

**RELATIVE VALUATION OF
TIFFANY & CO.**

The image features a large, faint watermark of the Mahidol University logo in the background. The logo is circular, with a blue center containing a golden emblem of a traditional Thai stupa. The outer ring of the logo contains Thai text: 'มหาวิทยาลัยมหิดล' (Mahidol University) at the top and 'วิทยาลัยการจัดการ' (College of Management) at the bottom.

POTSAVEE PAKDEEWITTHAYAKUL

**A THEMATIC PAPER SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF MASTER OF MANAGEMENT
COLLEGE OF MANAGEMENT
MAHIDOL UNIVERSITY
2021**

COPYRIGHT OF MAHIDOL UNIVERSITY

Thematic paper
entitled
RELATIVE VALUATION OF TIFFANY & CO.

was submitted to the College of Management, Mahidol University
for the degree of Master of Management
on
March 24, 2021



.....
Miss Potsavee Pakdeewitthayakul
Candidate

.....
Professor. Roy Kouwenberg,
Ph.D.,CFA
Advisor

.....
Simon Zaby,
Ph.D
Committee

.....
Worapong Janyangyuen,
Ph.D.
Committee

ACKNOWLEDGEMENTS

I would like to express my sincere gratitude to my advisor, Professor Roy Kouwenberg, Ph.D., CFA, who give me golden opportunity to do research, always support, continued encouragement, and understanding for our team. His dynamic, vision, knowledge, and motivation have deeply inspired me. It is an honor to study under his guideline.

Thank you to my team work, Ja Mun, who always support and give me a source of power to finish this research. The support classmate, P'Pear, PorPeer, P'Jack, who help me to pass the obstacle of this research.

I appreciate my family who encourage me to study hard. Moreover, my lovely husband who I love the most. He always be by my side when I need him the most. His love, support, and encouragement help me a lot to make this research.

Potsavee Pakdeewitthayakul



RELATIVE VALUATION OF TIFFANY & CO.

Potsavee Pakdeewitthayakul 6249090

M.M. (FINANCIAL MANAGEMENT)

THEMATIC PAPER ADVISORY COMMITTEE: Professor Roy Kouwenberg, Ph.D., CFA, Simon Zaby, Ph.D., Worapong Janyangyuen, Ph.D.

ABSTRACT

This thematic paper shows instinct value of the stock price of Tiffany & Co. using relative valuation methods, ratio bands and peer group multiples. The calculated reasonable target share price of company help investor to decide whether to buy/hold/sell the company's stock.

Tiffany is the mono jewelry brand provided in more than 326 stores over the Americas, Europe, Asia-Pacific, Japan, and other geographic segments. It offers the following product categories: engagement and designer jewelry, jewelry collection, watches, home and accessories products, and fragrances. This well-known company continue growth during the past 5 years. Tiffany has a huge customer on hand and wide types of target customers. The high value of brand attractive the LVMH to merge with for expand the high-end jewelry section of LVMH.

The value of the TIF share price is 57.97 lower than Tiffany's current price at 131.2 by 55.80%. The relative valuation recommends to "Sell" because the investor better should take advantage of the 131.2 price, which is high due to the 131.5 LVMH offer.

KEYWORDS: TIFFANY & CO. / Relative Value / High-end Jewelry Industry

45 pages

CONTENTS

	Page
ACKNOWLEDGEMENTS	ii
ABSTRACT	iii
LIST OF TABLES	vi
LIST OF FIGURES	vii
CHAPTER I INTRODUCTION	1
1.1 Executive Summary	1
CHAPTER II BUSINESS DESCRIPTION	2
2.1 Business	2
2.1.1 Service (or Product, or Brand)	2
2.1.2 Sources of Revenue and Growth	3
2.2 Strategies	6
2.3 Management and Governance	7
CHAPTER III ANALYSIS OF MACROECONOMY, INDUSTRY AND COMPETITORS	8
3.1 Macro-Economic Analysis	8
3.1.1 Emerging Markets	8
3.1.2 E-Commerce, Digital/Social Media and Millennials	9
3.2 Industry analysis	10
3.2.1 Profitability and Growth	10
3.2.2 Developed Markets Trend analysis - Top Category Trends	10
3.3 Competition Analysis	12
3.3.1 Five Forces Analysis	15
CHAPTER IV VALUATION: RELATIVE VALUATION	17
4.1 Financial Analysis	17
4.1.1 Dupont analysis	17

CONTENTS (cont.)

	Page
4.1.2 Growth analysis	18
4.1.3 Revenue driver: marriage rate	20
4.2 Relative Valuation	21
4.2.1 Ratio bands	21
4.2.2 Peer Group Multiples	28
4.2.3 Target Price	31
4.3 Valuation Summary and Recommendation	33
CHAPTER V INVESTMENT RISKS	35
5.1 List of Risks and Downside Possibilities	35
5.1.1 Merger Disrupts.	35
5.1.2 Covid-19	35
5.1.3 Global Economic Conditions and Consumer Confidence	36
5.1.4 Operations Globally	36
5.1.5 Increasing of Material Cost	36
5.1.6 Store Locations	37
5.1.7 Brand Image	37
5.1.8 Privacy Cost	37
5.1.9 Customer Behavior	38
5.1.10 Environmental and Climate Changes	38
CHAPTER VI CONCLUSION	39
6.1 Investment recommendation	39
6.2 Limitations	39
REFERENCES	40
APPENDIX	44
BIOGRAPHY	45

LIST OF TABLES

Table	Page
2.1 Number of Tiffany Store in Each Geographic Segment	3
2.2 Net Sales Breakdown by Product Segments for Past Three Years	4
2.3 Net Sales Growth by Geographic Segments for Past Three Years	5
2.4 Average Price Per Unit Sold	6
2.5 Tiffany & Co. Directors and Officers	7
3.1 Percentage of Raw Materials	11
3.2 Income Statement of LVMH	13
3.3 Financial Statement of Pandora	14
3.4 Revenue Structure of Rajesh 2018-2020	15
4.1 DuPont Analysis	18
4.2 Tiffany & Co. Annual Income Statement Data	28
4.3 Tiffany & Co. Comparable Firms Valuation	28
4.4 Tiffany & Co. Comparable Firms Performance	29
4.5 Tiffany & Co. Comparable Firms Performance	31

LIST OF FIGURES

Figure	Page
2.1 The Jewelry Supply Chain	2
2.2 Tiffany's Revenue in Each Geographic Segment in 2019	3
2.3 Net Sales Breakdown by Geographic Segments for Past Seven Years	5
2.4 SWOT Analysis	6
3.1 Branded and Unbranded Jewelry % in the Jewelry Market	8
3.2 Jewelry Trends 2013-2020	10
3.3 The Diamond Quality on 4Cs (Carat, Color, Clarity, and Cut)	11
3.4 Revenue of Signet	13
3.5 Revenue Structure of Vaibhav 2018-2020	14
3.6 Porter's Five Forces Analysis	16
4.1 ROE trend of TIF and Pandora	17
4.2 Revenue of TIF and Pandora	18
4.3 Cost of Goods Sold of TIF and Pandora	19
4.4 Net income of TIF and Pandora	19
4.5 EPS of TIF and Pandora	20
4.6 Number of Marriages in Each Year Per 1,000 People in The Population	20
4.7 Tiffany & Co. Trailing P/E Band	21
4.8 Tiffany & Co. Forward P/E Band	22
4.9 Tiffany & Co. Seasonal Chart	23
4.10 Tiffany & Co. Trailing P/BV Band	24
4.11 Tiffany & Co. Trailing EV/EBITDA Band	25
4.12 Tiffany & Co. EBITDA	26
4.13 Tiffany & Co. Forward EV/EBITDA Band	26
4.14 Tiffany & Co. EBITDA and Forward EBITDA	27
4.15 Tiffany Target Price	33

CHAPTER I

INTRODUCTION

1.1 Executive Summary

Tiffany is the mono jewelry brand provided in more than 326 stores over the Americas, Europe, Asia-Pacific, Japan, and other geographic segments. Tiffany's main revenue is from jewelry products which represent 92% of worldwide net sales in 2019. The other revenue is from house products.

The jewelry industry is expected to grow around 6% per year. The forecast growth rate from 2019 to 2027 CAGR is 7.8%. The jewelry market was valued at 32.9 billion dollars in 2019 and estimated to reach 59.7 billion dollars by 2027. The emerging markets' growth, especially in India and China, is expected to grow significantly. However, the Covid-19 pandemic readjusted global GDP growth to -4.3% in 2020. The main factors are restrictions in travel, group gathering and closures of shopping malls, and increasing unemployment lay-off rate. But e-commerce and social media channels are an alternative way to boost revenue during the Covid-19 situation.

The Tiffany revenue CAGR from 2015 to 2019 is 1.89%. The Tiffany net income CAGR is 2.82%. Tiffany and LVMH plan to merge at end of 2019 but they postponed the deal because of Covid-19 and tax issues in France. On 29 October 2020, they revised the deal to 131.5 USD per share in cash.

The recommendation based on the relative valuation method is SELL because the target price based on trailing P/E is 57.97 lower than Tiffany's current price at 131.15 by 55.79%.

CHAPTER II

BUSINESS DESCRIPTION

2.1 Business

Tiffany & co. was formed in 1837 by Charles Lewis Tiffany. Since 1968, Tiffany has been headquartered in New York. In 1987, Tiffany & co. completed the initial public offering (IPO) in New York Stock Exchange (NYSE) as TIF. Tiffany & co. registered as a holding company that operated through the “Tiffany and Company” brand in the jewelry industry.

2.1.1 Service (or Product, or Brand)

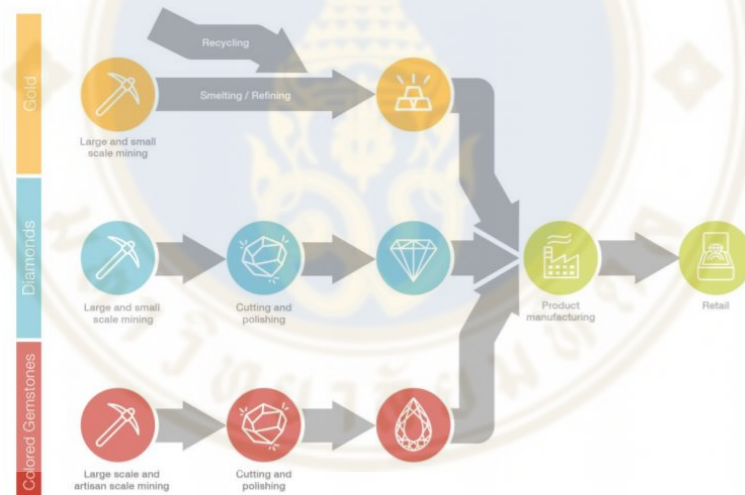


Figure 2.1 The Jewelry Supply Chain

Source: Chichestes, Pluess, & Momaya (2018)

Tiffany provides many product categories which are jewelry collection, engagement jewelry, designer jewelry, and others. Tiffany has its designers, manufacturers, and retail jewelry. Even though they mainly focus on jewelry products which represent 92% of worldwide net sales in 2019, they also sell watches, leather goods, silver, crystal, stationery, perfume, and accessories which represent 7% of worldwide net sales in 2019. In the part of jewelry products, they separated product

categories into 3 types which are jewelry collections, engagement jewelry, and designer jewelry.

In 2019, Tiffany had 94 stores in the U.S. and 326 stores worldwide. The company headquarter is in New York. They separated geographic segments into the Americas, Europe, Asia-Pacific, Japan, and others. The Americas segment includes the United States, Mexico, Canada, Chile, and Brazil. Asia-Pacific includes Australia, Hong Kong, China, Macau, Taiwan, Korea, New Zealand, Malaysia, Singapore, and Thailand. The Europe segment includes Austria, the Czech Republic, Belgium, Germany, Denmark, France, Ireland, Spain, Italy, the Netherlands, Switzerland, Russia, and the United Kingdom. The other segment is the United Arab Emirates.

