<ul style="list-style-type: none"> Revenue: +14.9% YOY (+11.2% ex-FX) <ul style="list-style-type: none"> Americas: +9% YOY (+8% ex-FX) <ul style="list-style-type: none"> <i>Drivers:</i> Increase spending by local customers and foreign tourists; price -4% and units +10% APAC: +28% YOY (+23% ex-FX) <ul style="list-style-type: none"> <i>Drivers:</i> Higher spending by local customers and foreign tourists; price ex-FX +11% and units +11% Japan: +17% YOY (+12% ex-FX) <ul style="list-style-type: none"> <i>Drivers:</i> Higher spending by local customers and foreign tourists; price ex-FX +1% and units +10% Europe: +13% YOY (+1% ex-FX) <ul style="list-style-type: none"> <i>Drivers:</i> Softness across region due to lower tourist spend & new stores; price ex-FX -7% and units +7% SSS: +7% ex-FX (+10% incl. FX) <ul style="list-style-type: none"> Americas: +9% ex-FX (+9% incl. FX) APAC: +9% ex-FX (+14% incl. FX) Japan: +9% ex-FX (+14% incl. FX) Europe: -7% ex-FX (+2% incl. FX) Gross Margin +90bp YOY: Driven by sales leverage on fixed costs and the reduction in wholesale sales of diamonds 2018 Guidance (as of 5/23/18) <ul style="list-style-type: none"> SSS: +MSD Net Sales: +HSD YOY on reported & ex-FX GM: Up YOY, but not enough to offset SG&A delever SG&A: Deleverage from higher investment in tech, marketing, visual merch., digital/store presentation EBIT: \$ flat to down slightly YOY, margin down YOY Int./Other Exp.: \$35m; Tax Rate: high-20s% Adj. EPS: \$4.50-4.70 OCF: \$700m; Capex: \$280m; FCF: >\$400m Stores: sq.ft. +2%; Open: 8; Relocate: ~15; Close: 2