Table 2.1 Number of Tiffany Store in Each Geographic Segment

Source: Tiffany Annual Report 2019-2020 (2020)

The following chart details the number of TIFFANY & CO. retail locations operated by the Company since 2015:

Year:	Americas						Emerging Markets	Total
	U.S.	Canada & Latin America	Asia-Pacific	Japan	Europe			
2015	95	29	81	56	41	5	307	
2016	95	30	85	55	43	5	313	
2017	94	30	87	54	46	4	315	
2018	93	31	90	55	47	5	321	
2019	94	30	91	58	48	5	326	

2.1.2 Sources of Revenue and Growth

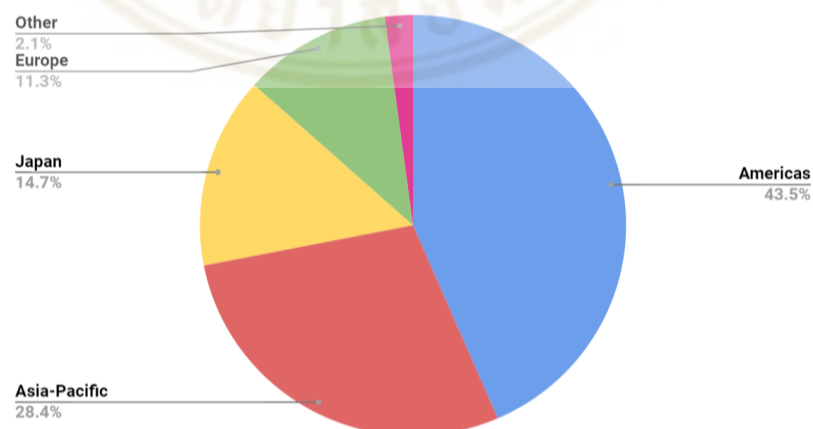


Figure 2.2 Tiffany's Revenue in Each Geographic Segment in 2019

Source: Calculated Based on The Data from Thomson Reuters

Table 2.2 Net Sales Breakdown by Product Segments for Past Three Years

Source: Tiffany Annual Report 2019 - 2020 (2020)

Sales by Reportable Segment of TIFFANY & CO. Jewelry by Category

	% of total Americas Sales	% of total Asia-Pacific Sales	% of total Japan Sales	% of total Europe Sales	% of total Reportable Segment Sales
2019					
Jewelry collections ^a	55%	63%	38%	60%	55%
Engagement jewelry ^b	21%	29%	38%	24%	26%
Designer jewelry ^c	14%	6%	17%	12%	12%
2018					
Jewelry collections ^a	53%	61%	37%	60%	54%
Engagement jewelry ^b	21%	31%	37%	23%	26%
Designer jewelry ^c	14%	7%	18%	12%	12%
2017					
Jewelry collections ^a	53%	59%	30%	60%	52%
Engagement jewelry ^b	22%	31%	39%	25%	27%
Designer jewelry ^c	14%	8%	22%	12%	13%

Based on geographic segmentation, the Americas segment is the biggest market which is 43% of worldwide net sales followed by 28% in Asia-Pacific, 15% in Japan, 11% in Europe, and 2% in others. In 2019, the growth of the Americas segment decreased by 2% from lower tourism expenses. The growth of Asia-Pacific increased by 2% from both selling as supplier and retailer. The local customers tend to spend more which offsets the lower foreign expense. Tiffany's sale in China is good enough to cover the pain of a 30% decrease in net sales in Hong Kong from protests. In Japan, the net sale is stable with a 1% increase. For Europe, the changing of local and tourism expenses resulted in a decrease of 1% growth in net sales. Then in other segments, the growth is decreased by 1% from lower demand of wholesaler of a diamond (Tiffany Annual Report 2019 - 2020, 2020).

(in million U.S. dollars)

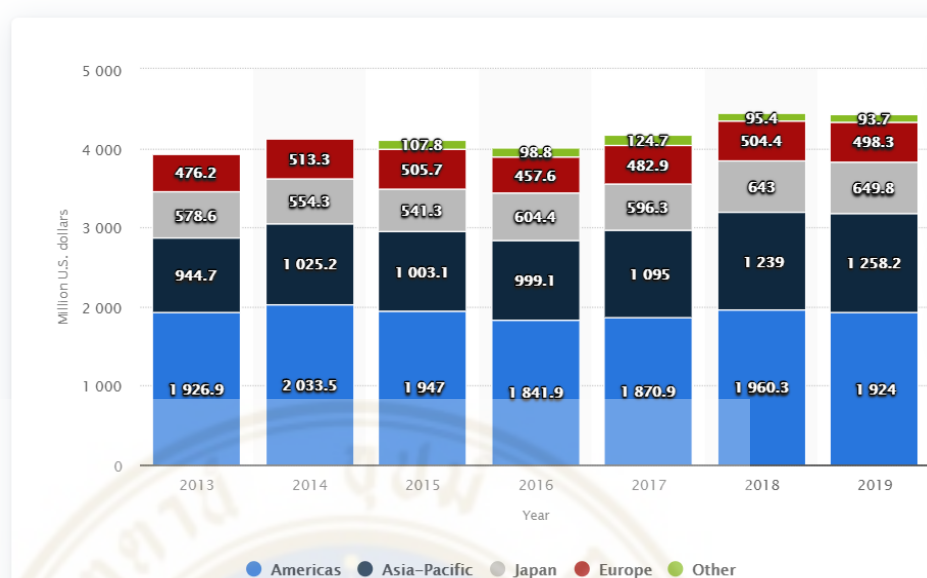


Figure 2.3 Net Sales Breakdown by Geographic Segments for Past Seven Years

Source: Statista Research Department (2020).

Table 2.3 Net Sales Growth by Geographic Segments for Past Three Years

Resource: Tiffany Annual Report 2019 - 2020 (2020)

(in millions)	2019	% of Total Net Sales	2018	% of Total Net Sales	2017	% of Total Net Sales	2019 vs 2018 % Change in Net Sales	2018 vs 2017 % Change in Net Sales
Americas	\$ 1,924.0	43%	\$ 1,960.3	44%	\$ 1,870.9	45%	(2)%	5%
Asia-Pacific	1,258.2	28	1,239.0	28	1,095.0	26	2	13
Japan	649.8	15	643.0	15	596.3	14	1	8
Europe	498.3	11	504.4	11	489.0	12	(1)	3
Other	93.7	2	95.4	2	118.6	3	(2)	(20)
	<u>\$ 4,424.0</u>		<u>\$ 4,442.1</u>		<u>\$ 4,169.8</u>		<u>— %</u>	<u>7%</u>

Last quarter net income of Tiffany is quarter 2 in July 2020. The total revenue is 747.1 million dollars. It decreased by 28.75 % from 1048.5 million dollar in quarter 2, 2019. The reason for the decrease in revenue is protest and Covid-19. The protests happened in France and Hongkong during 2019 about political issues. Moreover, with the outbreak of Covid-19, most retail stores need to close or reduce operating time. Tiffany's challenge to manage the company from lower operating time from 54 retail trading days to 30 retail trading days. Tiffany is a significant effect from

Covid-19. The number of customers who shop in retail stores also decrease because of quarantine and lower number of tourists.

2.2 Strategies

Tiffany's strategy is to increase the average price per jewelry unit by focusing more on high-end jewelry such as gold and diamond jewelry within the jewelry collections category which affects the number of units sold.

Table 2.4 Average Price Per Unit Sold

Source: Tiffany Annual Report 2019-2020 (2020)

	As Reported	Impact of Currency Translation	Number of Units Sold
Change in Jewelry Sales			
Americas	10%	—%	(12)%
Asia-Pacific	8	(3)	(7)
Japan	3	1	(4)
Europe	10	(3)	(10)

They use product strategy by creating a new design for customers. In 2019, the company spent 8.6% of net sales on advertising. The pricing competition among jewelry industries creates limited make-up prices on products. The pricing strategy that Tiffany uses is based on product input cost, market conditions, and currency.

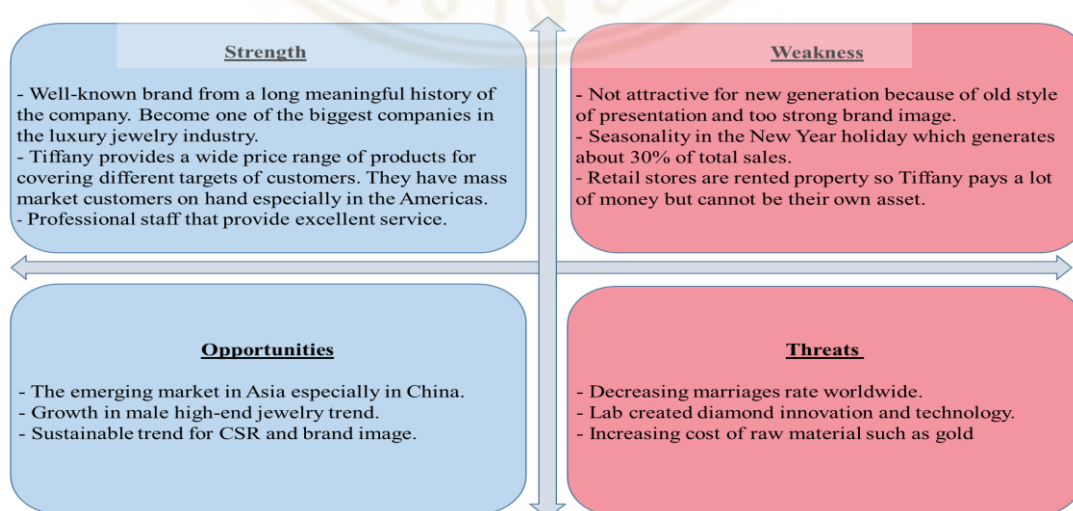


Figure 2.4 SWOT Analysis

2.3 Management and Governance

The Vision of Tiffany, originally by Charles Lewis Tiffany, is “high-quality work with originality of design to the widest possible audience holds true in what Tiffany & Co. has done, is doing and will continue to do in the luxury jewelry category. Makers of beauty, Creators of joy” (Tiffany Annual Report 2019-2020, 2020). The mission of Tiffany is to focus on quality and sustainability. The objective of the company is to improve the area that company operates in and sell products, while also focusing on the environment and sustainability. In accordance to their business strategy, Tiffany provides high quality products with relatively high prices. The company protects the interest of shareholders and responsibility for making decisions.

Table 2.5 Tiffany & Co. Directors and Officers

Source: Tiffany Annual Report 2019-2020 (2020)

EXECUTIVE OFFICERS OF THE COMPANY			
The executive officers of the Company are:			
Name	Age	Position	Year Joined Tiffany
Alessandro Bogliolo	55	Chief Executive Officer	2017
Mark J. Erceg	51	Executive Vice President–Chief Financial Officer	2016
Philippe Galtie	59	Executive Vice President–Global Sales	2015
Daniella Vitale	58	Executive Vice President–Chief Brand Officer	2019
Andrea C. Davey	51	Senior Vice President–Global Marketing	2013
Leigh M. Harlan	43	Senior Vice President–Secretary & General Counsel	2012
Andrew W. Hart	52	Senior Vice President–Diamond & Jewelry Supply	1999
Gretchen Koback-Pursel	47	Senior Vice President–Chief Human Resources Officer	1997

CHAPTER III

ANALYSIS OF MACROECONOMY, INDUSTRY AND COMPETITORS

3.1 Macro-Economic Analysis

The global economy in 2020 is in a bad situation due to the Covid-19 pandemic. Consequently, the expected real GDP growth rate readjusted to -4.3% in 2020 which was originally expected to be 3 to 4%. The main factors are restrictions in travel, group gathering and opening of shopping malls, and increasing unemployment lay-off rate.

In 2019, the branded market is 20% and the unbranded market is 80% of the overall jewelry market. Within the branded market, there are 60% from the watch market. In 2020, the expected branded market will increase to between 30 to 40%.