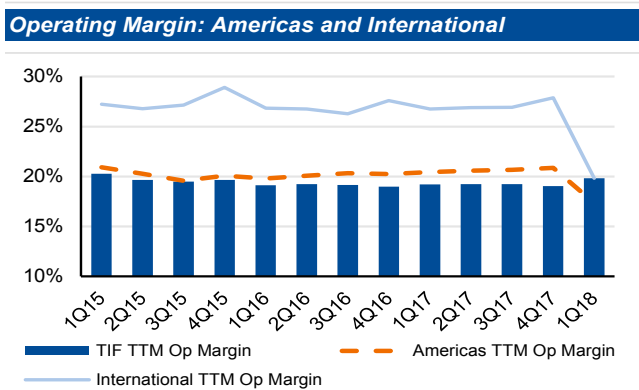
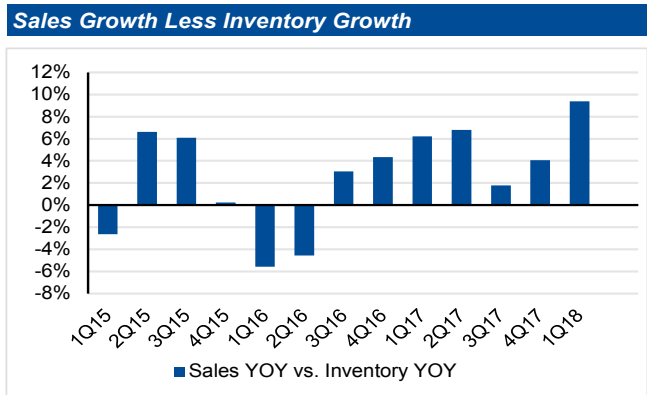
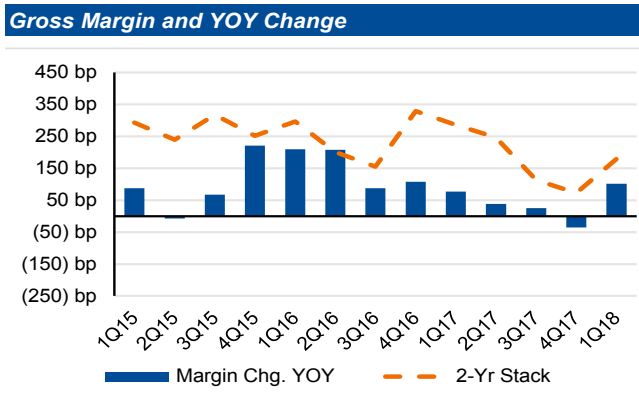
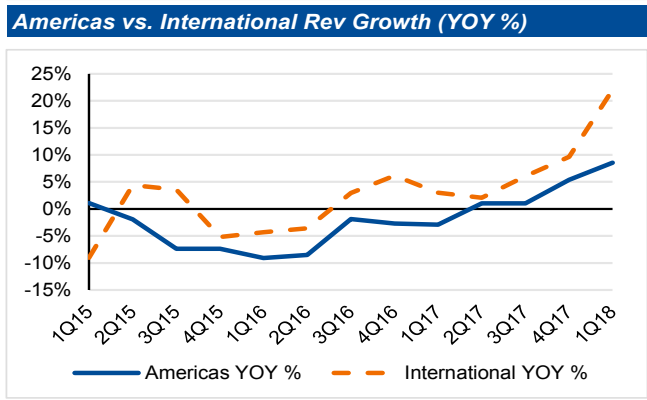
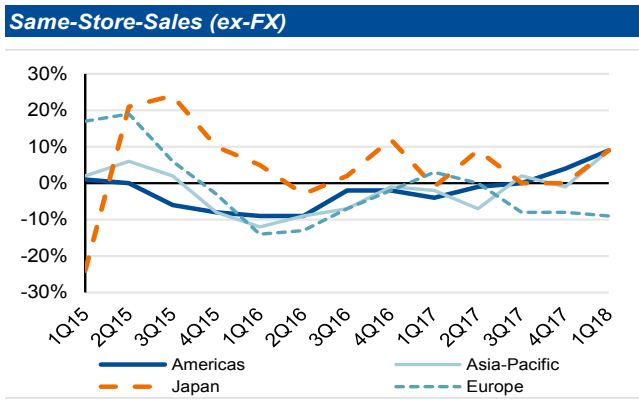
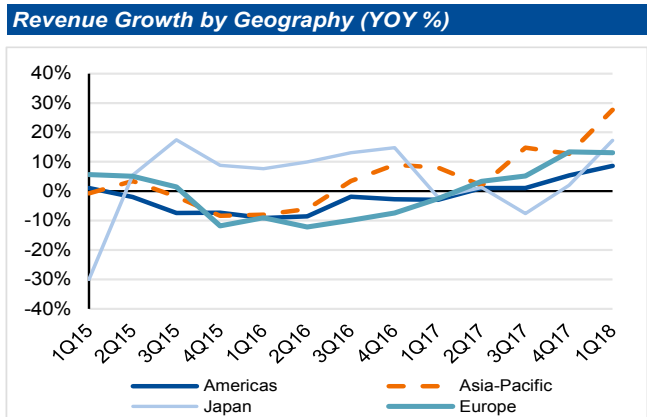
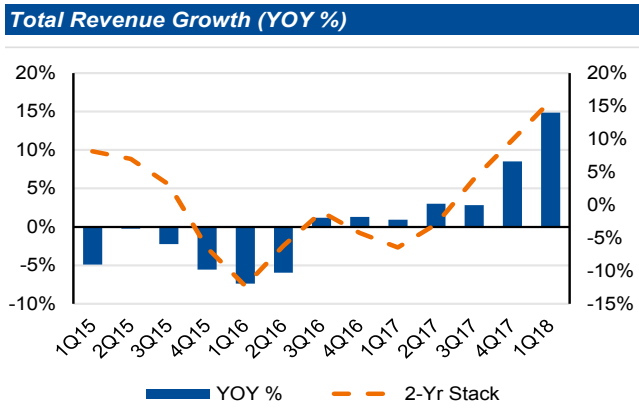
Source: Company data, Credit Suisse estimates

Figure 4: Credit Suisse vs. Consensus

Tiffany & Co. OUTPERFORM	FY 2017	2018				FY 2018E	FY 2019E	FY 2020E	Comments
		1Q	2QE	3QE	4QE				
	2017	Apr-18	Jul-18	Oct-18	Jan-19	2018	2019	2020	
SSS (ex-FX)	0.0%	7.0%	5.9%	5.9%	5.4%	6.0%	4.2%	4.2%	* 2018 Guide: +MSD%
2-yr stack	(5.0%)	5.0%	4.9%	5.9%	6.4%	6.0%	10.2%	8.4%	
Consensus			5.7%	5.0%	4.5%	5.3%	3.1%	3.2%	
Revenue	\$4,170	\$1,033	\$1,036	\$1,043	\$1,415	\$4,527	\$4,755	\$5,001	* 2018 Guide: Up +HSD% YOY (reported and ex-FX)
YOY %	4.2%	14.9%	8.0%	6.8%	6.1%	8.6%	5.0%	5.2%	
YOY % (ex-FX)	7.8%	5.8%	5.2%	5.7%	5.3%	5.5%	5.2%	4.9%	
Consensus			8.6%	7.4%	5.8%	8.9%	5.1%	5.4%	
Gross Margin	62.5%	63.0%	62.7%	61.7%	64.2%	63.0%	63.1%	63.2%	* 2018 Guide: Up YOY, but not enough to offset SG&A deleverage
YOY bp. chg.	23 bp	102 bp	35 bp	45 bp	50 bp	56 bp	10 bp	10 bp	
Consensus			59.7%	59.2%	62.3%	62.0%	61.3%	63.3%	
EBIT Margin	19.0%	19.8%	16.7%	14.1%	21.7%	18.4%	18.8%	19.3%	* 2018 Guide: CSe implied EBIT \$815m-\$830m with margins down -75-80bp YOY
YOY bp. chg.	7 bp	359 bp	(215) bp	(230) bp	(130) bp	(66) bp	44 bp	50 bp	
Consensus			17.5%	15.0%	21.4%	18.7%	19.3%	19.9%	
EPS	\$4.12	\$1.14	\$0.97	\$0.82	\$1.77	\$4.70	\$5.22	\$5.73	* 2018 Guide: \$4.50-4.70, incl. \$400m of share repurchases
YOY %	10.1%	53.5%	5.9%	2.7%	6.0%	13.9%	11.2%	9.7%	
Consensus			\$1.01	\$0.86	\$1.74	\$4.75	\$5.41	\$6.03	

Source: Company data, Credit Suisse estimates, Thomson Reuters Datastream

Figure 5: TIF Operating Metrics



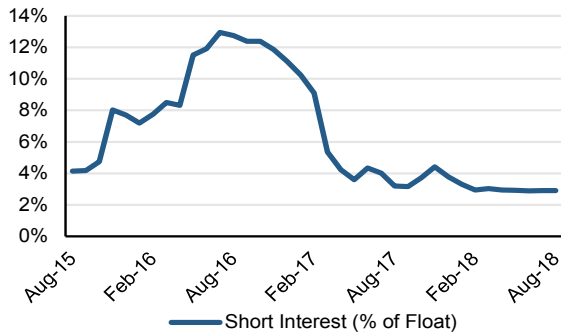
Major Currencies: Change Since...

Currency	1 Month	1 QTR	YTD	1 Year
EUR	-1.6%	-4.7%	-4.1%	-2.1%
GBP	-1.9%	-6.6%	-4.9%	+0.2%
CNY	-0.9%	-7.3%	-4.9%	-2.7%
JPY	+0.8%	-1.0%	+2.0%	-0.9%
HKD	-0.0%	-0.0%	-0.4%	-0.3%

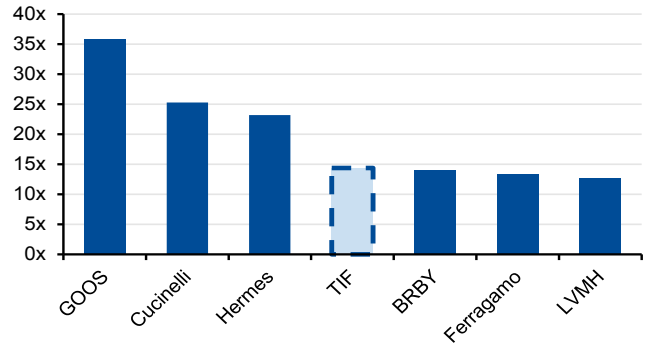
Source: Company reports, Thomson Reuters Eikon

Figure 6: TIF Technical Stock Charts

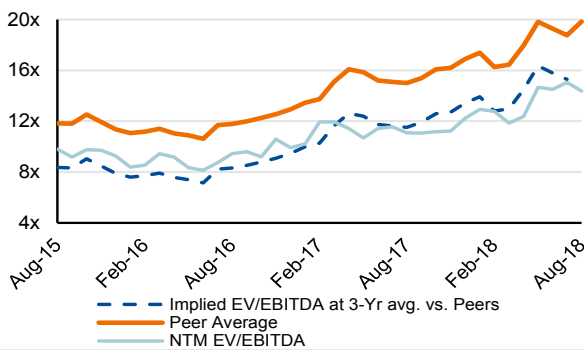
TIF Short Interest History (% of Float)