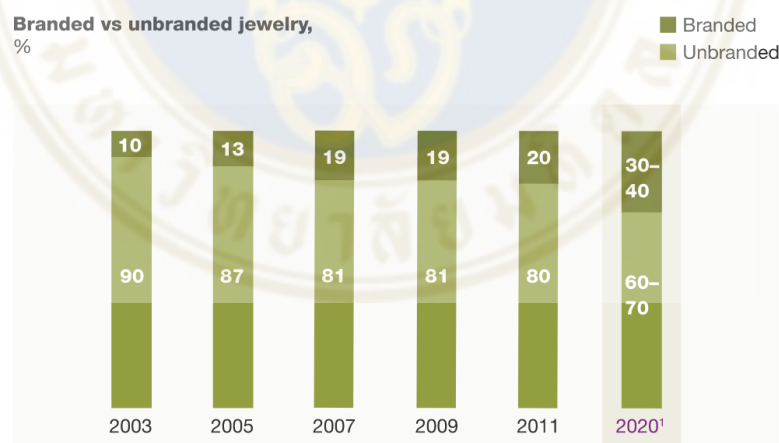


Figure 3.1 Branded and Unbranded Jewelry % in the Jewelry Market

Source: McKinsey and Company

3.1.1 Emerging Markets

In Asia-Pacific, changes to western lifestyle and the demand for new and varieties of designs has increased in the gems and jewelry market; therefore, the gems

and jewelry manufacturers develop new designs in order to meet with the requirement from customers. The technology such as computer-aided design (CAD) and rapid prototyping (RP) help jewelry designers to print 3D jewelry designs. Increasing income per capita has driven an increase in sales of jewelry especially India and China. Consequently, it is expected to lead to increased jewelry market share and performance of the jewelry market.

3.1.2 E-Commerce, Digital/Social Media and Millennials

The global gems and jewelry market have high competition with the big players who got the majority of the market share, such as LVMH, Buccellati, Richemont, and Signet. In order to expand geographical and customer base, most of the companies focused on online rather than offline channels for marketing and branding. Leading manufacturers in the gems and jewelry market try to leverage the opportunity to get opportunities in Asia-Pacific such as China and India because of the rising income levels and their religious traditions.

The digital media platforms help jewelry companies to communicate, shape brands, and create customer relationships. A McKinsey survey said that one-third to two-thirds of luxury shoppers gain information from social media while two-thirds take part in online research before doing in-store purchase.

The offline shops are improving to gain traffic from customers. The mono-brand stores used to gain more market share from the mail-order market and department-store sales. Jewelry manufacturers might focus on mono-brand retail in order to get more control over their brand image, relationship with consumers, and higher margin potential. Rather than a multi-brand jeweler with a global scale operation, they provide more uniqueness in products and customer experience.

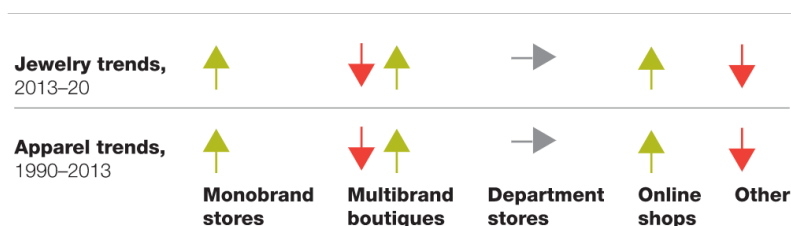


Figure 3.2 Jewelry Trends 2013-2020

Source: McKinsey and Company

3.2 Industry analysis

Meanwhile, the jewelry industry is expected to have 5 to 6% growth per year with the fast-growing dynamic industry. Consequential changes are happening under the restriction caused by Covid-19, not only consumer behavior but also industry itself to respond and follow the market developments.

3.2.1 Profitability and Growth

From forecasting a CAGR of 7.8%, the jewelry market is estimated to reach 59.7 billion dollars by 2027 which was valued at 32.9 billion dollars in 2019. By gender segment, the male segment is expected to grow the fastest, a forecast CAGR of 8.20%. In 2019, China was the most attractive market in the Asia-Pacific region, and is expected to grow at a significant CAGR. North America was the dominant zone by owning more than one-third of the global jewelry market share in 2019.

3.2.2 Developed Markets Trend analysis - Top Category Trends

3.2.2.1 High-End Fashion Jewelry

High-end fashion jewelry is one of the fastest-growing divisions so many fashion companies want to enter the market such as Giorgio Armani Privé, Prada, Gucci, and Hermès that establish their first high-end jewelry collections in 2019. LVMH entered the fine jewelry market in 2012 by owning Bulgari and Richemont's Cartier. Most high-end fashion companies have brand power on hand; however, they lack experience in the high-end jewelry market.

3.2.2.2 Crystal Clear Production

The main raw materials in the jewelry industry are diamonds, precious stones, pearls, platinum, gold, white gold, pink gold, and silver. The retail price of products is standard price such as gold price per ounce and price per carat of diamond.



Figure 3.3 The Diamond Quality on 4Cs (Carat, Color, Clarity, and Cut)

Source: GIA (2020)

The precious stone international guarantee is from GIA, HRD, IGI, and others. GIA is the international major authority on diamonds, precious stones, and pearls.

The platinum, gold, white gold, pink gold, and silver price depend on the percentage purity of the material. The platinum is the most expensive material because it is extremely durable and strong.

Table 3.1 Percentage of Raw Materials

Source: Wit Sudjaiampun (2020)

	18k Yellow Gold	18k White Gold	18k Rose Gold
% Gold	75%	75%	75%
% Silver	10-20%	18.50%	2.75%
% Copper	5-15%	1%	25.25%
% Zinc	0%	5.50%	0%

The jewelry companies are not focused only on quality of product but they also focus on sustainability by reusing some materials to create the new pieces of jewelry, as well as verify the human rights in the production process. This shows more transparency in the high-end jewelry market.

3.2.2.3 Sustainability

Mintel (UK news) reported that sustainability and ethics are priority for 55% of UK jewelry buyers so many jewelers have been using mainly recycled raw material such as gold, diamond, precious stone, and etc. Kering (the French company that owns Gucci and many brands) announced in 2019, it can track 88% of raw materials to verify environmental impacts and sustainability.

3.2.2.4 Uniqueness

The recycled diamond with its own history is popular among customers who are seeking a meaningful piece. Moreover, some brands provide the unique design since the diamond is from mining. For example, LVMH bought rough stones after noticing high unique creation demand, and customers can directly design their own final forms jewelry by him/herself. In addition, brands also want to offer diamonds unique designs. LVMH even patented two proprietary diamond cuts, a flower and a star monogram form.

3.2.2.5 All-Gender Pieces

A revolution in gender, LGBTQ+, racial, and age equality, are impacting the industry. Therefore, the boundaries are being broken in jewelry trends for example there are more unisex watches and wedding rings comparing to the past decades. While male jewelry is a rapid growth segment, unisex designs are becoming more popular. For example, Gucci's first jewelry collection is targeted at unisex. Most of the buyers of all genders are buying for themselves not only on special occasions. As Generation Z are particularly wary of classifications or labels, it becomes a good chance for brands to aim all types of products, individual, relationships or occasions.

3.3 Competition Analysis

Tiffany & Co. mainly focuses on products related to diamonds. However, many public diamond mining companies were delisted during 2014 to 2015 due to the inability to meet the listing requirements and failure to comply (Resource World., 2016). Consequently, Tiffany & Co., became one of the largest companies in the jewelry market which produces diamond products. Currently, Tiffany & Co., competes against Signet, Louis Vuitton, Pandora, Vaibhav and Rajesh.

Signet Jewelers Ltd, the world's largest diamond retailer, operates 3,300 stores in the USA, UK and Canada under the brand names Kay Jewelers, Zales, Jared The Galleria Of Jewelry, H.Samuel, Ernest Jones, Peoples, Piercing Pagoda, and JamesAllen.com in 2019. Signet reported total revenue of 6.25 billion dollars and saved the net cost of 85 million dollars mainly from engagement, wedding and anniversary purchases. (Signet Annual report 2019)

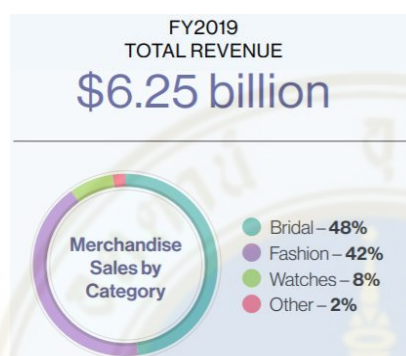


Figure 3.4 Revenue of Signet

Source: Signet Annual Report 2019-2020 (2020)

Moët Hennessy Louis Vuitton, LVMH, a well-known luxury conglomerate from France operates 4,910 stores around the world and owns 75 prestigious brands such as Louis Vuitton, Christian Dior and Bulgari. LVMH generated a total revenue of 53.7 billion Euros in 2019 which is 14.62% higher than the previous year. Moreover, the net profit increased by 11.33% compared to 2018 that is 7,782 million Euros.

Table 3.2 Income Statement of LVMH

Source: LVMH Annual Report 2019 (2019)

In millions of euros

	2017	2018	2019
Revenue	42,636	46,826	53,670
Gross margin	27,853	31,201	35,547
<i>in % of revenue</i>	65%	67%	66%
Profit from recurring operations	8,293	10,003	11,504
<i>in % of revenue</i>	19.5%	21.4%	21.4%
Net profit	5,840	6,990	7,782

Pandora, a Danish jewelry manufacturing company, distributes in 100 countries worldwide directly with 7,400 sale points and over 2,700 concept stores. In 2019, Pandora was branded as the number one jewelry brand which sold 96 million pieces of jewelry in the world. However, there was a slight decline in revenue from approximately 3.4 million dollars in 2018 to 21 approximately 3.3 million dollars in 2019. The affordable hand-finished personalized jewelry is the collaboration of traditional craftsmanship and state-of-the-art innovation with high-quality material. (Pandora group Annual report 2019)

Table 3.3 Financial Statement of Pandora

Source: Pandora Group Annual Report 2019 (2019)

OTHER FINANCIAL HIGHLIGHTS (DKK million)	2019¹	2018²	2017^{1,2}	2016^{1,2}	2015^{1,2}
Consolidated income statement					
Revenue	21,868	22,806	22,781	20,281	16,737
Gross profit	15,903	16,942	16,966	15,223	12,193
Gross margin, %	72.7%	74.3%	74.5%	75.1%	72.9%

Vaibhav Global Limited (VGL), is defined as a Company that markets fashion jewelry, accessories, lifestyle and essential products to consumers. Their product mix was transforming according to customers' preference within the product categories. It acquires the resources from over 20 countries around the world including USA, UK and China. The total revenue for fiscal year 2019-2020 was reported to be 1,986 crore rupees (approximately 270 million USD) which increased by 9.5% from 2018-2019 (Vaibhav annual report 2019-2020, 2020).

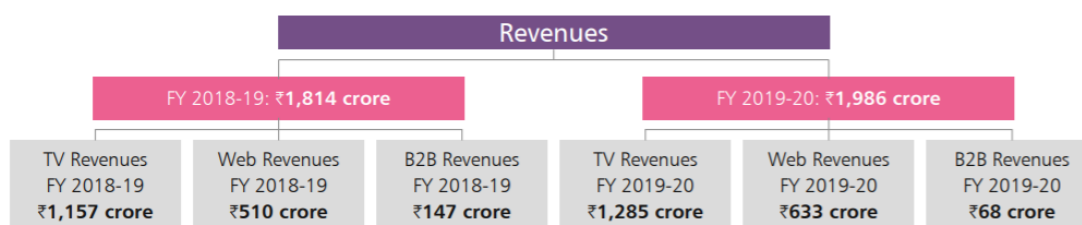


Figure 3.5 Revenue Structure of Vaibhav 2018-2020

Source: Vaibhav Annual Report 2019-2020 (2020)

Rajesh Exports Limited is one of the largest businesses in the global gold business with the aim of making available gold globally to retail customers with the finest quality and design at the best prices. Its revenue in 2018-2019 was 1,758,306 million rupees (approximately 24 billion USD) that decreased slightly by 6.3% compared to the previous fiscal year. (Rajesh annual report 2019)

Table 3.4 Revenue Structure of Rajesh 2018-2020

Source: Rajesh Annual Report 2019-2020 (2020)

	(Rs. in Million)	
	2018-2019	2017-2018
Operating Revenue	1,757,631.23	1,876,861.04
Other Income	675.38	62.01
Total Revenue	1,758,306.61	1,877,481.05

3.3.1 Five Forces Analysis

3.3.1.1 Threat of Entry: High - Opposed to Tiffany

Hard to enter the market as a worldwide company, however local new entrants compete easily with the same standard quality and lower price.

3.3.1.2 Power of Suppliers: Low - Favorable to Tiffany

Tiffany has many suppliers and buys in large quantities. Moreover, Tiffany has a good relationship with suppliers through sustainable projects.

3.3.1.3 Power of Buyers: Moderate - Favorable to Tiffany

Customers have no switching cost but less choice for international luxury jewelry brands.

3.3.1.4 Threat of Substitutes: Moderate - Favorable to Tiffany

New technology of science makes the lab create diamonds as a substitute product. However, the world culture still needs a real diamond as a symbol of prestige, love and marriage.

3.3.1.5 Rivalry Among Competitors: Very high - Opposed to Tiffany

There are many famous high-end jewelry brands around the world and most of their customers are high income people. It is different from Tiffany who targets mass customers. It is the reason why Tiffany tries to increase price per unit sale.

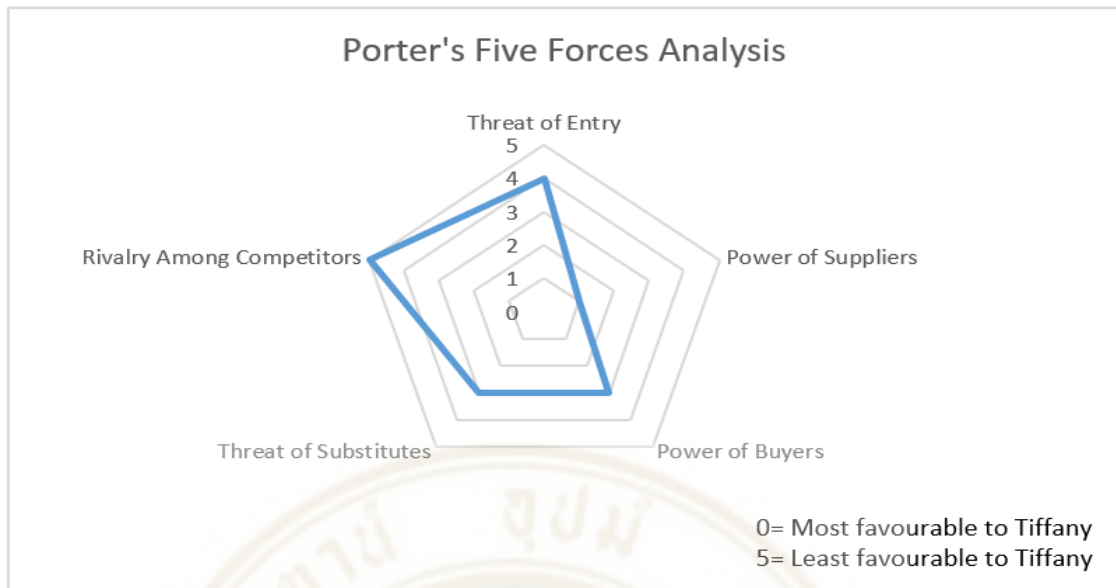


Figure 3.6 Porter's Five Forces Analysis

CHAPTER IV

VALUATION: RELATIVE VALUATION

4.1 Financial Analysis

4.1.1 Dupont analysis

Tiffany's fluctuates slightly over the past 5 years; ROE was 25.33% in 2015 and decreased gradually till 20.93% in 2017. Tiffany manages it to recover in 2018 until it reaches 24.40%. However, it declines to 22.38% in 2019 which is caused by return on assets (ROA) which vary a lot during 2015-2019. The profit margin is stable around 0.17 over the past 5 years but financial leverage was between 1.69 and 1.71 during 2015 and 2018. In 2019, financial leverage suddenly jumps to 2 from 1.71 because of total assets that increase 24.88% in 2019. The increment in total assets is caused by the operating lease right-of-use assets (1,102.7 million USD) that is the new asset of Tiffany in 2019.

Meanwhile, Pandora's ROE increases from 59.85% (2015) to 88.68% (2016). However, it decreases gradually till it reaches 56.11% in 2019 which is caused by ROA because ROA trend is aligned with ROE over the past 5 years.

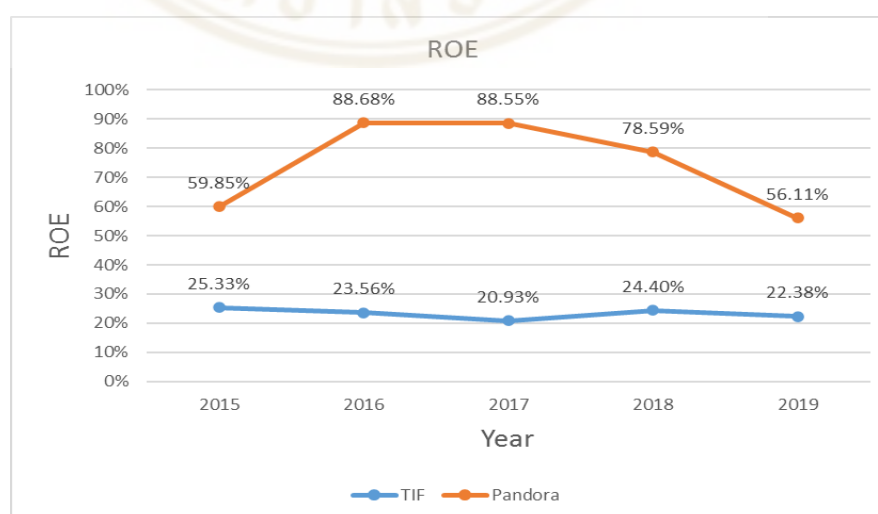


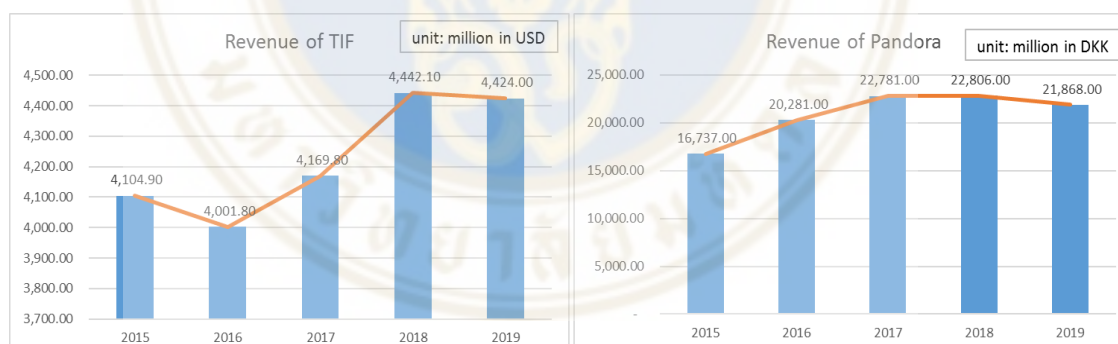
Figure 4.1 ROE trend of TIF and Pandora

Table 4.1 DuPont Analysis

Dupont analysis										
Year	Tiffany (Million USD)					Pandora (Million DKK)				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Net income	463.90	446.10	516.30	570.50	541.10	3,674.00	6,025.00	5,768.00	5,045.00	2,945.00
Revenue	4,104.90	4,001.80	4,169.80	4,442.10	4,424.00	16,737.00	20,281.00	22,781.00	22,806.00	21,868.00
Profit Margin	0.11	0.11	0.12	0.13	0.12	0.22	0.30	0.25	0.22	0.13
Revenue	4,104.90	4,001.80	4,169.80	4,442.10	4,424.00	16,737.00	20,281.00	22,781.00	22,806.00	21,868.00
Total Assets	5,121.60	5,097.60	5,468.10	5,333.00	6,660.10	13,311.00	15,085.00	17,428.00	19,244.00	21,571.00
ROA	80.15%	78.50%	76.26%	83.29%	66.43%	125.74%	134.44%	130.71%	118.51%	101.38%
Total Assets	5,121.60	5,097.60	5,468.10	5,333.00	6,660.10	13,311.00	15,085.00	17,428.00	19,244.00	21,571.00
Total Equity	2,911.40	3,013.50	3,233.40	3,117.40	3,322.90	6,139.00	6,794.00	6,514.00	6,419.00	5,249.00
Financial Leverage	1.76	1.69	1.69	1.71	2.00	2.17	2.22	2.68	3.00	4.11
ROE	15.93%	14.80%	15.97%	18.30%	16.28%	59.85%	88.68%	88.55%	78.59%	56.11%

4.1.2 Growth analysis

In 2019, the revenue of Tiffany declined to 4,424 in 2019 from 4,442 in 2018. However, it increased steadily over the past 3 years (2016-2018) although it decreased slightly from 4,104.90 in 2015 to 4,001.80 in 2016. For Pandora revenue, it was increase steadily from 2015 (DKK 16,737 million) to 2017 (DKK 22,781million) but decreased during 2018 and 2019 till 21,868

**Figure 4.2 Revenue of TIF and Pandora**

For the cost of goods sold, the Tiffany and Pandora has the opposite trend because there is a sharp dip for Tiffany in 2016 and increases till it reaches 1,662.10 million USD in 2019. While Pandora's cost of goods sold increased between 2015-2018 from 4,544 million DKK to 5,864 million DKK, and then decreased in 2019 (4,950 million DKK).

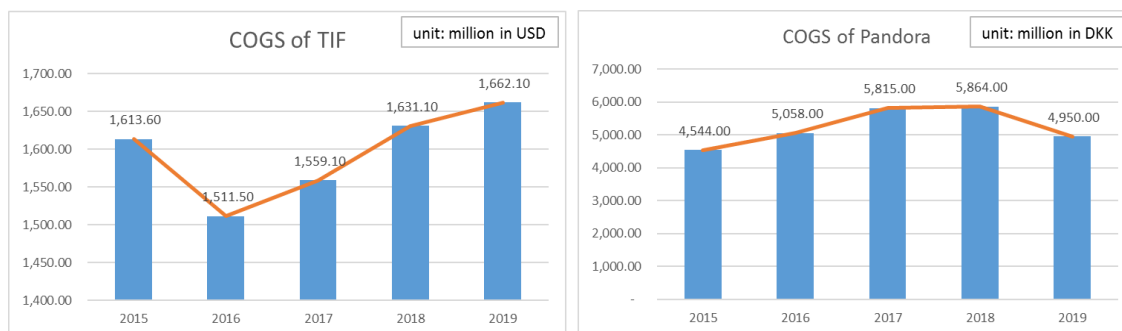


Figure: 4.3 Cost of Goods Sold of TIF and Pandora

Tiffany got a sharp dip in 2016 both revenue and cost of good sale, but the net income of 2016 is not affected much. However, Pandora's net income decreased sharply from 6,025 to 2,945 between 2016 and 2019 although revenue and cost of goods sold did not fluctuate much during those years.