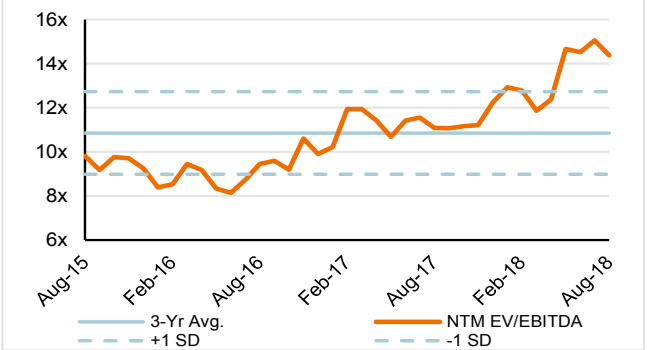
Current Valuation vs. Peer: NTM EV/EBITDA



Relative EV/EBITDA Valuation to Peer Group



3-Year EV/EBITDA Average



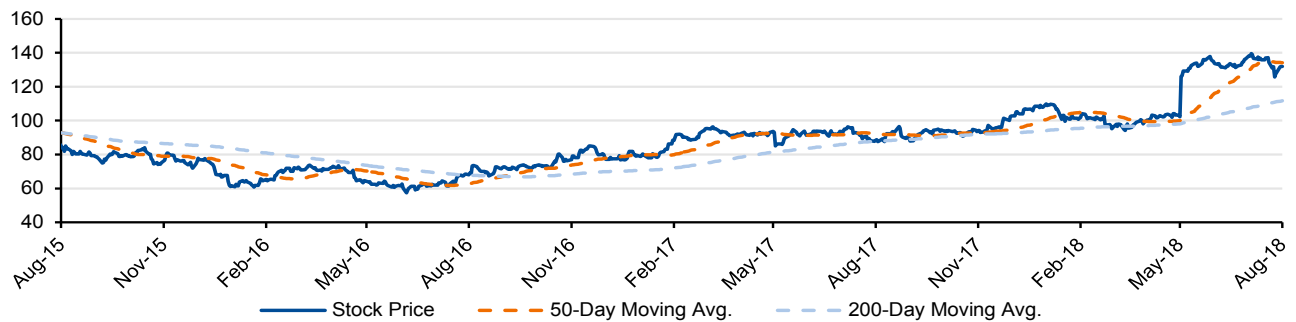
TIF Stock Performance

	1 Month	3 Month	12 Month	YTD
TIF	-5%	+4%	+49%	+27%
SPX	+2%	+5%	+17%	+7%
XRT	+5%	+12%	+36%	+16%

Consensus EPS History

	1 Year Ago	6 Months Ago	3 Months Ago	Current
2017A	\$4.12	\$4.12	\$4.12	\$4.12
2018E	\$4.30	\$4.35	\$4.66	\$4.75
2019E	\$4.62	\$4.89	\$5.25	\$5.41

TIF Stock Trend



Source: Company reports, Thomson Reuters Eikon

Figure 7: TIF Income Statement (CS Estimates)

US\$ in millions, unless otherwise stated

Tiffany & Co	Fiscal Yr	Fiscal Yr	2017				Fiscal Yr	2018				Fiscal Yr	2019				Fiscal Yr	Fiscal Yr
	2015	2016	1Q	2Q	3Q	4Q	2017	1Q	2QE	3QE	4QE	2018E	1QE	2QE	3QE	4QE	2019E	2020E
	01/31/16	01/30/17	Apr-17	Jul-17	Oct-17	Jan-18	01/30/18	Apr-18	Jul-18	Oct-18	Jan-19	01/30/19	Apr-19	Jul-19	Oct-19	Jan-20	01/31/20	01/30/21
Income Statement																		
Net Revenue	\$4,105	\$4,002	\$900	\$960	\$976	\$1,334	\$4,170	\$1,033	\$1,036	\$1,043	\$1,415	\$4,527	\$1,081	\$1,082	\$1,102	\$1,491	\$4,755	\$5,001
YOY %	(3.4%)	(2.5%)	0.9%	3.0%	2.8%	8.5%	4.2%	14.9%	8.0%	6.8%	6.1%	8.6%	4.6%	4.4%	5.7%	5.3%	5.0%	5.2%
YOY % ex-FX	2.0%	(2.7%)	1.8%	4.1%	3.3%	6.2%	4.0%	11.2%	6.7%	7.4%	6.7%	7.8%	5.8%	5.2%	5.7%	5.3%	5.5%	5.2%
SSS ex-FX	0.0%	(5.0%)	(2.0%)	(1.0%)	0.0%	1.0%	0.0%	7.0%	5.9%	5.9%	5.4%	6.0%	4.2%	4.4%	4.2%	4.1%	4.2%	4.2%
Cost of Goods Sold	1,613	1,511	342	362	378	484	1,565	382	387	399	506	1,674	399	403	420	531	1,753	1,839
Gross Profit	\$2,492	\$2,490	\$558	\$598	\$598	\$851	\$2,605	\$651	\$650	\$644	\$909	\$2,854	\$682	\$679	\$681	\$959	\$3,002	\$3,162
YOY %	(1.8%)	(0.0%)	2.2%	3.7%	3.3%	7.9%	4.6%	16.7%	8.6%	7.6%	6.9%	9.6%	4.7%	4.6%	5.8%	5.5%	5.2%	5.4%
Gross Margin	60.7%	62.2%	62.0%	62.3%	61.3%	63.7%	62.5%	63.0%	62.7%	61.7%	64.2%	63.0%	63.1%	62.8%	61.8%	64.3%	63.1%	63.2%
Margin Chg. YOY	100 bp	154 bp	77 bp	38 bp	25 bp	(35) bp	23 bp	102 bp	35 bp	45 bp	50 bp	56 bp	10 bp	10 bp	10 bp	10 bp	10 bp	10 bp
SG&A	\$1,685	\$1,731	\$412	\$417	\$438	\$543	\$1,810	\$447	\$476	\$497	\$602	\$2,021	\$464	\$493	\$520	\$629	\$2,106	\$2,196
YOY \$	\$39	\$47	\$1	\$15	\$14	\$50	\$35	\$35	\$59	\$58	\$58	\$211	\$17	\$13	\$24	\$22	\$85	\$89
YOY %	2.4%	2.8%	0.2%	3.7%	3.3%	10.1%	4.6%	8.4%	14.2%	13.3%	10.8%	11.6%	3.9%	3.5%	4.8%	4.6%	4.2%	4.2%
% of Revenues	41.0%	43.3%	45.8%	43.4%	44.9%	40.7%	43.4%	43.2%	45.9%	47.6%	42.5%	44.6%	42.9%	45.5%	47.2%	42.2%	44.3%	43.9%
Margin Chg. YOY	231 bp	222 bp	(31) bp	27 bp	18 bp	57 bp	16 bp	(25) bp	250 bp	275 bp	180 bp	122 bp	(30) bp	(40) bp	(40) bp	(30) bp	(34) bp	(40) bp
Operating Profit	\$807	\$759	\$146	\$181	\$160	\$307	\$794	\$204	\$173	\$147	\$307	\$832	\$218	\$187	\$161	\$330	\$895	\$967
YOY \$	(\$48)	(\$48)	\$11	\$6	\$5	\$13	\$35	\$29	(\$8)	(\$13)	\$0	\$38	\$14	\$13	\$24	\$22	\$85	\$71
YOY %	(9.5%)	(5.9%)	8.2%	3.7%	3.3%	4.3%	4.6%	40.3%	(4.3%)	(8.2%)	0.1%	4.6%	6.7%	7.5%	9.4%	7.3%	7.6%	8.0%
Operating Margin	19.7%	19.0%	16.2%	18.9%	16.4%	23.0%	19.0%	19.8%	16.7%	14.1%	21.7%	18.4%	20.2%	17.2%	14.6%	22.1%	18.8%	19.3%
Margin Chg. YOY	(132) bp	(69) bp	108 bp	12 bp	7 bp	(93) bp	7 bp	359 bp	(215) bp	(230) bp	(130) bp	(66) bp	40 bp	50 bp	50 bp	40 bp	44 bp	50 bp
Interest and Other Expenses, net	50	45	10	9	10	6	34	14	7	7	7	34	8	8	8	8	33	33