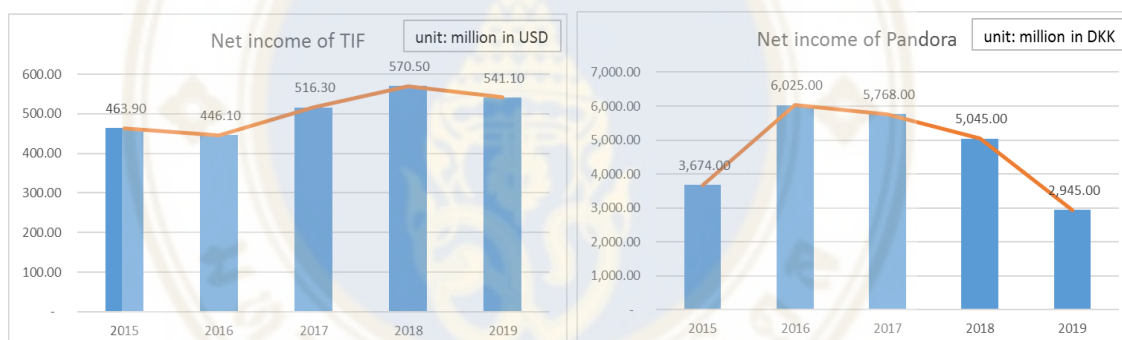


Figure 4.4 Net income of TIF and Pandora

Based on the figure 4.5, EPS of Pandora moved along with net income while Tiffany's net income did not change much during these 5 years.

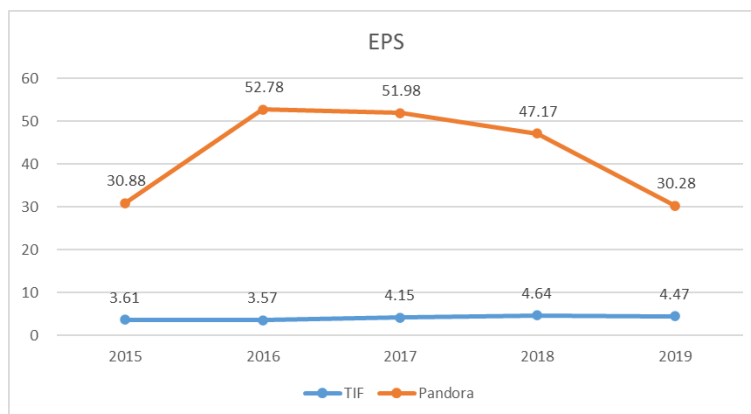


Figure: 4.5 EPS of TIF and Pandora

4.1.3 Revenue driver: marriage rate

The marriage rate can be used to estimate the revenue of companies in the jewelry industry. For Tiffany and Co., they have three jewelry product segment categories: 55% Jewelry collection, 26% Engagement jewelry, and 12% Design jewelry in 2019. The marriage rate directly affects engagement jewelry. The world marriage rate tends to decrease (Ospina, E. and Roser, M., 2018). This is a reason that the percentage sale of the engagement jewelry product segment is slowly decreasing.

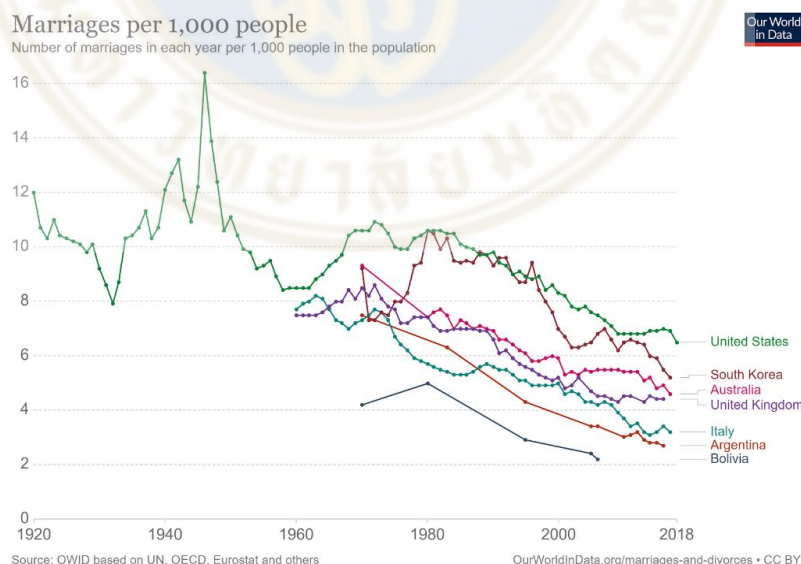


Figure 4.6 Number of Marriages in Each Year Per 1,000 People in The Population

Source: Ospina, E. and Roser, M., 2018

4.2 Relative Valuation

4.2.1 Ratio bands

The relative valuation method is determined through five elements: trailing P/E, forward P/E, trailing P/BV, trailing EV/EBITDA, and forward EV/EBITDA based on 5 years past history. In conclusion, the historical valuation bands of TIF are +2 standard deviation above its own 5 years average historical valuation (trailing P/E, forward P/E, trailing EV/EBITDA, and forward EV/EBITDA) except for trailing P/BV that are +1 standard deviation above its own 5 years average historical valuation.

4.2.1.1 Trailing P/E

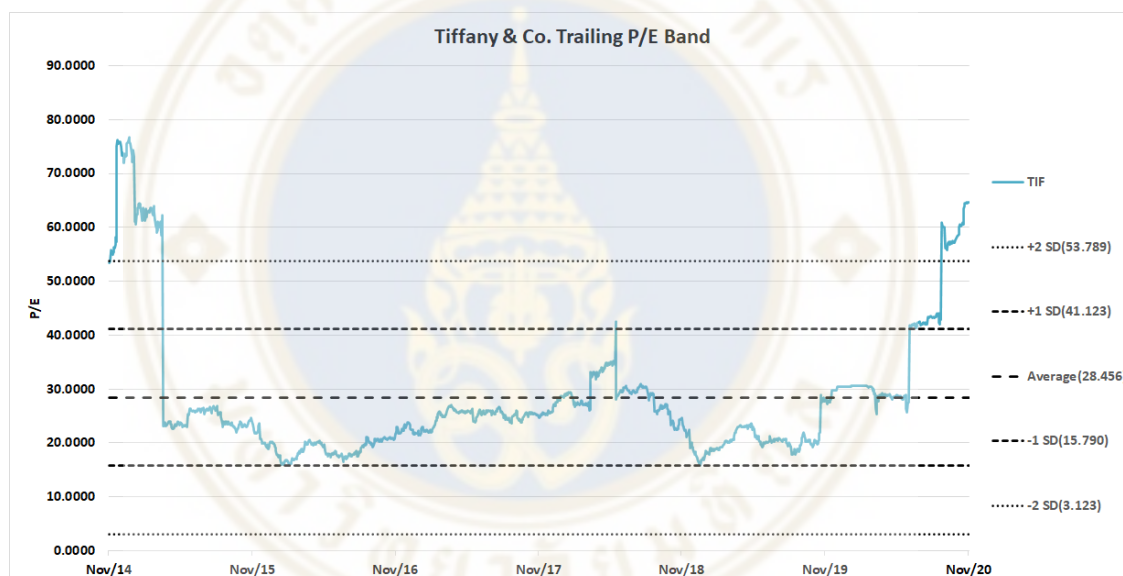


Figure 4.7 Tiffany & Co. Trailing P/E Band

Source: Reuters and Own Calculation

Trailing P/E is calculated from Tiffany's current share price divided by the previous fiscal year earnings per share. Tiffany's trailing P/E, related to itself, is overvalued by 127.02%. The current P/E ratio is 64.6 on 9 November 2020, while the P/E historical mean is 28.46. The trailing P/E band is over +2 standard deviations above the 5-year average.

The reason for the overvaluation of Tiffany trailing P/E is higher Tiffany stock price and lower EPS. The price of Tiffany is increased from the merger

deal with LVMH. The price of the stock is reflected by the merger deal on 24 November 2019. The first deal acquisition price is 135 USD/share. The stock price jumped from 125.51 USD on 22 November 2019 to 133.25 USD on 25 November 2019. After the Covid-19 situation, the price was re-negotiated to 131.5 USD/share on 29 October 2020, and the price of the stock is around 131.5 since then. In the part of EPS, the twelve months ending EPS from 31 October 2020 was 2.36 USD, declined by -47.2% from last year-over-year (Macrotrends,2010-2021). Tiffany's annual EPS is 4.45 USD, a decline of -6.32% from 2019 (Macrotrends,2010-2021).

4.2.1.2 Forward P/E

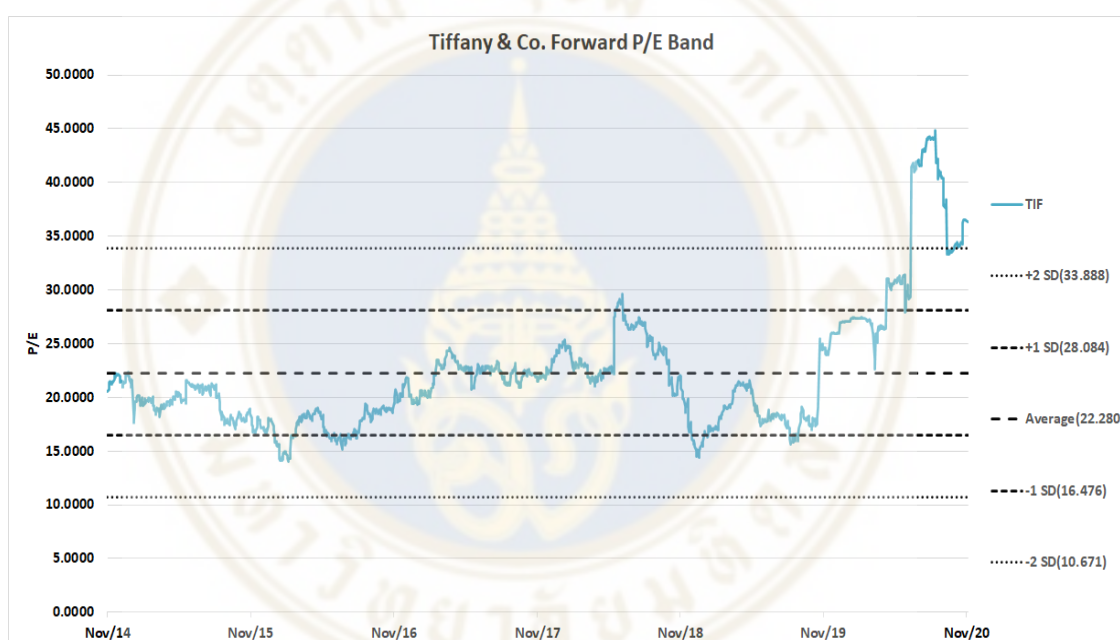


Figure 4.8 Tiffany & Co. Forward P/E Band

Source: Reuters and Own Calculation

Forward P/E is calculated from Tiffany's current share price divided by the forward fiscal year earnings per share. Tiffany's forward P/E, related to itself, is overvalued by 163.02%. The forward P/E ratio is 36.3 on 9 November 2020, while the P/E forward mean is 22.28. The forward P/E is over +2 standard deviation above the 5-year average.

The reason for the overvaluation of Tiffany's forward P/E is the high expectation of future revenue after Covid-19 and the acquisition offer price.

Tiffany is mostly gained from special events such as New Year, Christmas, etc. so Quarter 4 is the most gained revenue of Tiffany (one-third of annual net sales). Tiffany was affected by Covid-19 since the revenue decreased in quarter 2. Besides, the number of retail stores shut down peaked in April 2020, which were 75% to 80% of worldwide stores. However, in Quarter 3, the revenue is recovering from reopened retail stores at the end of July so we expect that in Quarter 4, the revenue will be increased. Moreover, online sales grew to 15% of the total sale in the first half of the year 2020, double from 6% in the last three full years (Fedow,L.2020).