Pre-Tax Income	\$757	\$715	\$136	\$173	\$150	\$301	\$760	\$191	\$167	\$141	\$301	\$799	\$210	\$178	\$153	\$321	\$862	\$934
Pre-Tax Margin	18.4%	17.9%	15.1%	18.0%	15.4%	22.6%	18.2%	18.4%	16.1%	13.5%	21.3%	17.6%	19.4%	16.5%	13.9%	21.6%	18.1%	18.7%
Income Taxes	263	245	43	58	50	93	244	48	47	39	84	219	55	46	40	84	224	243
Tax Rate	34.7%	34.2%	31.7%	33.3%	33.4%	31.0%	32.1%	25.3%	28.0%	28.0%	28.0%	27.4%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%
Net Income	\$494	\$470	\$93	\$115	\$100	\$208	\$516	\$142	\$120	\$101	\$217	\$580	\$155	\$132	\$113	\$238	\$638	\$691
EPS	\$3.83	\$3.75	\$0.74	\$0.92	\$0.80	\$1.67	\$4.12	\$1.14	\$0.97	\$0.82	\$1.77	\$4.70	\$1.27	\$1.08	\$0.93	\$1.95	\$5.22	\$5.73
YOY %	(8.8%)	(2.1%)	7.2%	9.2%	5.3%	14.6%	10.1%	53.5%	5.9%	2.7%	6.0%	13.9%	11.2%	10.8%	12.5%	10.7%	11.2%	9.7%
Weighted Average Diluted Share	129.1	125.5	125.3	125.1	125.0	124.9	125.1	125.0	123.4	123.0	122.7	123.5	122.6	122.3	122.0	121.7	122.1	120.6
YOY %	(0.6%)	(2.8%)	(0.9%)	(0.4%)	0.1%	(0.1%)	(0.3%)	(0.2%)	(1.4%)	(1.6%)	(1.8%)	(1.3%)	(1.9%)	(0.9%)	(0.8%)	(0.8%)	(1.1%)	(1.2%)
Cash Dividends per Share	\$1.58	\$1.75	\$0.45	\$0.50	\$0.50	\$0.50	\$1.95	\$0.50	\$0.55	\$0.55	\$0.55	\$2.15	\$0.55	\$0.61	\$0.61	\$0.61	\$2.37	\$2.60
YOY %	6.8%	10.8%	12.5%	11.1%	11.1%	11.1%	11.4%	11.1%	10.0%	10.0%	10.0%	10.3%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Payout Ratio	41.3%	46.7%	60.7%	54.4%	62.4%	30.0%	47.3%	43.9%	56.5%	66.8%	31.1%	45.8%	43.5%	56.1%	65.3%	31.0%	45.3%	45.4%
Depreciation & Amortization	\$203	\$209	\$51	\$51	\$51	\$54	\$207	\$54	\$57	\$56	\$59	\$226	\$57	\$60	\$60	\$64	\$242	\$254
YOY \$	\$8	\$6	(\$1)	(\$2)	(\$1)	\$2	(\$2)	\$3	\$6	\$5	\$5	\$19	\$4	\$4	\$4	\$5	\$16	\$13
YOY %	4.3%	3.0%	(2.3%)	(3.8%)	(1.7%)	4.9%	(0.8%)	5.7%	11.0%	9.9%	10.0%	9.2%	6.6%	6.3%	7.6%	7.8%	7.1%	5.2%
% of Revenue	4.9%	5.2%	5.7%	5.3%	5.2%	4.0%	5.0%	5.2%	5.5%	5.4%	4.2%	5.0%	5.3%	5.6%	5.5%	4.3%	5.1%	5.1%
Margin Chg. YOY	36 bp	28 bp	(19) bp	(37) bp	(24) bp	(14) bp	(25) bp	(45) bp	15 bp	15 bp	15 bp	3 bp	10 bp	10 bp	10 bp	10 bp	10 bp	0 bp
EBITDA	\$1,010	\$968	\$197	\$232	\$211	\$361	\$1,001	\$258	\$230	\$203	\$367	\$1,058	\$275	\$247	\$221	\$394	\$1,137	\$1,221
YOY \$	(\$76)	(\$42)	\$10	\$4	\$4	\$15	\$33	\$62	(\$2)	(\$8)	\$6	\$57	\$17	\$17	\$18	\$27	\$79	\$84
YOY %	(7.0%)	(4.1%)	5.2%	1.9%	2.0%	4.4%	3.4%	31.3%	(0.9%)	(3.8%)	1.6%	5.7%	6.7%	7.3%	8.9%	7.3%	7.5%	7.4%
EBITDA Margin	24.6%	24.2%	21.8%	24.2%	21.7%	27.1%	24.0%	25.0%	22.2%	19.5%	25.9%	23.4%	25.5%	22.8%	20.1%	26.4%	23.9%	24.4%
Margin Chg. YOY	(95) bp	(41) bp	90 bp	(26) bp	(17) bp	(107) bp	(17) bp	314 bp	(200) bp	(215) bp	(115) bp	(63) bp	50 bp	60 bp	60 bp	50 bp	54 bp	50 bp

Source: Company data, Credit Suisse estimates

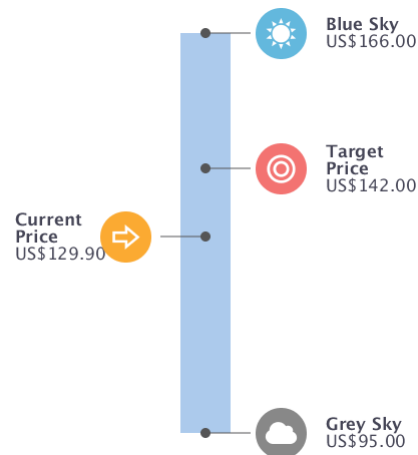
Tiffany & Co (TIF)

Price (23 Aug 2018): **US\$129.9**; Rating: **OUTPERFORM**; Target Price: **142.00**; Analyst: **Michael Binetti**

Income Statement	1/18A	1/19E	1/20E	1/21E
Revenue (US\$ m)	4,169.5	4,527.4	4,754.8	5,001.4
EBITDA (US\$ m)	1,001	1,058	1,137	1,221
Depr. & amort.	(207)	(226)	(242)	(254)
EBIT (US\$)	794	832	895	967
Net interest exp	(34)	(34)	(33)	(33)
PBT (US\$)	760	799	862	934
Income taxes	(244)	(219)	(224)	(243)
Profit after tax	516	580	638	691
Other NPAT adjustments	0	0	0	0
Cash Flow	1/18A	1/19E	1/20E	1/21E
Cash flow from operations	932	671	803	861
CAPEX	(239)	(281)	(262)	(275)
Free cashflow to the firm	693	390	541	586
Cash flow from investments	(481)	(190)	(262)	(275)
Net share issue/(repurchase)	(99)	(401)	(200)	(200)
Dividends paid	(243)	(265)	(289)	(314)
Changes in Net Cash/Debt	409	(291)	53	72
Balance Sheet (US\$)	1/18A	1/19E	1/20E	1/21E
Cash & cash equivalents	971	763	816	888
Account receivables	231	251	264	277
Other current assets	528	436	436	436
Total fixed assets	991	1,038	1,058	1,078
Investment securities	-	-	-	-
Total assets	5,468	5,419	5,619	5,850
Total current liabilities	725	772	794	818
Shareholder equity	3,248	3,150	3,327	3,534
Total liabilities and equity	5,468	5,419	5,619	5,850
Net debt	(288)	4	(49)	(121)
Per share	1/18A	1/19E	1/20E	1/21E
No. of shares (wtd avg)	125	124	122	121
CS adj. EPS	4.12	4.70	5.22	5.73
Prev. EPS (US\$)	-	-	-	-
Dividend (US\$)	1.95	2.15	2.37	2.60
Free cash flow per share	5.54	3.16	4.43	4.86
Earnings	1/18A	1/19E	1/20E	1/21E
Sales growth (%)	4.2	8.6	5.0	5.2
EBIT growth (%)	4.6	4.8	7.6	8.0
Net profit growth (%)	9.7	12.5	9.9	8.3
EPS growth (%)	10.1	13.9	11.2	9.7
EBITDA margin (%)	24.0	23.4	23.9	24.4
EBIT margin (%)	19.0	18.4	18.8	19.3
Pretax margin (%)	18.2	17.6	18.1	18.7
Net margin (%)	12.4	12.8	13.4	13.8
Valuation	1/18A	1/19E	1/20E	1/21E
EV/EBITDA (x)	15.8	15.0	13.9	13.0
P/E (x)	31.5	27.6	24.9	22.7
Returns	1/18A	1/19E	1/20E	1/21E
ROIC (%)	18.2	19.2	20.2	21.0
Gearing	1/18A	1/19E	1/20E	1/21E
Net debt/equity (%)	(8.9)	0.1	(1.5)	(3.4)
Quarterly EPS	Q1	Q2	Q3	Q4
2018A	0.74	0.92	0.80	1.67
2019E	1.14	0.97	0.82	1.77
2020E	1.27	1.08	0.93	1.95

Company Background
Tiffany & Co. is the leading global designer, manufacturer and specialty retailer of fine jewelry and tableware.

Blue/Grey Sky Scenario



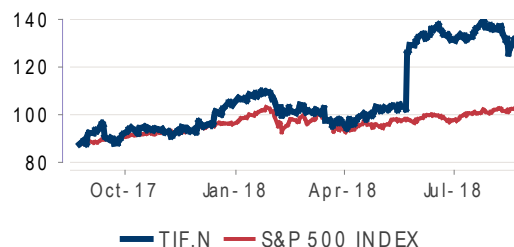
Our Blue Sky Scenario (US\$) 166.00

Our \$166 one-year valuation in a blue sky scenario is based on an EV/EBITDA of 17x our blue sky FY19 EBITDA of \$1.2B. Our blue sky FY19 EBITDA is based on (1) revenue growth of +6% (improved same-store-sales vs. base case) and (2) a 24.9% EBITDA margin (better top-line leverage and improved product/geography mix).