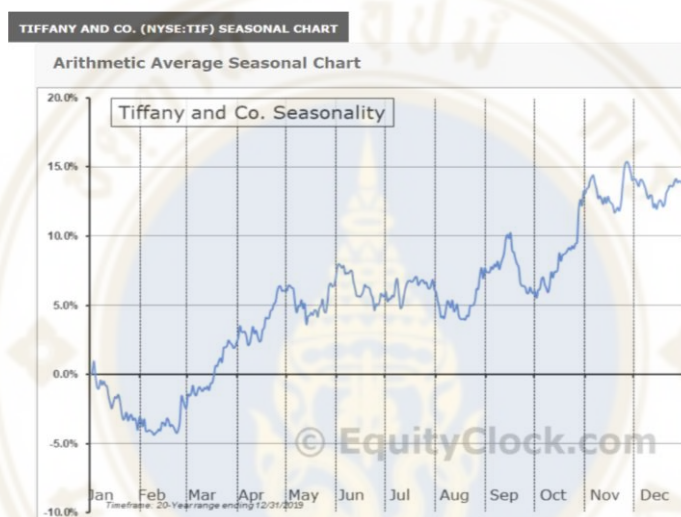


Figure 4.9 Tiffany & Co. Seasonal Chart

Source: Equity Clock

4.2.1.3 Trailing P/BV

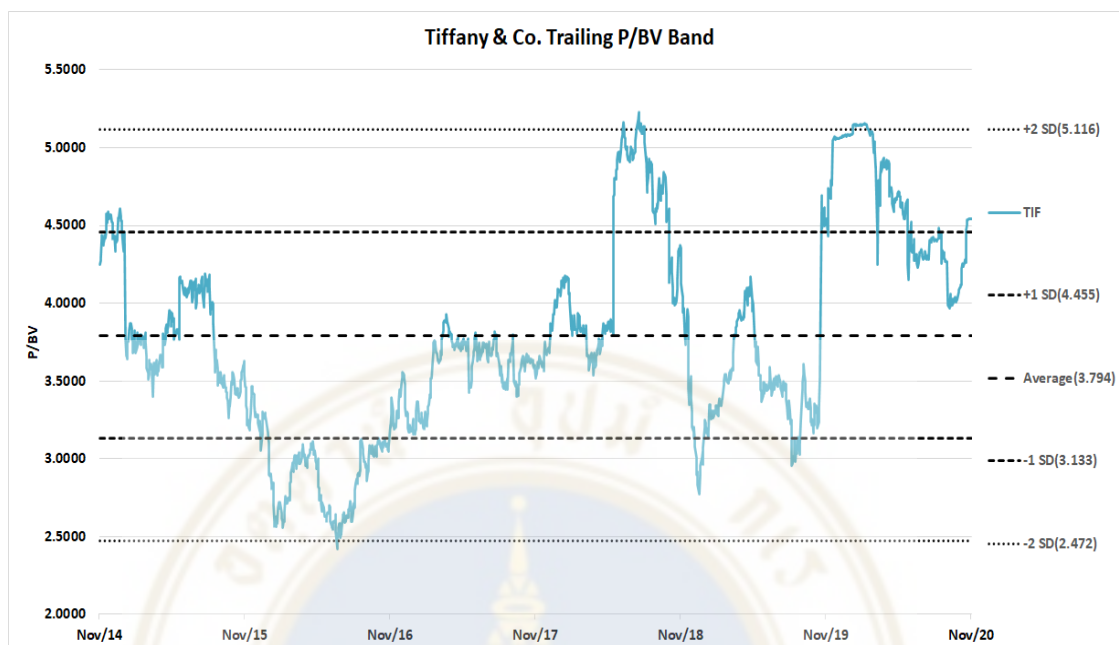


Figure 4.10 Tiffany & Co. Trailing P/BV Band

Source: Reuters and Own Calculation

Trailing P/BV is calculated from the Tiffany's current share price divided by its historical book value per share. Tiffany's trailing P/BV, related to itself, is overvalued by 19.47%. The trailing P/BV ratio is 4.54 on 9 November 2020, while the trailing P/BV mean is 3.80. The trailing P/BV is between +2 standard deviation and +1 standard deviation.

4.2.1.4 Trailing EV/EBITDA

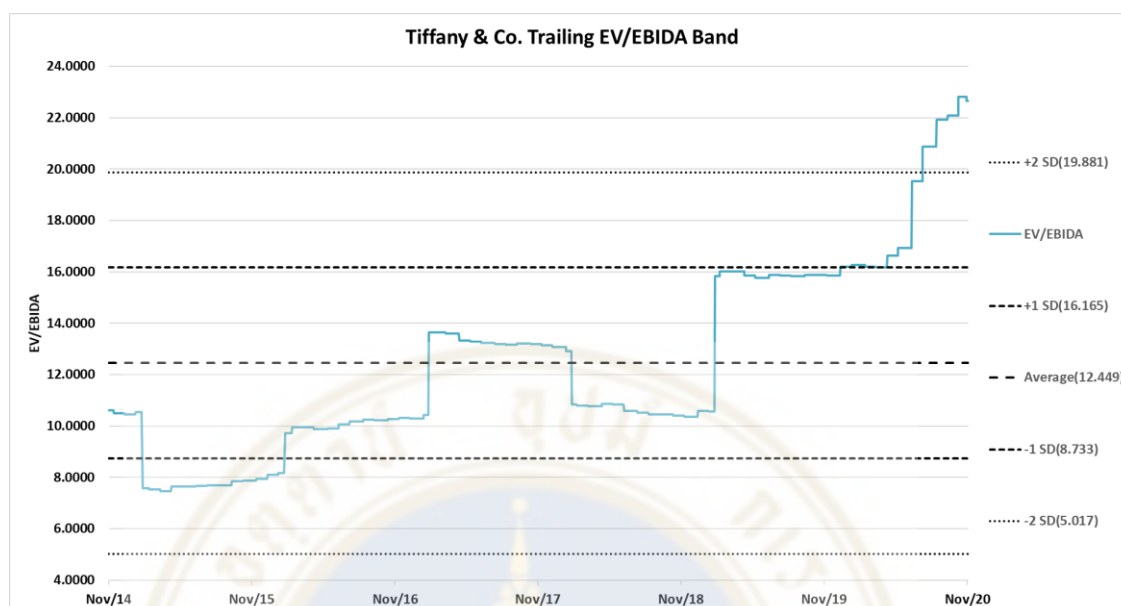


Figure 4.11 Tiffany & Co. Trailing EV/EBITDA Band

Source: Reuters and Own Calculation

Trailing EV/EBITDA is calculated from the Tiffany's current enterprise value (EV) divided by its historical EBITDA. Tiffany's trailing EV/EBITDA, related to itself, is overvalued by 82.06%. The trailing EV/EBITDA ratio is 22.7 on 9 November 2020, while the trailing EV/EBITDA mean is 12.45. The trailing EV/EBITDA band is over +2 standard deviation above the 5-year average.

The reason for the overvalue of Tiffany trailing EV/EBITDA is higher EV and lower EBITDA. Tiffany's strategies are focusing on high-end material products to increase profit so the value of inventories on hand is also increasing. The EBITDA dramatically decreased from 221.8 million USD in Quarter 1, 2019 to -40.7 million USD in Quarter 1, 2020 because of decreasing revenue by -44.62% in that quarter. (According to Tiffany's annual report, Tiffany has an unusual fiscal year-end. The fiscal year of 2020 period is the beginning of February 2020 to the end of January 2021).

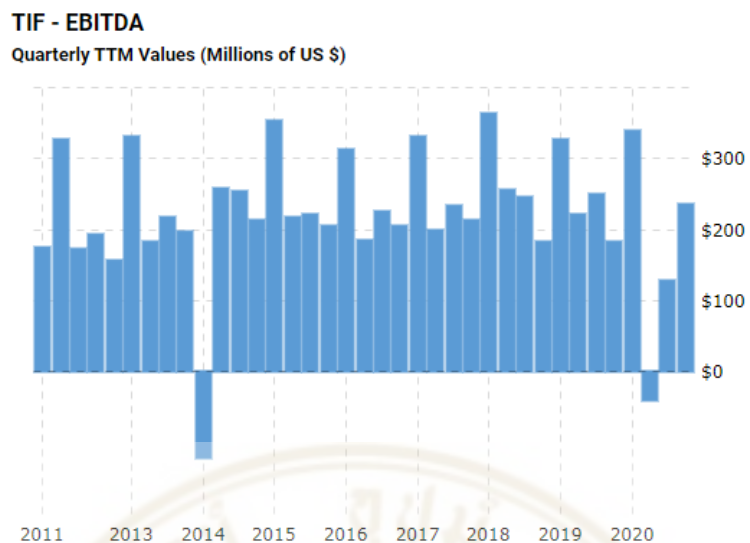


Figure 4.12 Tiffany & Co. EBITDA

Source: Macrotrends

4.2.1.5 Forward EV/EBITDA

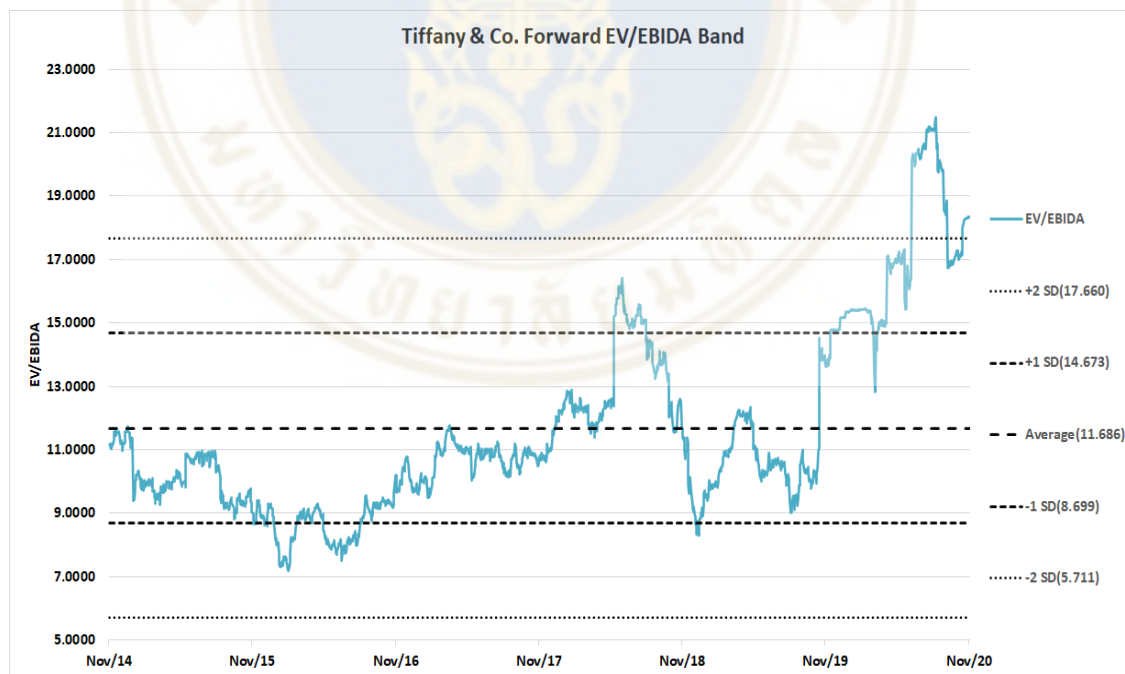


Figure 4.13 Tiffany & Co. Forward EV/EBITDA Band

Source: Reuters and Own Calculation

Forward EV/EBITDA is calculated from the Tiffany's current enterprise value divided by its forward EBITDA. Tiffany's forward EV/EBITDA band, related to itself, is overvalued by 56.84%. The forward EV/EBITDA ratio is 18.35 on 9 November 2020, while the trailing EV/EBITDA mean is 11.70. The forward EV/EBITDA band is over +2 standard.

The reason for the overvalue of Tiffany forward EV/EBITDA is the expected lower EBITDA in 2021 as the figure and table below, and high EV due to the acquisition offer by LVMH. The forecasts from Market Screener shows that the EBITDA in 2021 will decrease to 662 million USD, but then EBITDA will recover in 2022 and 2023.

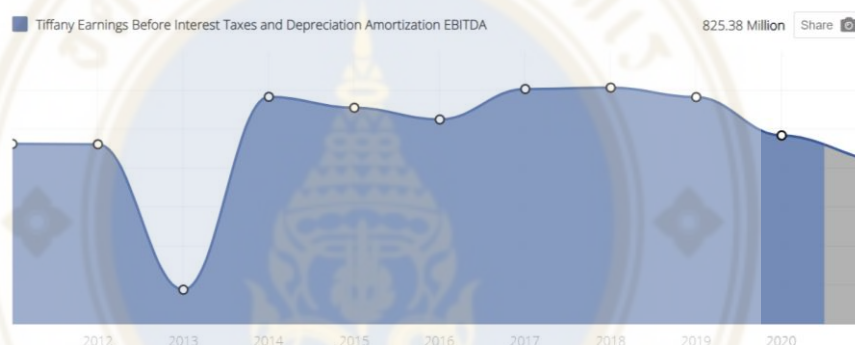


Figure 4.14 Tiffany & Co. EBITDA and Forward EBITDA

Source: Macroaxis

Table 4.2 Tiffany & Co. Annual Income Statement Data

Source: Market Screener

Annual Income Statement Data						
Fiscal Period: January	2018	2019	2020	2021	2022	2023
Net sales ¹	4 170	4 442	4 424	3 583	4 366	4 592
EBITDA ¹	1 001	1 019	992	662	983	1 050
Operating profit (EBIT) ¹	795	790	733	409	729	811
Operating Margin	19,1%	17,8%	16,6%	11,4%	16,7%	17,7%
Pre-Tax Profit (EBT) ¹	761	744	690	317	710	795
Net income ¹	370	586	541	257	546	596
Net margin	8,88%	13,2%	12,2%	7,16%	12,5%	13,0%
EPS ²	2,96	4,75	4,45	2,15	4,52	4,99
Dividend per Share ²	1,95	2,15	2,29	2,36	2,42	2,46
Last update	03/16/2018	03/22/2019	03/20/2020	12/08/2020	12/31/2020	12/08/2020

¹ USD in Million ² USD

Estimates

4.2.2 Peer Group Multiples**Table 4.3 Tiffany & Co. Comparable Firms Valuation**

Source: Reuters, Own Calculation

Global Peers	Ticker	Country	Price	Market Cap	Trailing P/E	Forward P/E	Trailing P/BV	Trailing EV/EBITDA	Forward EV/EBITDA
			(U.S. dollar)	(U.S. millions dollar)					
Tiffany	TIF	USA	131.15	15,917.49	64.6	36.3	4.5	22.7	18.3
Signet	SINGNET	USA	22.50	1,177.72	-0.51	14.4	1.1	25.2	6.7
Louis Vuitton	LVMH	France	518.25	261,587.97	53.3	36.4	6.1	28.0	18.1
Pandora	PNDORA	Denmark	86.14	8,614.40	29.7	16.7	8.5	13.6	10.6
Vaibhav	VAIB	India	28.09	911.37	28.2	26.7	8.2	34.9	10.2
Rajesh	REXP	India	2.45	722.73	12.7	12.1	1.3	2.0	3.7
Peer Average					24.7	21.3	5.0	20.7	9.9
Peer Median					28.2	16.7	6.1	25.2	10.2

Table 4.4 Tiffany & Co. Comparable Firms Performance

Source: Reuters, Own Calculation

Global Peers	Profitability	Risk	Debt Ratio	Historical EPS Growth
	ROE (Common Equity LTM)	Beta (five year)		EPS (Excl Extra (dil.))
Tiffany	7.7%	0.8	13.3%	2.0
Signet	-16.0%	2.7	8.2%	-3.1
Louis Vuitton	12.7%	1.0	16.0%	8.8
Pandora	38.0%	1.4	36.9%	19.4
Vaibhav	29.0%	0.9	2.3%	69.6
Rajesh	9.0%	0.4	4.2%	30.9
Peer Average	14.6%	1.3	13.5%	25.1
Peer Median	12.7%	1.0	8.2%	19.4

The group of peers to compare with Tiffany are Signet, Louis Vuitton, Pandora, Vaibhav, and Rajesh. Pandora has a similar revenue structure which mainly comes from jewelry, and they focus on a single brand. For Signet, they focus on jewelry products, but they focus on multi-brands such as Kay Jewelers, Zales, Jared, H.Samuel, Ernest Jones, Peoples, Piercing Pagoda, and JamesAllen.com. For LVMH, it is a huge company that focuses on a variety of products such as fashion, bags, clothes, and jewelry. LVMH focuses on only high-end markets which they specialize in so it is a reason why they are interested in buying Tiffany is that Tiffany has a mass customer target in high-end jewelry products. Vaibhav is a jewelry manufacturing company from India. They also have other product markets which are lifestyle accessories on home shopping TV and e-commerce platforms. Lastly, Rajesh mainly provides gold material jewelry to customers.

The factors used for value comparisons are price, market capital, trailing P/E, forward P/E, trailing P/BV, trailing EV/EBITDA, and forward EV/EBITDA. The factors that analyze the value of the company and explain its current relative valuation compared to peers are profitability (ROE), risk (beta), debt ratio, and EPS growth.

From the result in Table 4.3, the price of a stock (USD) and market capital (million USD) is directly used from Reuters except for the different currencies, that is changed into USD for Louis Vuitton (EUR), Pandora (DKK), Vaibhav (INR) and Rajesh (LKR).

The trailing P/E of Tiffany is highest among peer companies which could mean Tiffany is overvalued, or it means that Tiffany's actual performance is better than

its peers. However, the result of profitability (ROE) and EPS growth of Tiffany's is lower than the peer average. The highest ROE performance among peers is Pandora at 38% while the ROE peer average is 14.6% and Tiffany's ROE performance is only 7.7%. For EPS growth, Pandora gains 19.4 while the EPS growth peer average is 25.1 but Tiffany gains only 2. Tiffany has relatively Better performance among the peers regarding low risk (beta) and low debt ratio. This is good for companies during the Covid-19 pandemic, when having lower debt and risk compared to others.

Forward P/E is also higher than peers except for LVMH which means that investors estimate Tiffany's at high performance. In this case, it is because, at the end of 2019, Louis Vuitton (LVMH)'s announcement that they would buy Tiffany at 135 USD/share so in total is 16,200 million USD, the highest high-end brand purchase in history. However, the Covid-19 situation changed the conclusion of LVMH's deal to 131.5 USD/share in cash on 29 October 2020, this deal is expected to be completed at the beginning of 2021.

Trailing P/BV is a little lower than peers' average. This represents the expectation for investors to estimate the growth of a company for example value of a trademark (Tiffany's goodwill is 38.4 million USD from Tiffany annual report 2020). Company P/BV is a little bit lower than peers but improves from itself. Tiffany focused to rent the stores at a high-end location to maintain the high-end brand image. It is costly but creates flexibility to move or deal with the landlord.

Trailing EV/EBITDA is lower than peer average and higher than Pandora means that Tiffany is expensive. Other competitors focus on high-end material such as Rajesh Exports Limited is one of the largest businesses in the global gold business. Trailing EV/EBITDA clearly shows the performance of the company after excluding the cost of debt, taxes, depreciation, and amortization. Tiffany significantly invests in diamond, precious stones, platinum, and gold inventory to be in the high-end jewelry market. They also invest in the construction of new stores, decorate current stores, and maintain current stores. In the 2020 fiscal year, Tiffany added operating lease right-of-use assets at 1,102.7 million USD. The way to record the data in the balance sheet of Tiffany as deferred tax liabilities helps them to reduce tax in the 2020 fiscal year by 301.2 million USD, but in the future, Tiffany needs to pay 301.2 million USD.

In the part of forward EV/EBITDA, it is also higher than peer average and

higher than Pandora. It means that Tiffany is expected to invest more in inventories and still far from the equilibrium of return on investment.

In conclusion, TIF is potentially more expensive than the peer group for two reasons which are the deal with LVMH and the lower risk than average based on the low debt-to-equity ratio. However, Tiffany's profitability and growth are substantially lower than the peer group average as well.

4.2.3 Target Price

Table 4.5 Tiffany & Co. Comparable Firms Performance

Source: Reuters, Own Calculation

	Tiffany			Peer Median	Target Price
Trailing P/E	64.60	Trailing EPS	2.06 *	28.20 =	57.97
Forward P/E	36.29	Forward EPS	3.61 *	16.71 =	60.40
Trailing P/BV	4.54	Trailing Book Value	28.87 *	6.08 =	175.47
Trailing EV/EBITDA	22.67	Trailing EBITDA/Share	5.96 *	25.22 =	150.33
Forward EV/EBITDA	18.35	Forward EBITDA/Share	2.48 *	10.20 =	25.30

4.2.3.1 Trailing P/E

On 9 November 2020, the Tiffany trailing P/E is 64.6 while the closing price is 131.15. The trailing EPS from Reuters on 9 November 2020 is 2.06 and multiply with peer median trailing P/E is 28.20, the target price is 57.97.

4.2.3.2 Forward P/E

On 9 November 2020, the Tiffany forward P/E is 36.29 while the closing price is 131.15. The forward EPS from Reuters 9 November 2020 is 3.61 on and multiply with peer median forward P/E is 16.71, the target price is 60.40.

4.2.3.3 Trailing P/BV

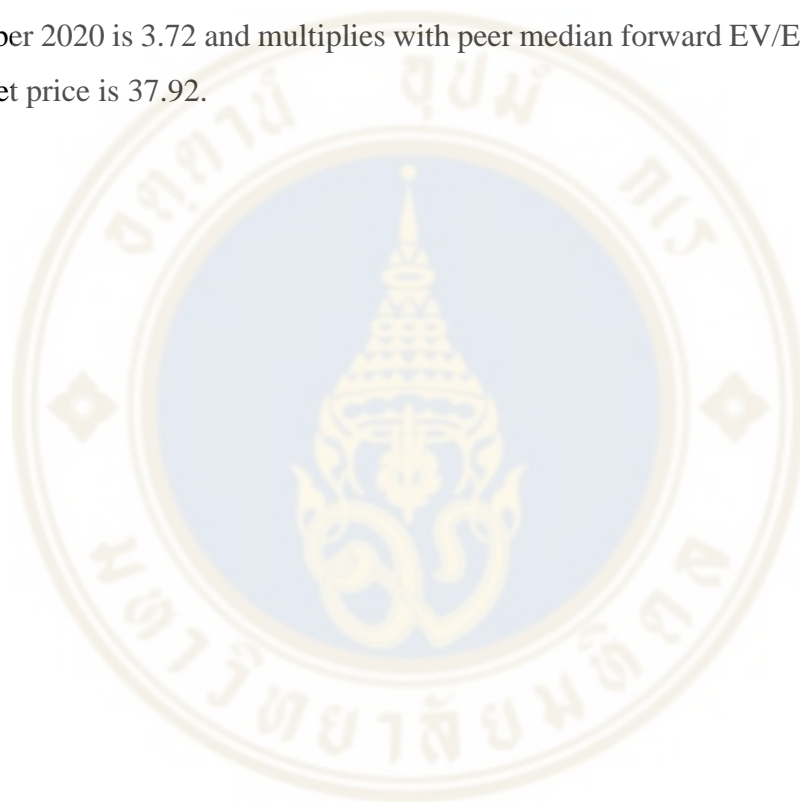
On 9 November 2020, the Tiffany trailing P/BV is 4.54 while the closing price is 131.15. The trailing book value from Reuters on 9 November 2020 is 28.87 and multiplies with peer median trailing P/BV is 6.08, the target price is 175.47.

4.2.3.4 Trailing EV/EBITDA

On 9 November 2020, the Tiffany trailing EV/EBITDA is 29.4 while the closing price is 131.15. The trailing EBITDA/Share from Reuters on 9 November 2020 is 5.96 and multiplies with peer median trailing EV/EBITDA is 25.22, the target price is 150.33.

4.2.3.5 Forward EV/EBITDA

On 9 November 2020, the Tiffany forward EV/EBITDA is 18.35 while the closing price is 131.15. The forward EBITDA/Share from Reuters on 9 November 2020 is 3.72 and multiplies with peer median forward EV/EBITDA is 10.20, the target price is 37.92.



4.3 Valuation Summary and Recommendation



Figure 4.15 Tiffany Target Price

Source: Reuters and Own Calculation

Historical valuation bands suggest that TIF is above its average historical valuation. The higher price and EV are likely from the high expectation of investors on LVMH deal, and it contrasts with the actual lower EPS growth and lower EBITDA from COVID-19 situation. Investors may also be optimistic about the seasonal revenue of Tiffany in Quarter 4, recovery of revenue sign in Quarter 2 and 3, a strong retail sale in China, and double online sales growth.