Our Grey Sky Scenario (US\$) 95.00

Our \$95 one-year valuation in a grey sky scenario is based on an EV/EBITDA of 11x our grey sky FY19 EBITDA of \$1.0B. Our grey sky FY19 EBITDA is based on (1) revenue growth of +4% (slowed same-store-sales vs. base case) and (2) a 22.9% EBITDA margin (less top-line leverage and less favorable product/geography mix).

Share price performance



On 23-Aug-2018 the S&P 500 INDEX closed at 2857.6
Daily Aug23, 2017 - Aug23, 2018, 08/23/17 = US\$88.72

Source: Company data, Thomson Reuters, Credit Suisse estimates

Companies Mentioned (Price as of 23-Aug-2018)

Brunello Cucinelli SpA (BCU.MI, €39.05)
Burberry Group (BRBY.L, 2262.0p)
Canada Goose Holdings, Inc. (GOOS.TO, C\$71.86)
Hermes International (HRMS.PA, €554.6)
Kering (P RTP.PA, €456.4)
LVMH (LVMH.PA, €299.5)
Macy's Inc. (M.N, \$38.06)
Moncler (MONC.MI, €38.49)
Prada SpA (1913.HK, HK\$36.25)
Richemont (CFRUY.PK, \$8.71)
Salvatore Ferragamo Spa (SFER.MI, €20.48)
Swatch Group (UHR.S, SFr426.9)
Tiffany & Co (TIF.N, \$129.9, OUTPERFORM, TP \$142.0)

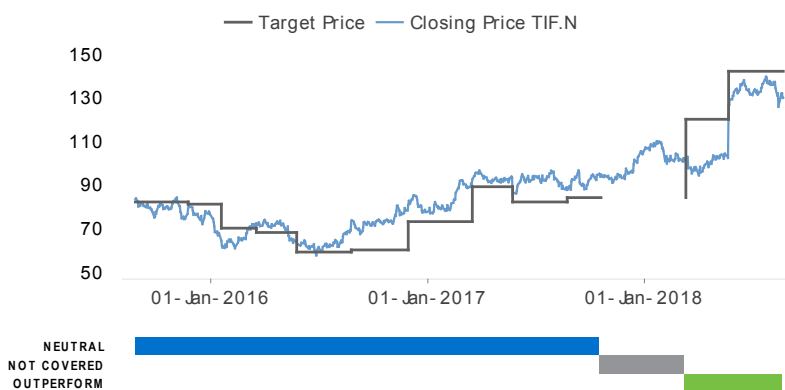
Disclosure Appendix

Analyst Certification

I, Michael Binetti, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Tiffany & Co (TIF.N)

TIF.N	Closing Price	Target Price	Rating
Date	(US\$)	(US\$)	
27-Aug-15	83.29	82.00	N
24-Nov-15	79.32	81.00	
19-Jan-16	64.22	70.00	
18-Mar-16	72.19	68.00	
25-May-16	63.89	59.00	
25-Aug-16	73.28	60.00	
29-Nov-16	80.60	73.00	
17-Mar-17	92.42	89.00	
24-May-17	85.03	82.00	
24-Aug-17	87.55	84.00	
20-Oct-17	94.54		NC
12-Mar-18	100.42	120.00	O *
23-May-18	126.05	142.00	



* Asterisk signifies initiation or assumption of coverage.

Effective July 3, 2016, NC denotes termination of coverage.

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and Asia stocks (excluding Japan and Australia), ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.

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Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

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Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
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Neutral/Hold*	37%	(58% banking clients)
Underperform/Sell*	12%	(53% banking clients)
Restricted	2%	

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Target Price and Rating

Valuation Methodology and Risks: (12 months) for Tiffany & Co (TIF.N)

Method: Our \$142 target price for TIF is based on ~15x our CY19 EBITDA (compared to luxury peers closer to ~16-17x today). We rate the stock Outperform given the significant upside embedded in our price target.

Risk: Risks to our \$142 price target and Outperform rating for TIF include decelerating global consumer trends, intensifying competition, volatile input costs (including material costs of diamonds and precious metals) as well as foreign currency and tourism risk.

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This research report is authored by:

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