Based on peer comparison of the multiple ratios, the trailing P/E is selected as a multiplier to calculate Tiffany & Co.'s target price because the fair price from the average target price will not represent the reliability of Tiffany's share price. The reason is the different revenue structure of peers as we mentioned in the Peer Group Multiples section.

The trailing P/E of Tiffany is highest among peers which means that Tiffany's actual performance is high or special. The reason for the special event is the merger deal with LVMH since the end of 2019. They postponed the deal because of

Covid-19 and taxes in France but on 29 October 2020, and then they revised the deal to 131.5 USD/share in cash. Further, among the peers Tiffany has lower risk (beta) and debt ratio. This is good for companies during Covid-19 from having lower risk compared to others. However, the result of profitability (ROE) and EPS growth of Tiffany's is lower than the peer average and lower than the main competitor, Pandora.

Finally, I decide to recommend based on trailing P/E peer comparison of the multiple ratios because the historical valuation bands got effected on lower EPS and EBITDA from COVID-19 situation which hides the real potential of Tiffany in part of huge rage customers on hand, high-end brand image, marketing, etc.

The relative valuation recommends to "Sell" because the target price of trailing P/E is 57.97 lower than Tiffany's current price at 131.15 by 55.80%. The new management strategy and capability of Tiffany and LVMH might lead Tiffany into a better position as a worldwide high-end jewelry brand. The investor better should take advantage of the 131.2 price, which is high due to the 131.5 LVMH offer. Take-over price offers are usually a lot higher than the current market value, due to potential cost savings and synergies after the merger.

CHAPTER V INVESTMENT RISKS

5.1 List of Risks and Downside Possibilities

The list of risks and downside possibilities is from the current situation of the company, stakeholders, and environment such as company operation, company strategies, customer behavior, Covid-19, global economic, etc. Risk factors will drive the uncertain situation of the company.

5.1.1 Merger Disrupts

Tiffany's merger plan is in process, so it affects the stakeholders of the company such as employees, customers, and other parties. The customers may feel less confident with brand management. Tiffany needs to maintain relationships with them, not only customers, but also suppliers and other business partners. The employee retention rate after the merger is an issue that Tiffany also needs to focus on. Merger's plan affected the confidence of employees who work at Tiffany such as not renewing the employment contract. The merger also affects the company's current plans and operations.

If the merger plan fails, Tiffany may sue LVMH due to the cost of time and the effect on its brand image. The failure of the merger agreement may affect the market price at that time. Tiffany hopes that this merger agreement will be a success in the time frame that they set.

5.1.2 Covid-19

In December 2019, the Covid-19 virus was discovered at Wuhan, China then spread to people around the world. The governments in many countries responded by reducing the time spent outside the house or imposed spending lock-downs. It affects a lot of business sectors and tourism. The retail stores need to be closed as announced by the government in some cases. Many countries close their country to prevent the spread of Covid-19.

Tiffany's geographic regions worldwide got affected by store closures, reductions in operating hours, and decreased store traffic. Customer spending is reduced from lower-income of customers. The other stakeholder that counted is the company's office locations, manufacturing, servicing facilities centers, and third-party vendors.

5.1.3 Global Economic Conditions and Consumer Confidence

The falling of consumer confidence, both domestic and international, changes the economic conditions which negatively affect the company's revenue. Sales of Tiffany may decline or remain flat in quarter 4, November to end of January, which includes the holiday season. One-third of net income is from quarter 4 so the poor sales during quarter 4 will affect annual net income. Tiffany invests in China and countries that serve Chinese tourism so the slower the economy, the lower the revenue of Tiffany from retail stores.

5.1.4 Operations Globally

Tiffany has both U.S. and foreign manufacturers so its risk from the increasing costs, reduction of profits, and disruption of its business are worldwide. Tiffany also manages the different tax rates, laws, USD against foreign currencies, political situation, public health standard, lower number of tourists, and local consumer spending. The tax income law of the U.S. impacts company tax payment which affects future company net profit. In the part of USD against foreign currencies, Tiffany operates in more than 20 countries, so the fluctuation of foreign currencies is the risk of the company. The strong USD against foreign currencies forced Tiffany to increase the selling price. Customers in that location will not accept the significantly rising price of products. The risk of USD against foreign currencies would affect the reduction of company revenue.

5.1.5 Increasing of Material Cost

Tiffany is a high-end jewelry company that currently focuses on high-end material such as gold, white gold, platinum, etc. The increasing gold price, costs of diamonds, other precious stones, and reduced supply availability during Covid-19 may affect the Company's profit margins.

Material disruption is also another risk for the company. Tiffany provides the product around the world which needs to have a good operation to transfer the product and services. However, during Covid-19, it is hard to deliver the product on time or need a higher cost of transportation. The company information system is a key role to help the company manage the product information and help the company to be better manage products.

5.1.6 Store Locations

The company focuses to maintain a brand image as a premium goods retailer so they set the location of stores in prime locations. The company also made a significant investment in store construction, maintenance, and periodic renovation to the desirability of customers. Tiffany may not be able to acquire top locations for new stores, which will impact the brand image.

5.1.7 Brand Image

The value of the Tiffany & Co. and Tiffany trademarks could decline because of infringement by a third-party. Those who produce or sell Tiffany & Co. goods must be civil action and cooperate with criminal law. For those who cannot follow the agreement with Tiffany, or the company's failure to protect the value of the brand, it must affect the brand image such as small retail jewelry companies that copy the design of the product without telling Tiffany.

The Company's business is mostly dependent on the appeal of the Tiffany & Co. brand so the company needs to invest a lot to keep the brand image desirable and attractive. The poor performance of maintaining the brand position, brand image, or promotion impacts lower sales and profit.

5.1.8 Privacy Cost

Privacy laws and data security in a company's information systems increase operational costs. Tiffany needs to invest in the inventory system, customer information system, web-based system, cloud computing, etc. Tiffany also needs to prevent and protect the losing of information in the system.

5.1.9 Customer Behavior

Consumer tastes are hard to predict and consume a lot of time and cost to respond to trends and preferences of customers. Tiffany developed the strategy to present a new collection, brand image, or expand annual design collection by using social media tools. If the Company is unable to respond to the changing of customer behavior, consumer preferences, and shopping patterns to new or existing customers, Tiffany's sales and profitability could be negatively affected.

5.1.10 Environmental and Climate Changes

Risks of environmental and climate changes affect weather, climate patterns, resources, and risks related to carbon emission in every country around the world. Climate change and climate disrupt social, cultural, and economic areas in these areas. For Tiffany, the environmental risk would impact the supply chain such as damage to manufacturing locations, poor transportation systems, local infrastructure, limit the ability of the employees or customers to access the company's stores, reductions in material quality, and others.

CHAPTER VI

CONCLUSION

6.1 Investment recommendation

Tiffany is a high-end jewelry brand formed in 1837. Tiffany sells its jewelry products in more than 326 stores over the Americas, Europe, Asia-Pacific, Japan, and other geographic segments. Tiffany & co. is registered as a holding company that operates through the “Tiffany and Company” brand. Tiffany’s main revenue is from jewelry products which represent 92% of worldwide net sales in 2019. The other revenue is from house products. The competitors of Tiffany in the listed company are Signet, Louis Vuitton, Pandora, Vaibhav, and Rajesh. The most similar revenue structure competitor is Pandora, they have main revenue from mono jewelry brand.

The relative value methods that we applied are historical and peer comparison on trailing P/E, forward P/E, trailing P/BV, trailing EV/EBITDA, and forward EV/EBITDA. The result suggests that Tiffany is overvalued from the acquisition offer by LVMH, which boosts the share price to 131.2 dollar, close to the offer price of 131.5. The acquisition by LVMH might lead Tiffany into a better position as a worldwide high-end jewelry brand. However, the actual performance is not impressive because of the lower revenue, EPS, and EBITDA from the COVID-19 situation. The relative valuation is recommended to “SELL” because the target price based on trailing P/E is 57.97 lower than Tiffany's current price at 131.15 by 55.79%.

6.2 Limitations

The data of forward P/BV ratio is not available for analysis Tiffany and peer companies. According to limited data, we use five years of historical data to target the future price. For peer comparison, most of the direct competitors are not a listed company so we found only one direct competitor, Pandora, and other similar competitors in the jewelry market.

REFERENCES

- Bhasin H. (2019). *SWOT analysis of Tiffany and Co.* Retrieved from <https://www.marketing91.com/swot-analysis-of-tiffany-and-co/>
- Brilliant Earth. (2020). *What Are Man Made Diamonds.* Retrieved from <https://www.brilliantearth.com/lab-createddiamonds/#:~:text=Man%20made%20diamonds%2C%20also%20known,mantle%2C%20beneath%20the%20Earth's%20crust.>
- Calot G., J.P. Sardon (2003), *Methodology for the calculation of Eurostat's demographic indicators, Population and social conditions 3/2003/F/no 26, Eurostat,* Retrieved from http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-CC-04-004/EN/KS-CC-04-004-EN.PDF
- Chichester, O., Pluess, J.D., & Momaya, H. (2018). *Women in the Jewelry Supply Chain: Landscape Review of Barriers to Women's Economic Empowerment.* White Paper. BSR, San Francisco.
- Comparably. (2020). *Tiffany & Co Mission, Vision & Values.* Retrieved from <https://www.comparably.com/companies/tiffany-co/mission>
- Dauriz L., Remy N., & Tochtermann T. (2014). *A multifaceted future: The jewelry industry in 2020.* Retrieved from <https://www.mckinsey.com/industries/retail/our-insights/a-multifaceted-future-the-jewelry-industry-in-2020>
- Equity Clock. (2020). *TIFFANY AND CO. (NYSE:TIF) SEASONAL CHART.* Retrieved from <https://charts.equityclock.com/tiffany-co-nysetif-seasonal-chart>
- Fedow L. (2021). *Tiffany's Q2 Sales Sink, E-commerce Shines.* Retrieved from <https://www.nationaljeweler.com/majors/financial-reporting/9143-tiffany-s-q2-sales-sink-e-commerce-shines>
- Fern Fort University. (2020). *Tiffany & Co. Porter Five Forces Analysis.* Retrieved from <http://fernfortuniversity.com/term-papers/porter5/analysis/3197-tiffany---co-.php>

- Finnomena. (2020). การประเมินมูลค่าอย่างง่ายสำหรับผู้เริ่มต้นลงทุนในหุ้น. Retrieved from <https://www.finnomena.com/fiftytwohurtz/how-to-value-stocks-for-beginners/>
- GIA. (2020). *GIA 4Gs*. Retrieved from <https://4cs.gia.edu/en-us/>
- GlobeNewswire. (2020). *Tiffany and LVMH Modify Merger Price*. Retrieved from <https://www.globenewswire.com/newsrelease/2020/10/29/2116587/0/en/Tiffany-and-LVMH-Modify-MergerPrice.html#:~:text=The%20modified%20Merger%20Agreement%20provides,approval%20and%20 customary%20closing%20conditions.>
- Hellman J. (215). *Tiffany: A Short SWOT Analysis*. Retrieved from https://www.value line.com/Stocks/Highlights/Tiffany__A_Short_SWOT_Analysis.aspx#.X5OzXIgzZPZ
- JD Institute. (2019). *GROWTH OF BRANDED JEWELLERY INDUSTRY IN 2020*. Retrieved from <https://www.jdinstitute.edu.in/growth-of-branded-jewellery-industry-in-2020/#:~:text=As%20per%20the%20report%20 published,the%20consumer%20appetite%20for%20jewellery.>
- Kelli Monk. (2020). *Tiffany & Co*. Retrieved from <https://www.slideserve.com/benson/tiffany-co>
- London A. (2020). *2021 Men's Luxury Jewelry Trends to Make You a Style Maestro*. Retrieved from <https://atolyestone.com/blogs/trends/mens-jewelry-trends-2020>
- LVMH. (2020). *FINANCIAL INDICATORS*. Retrieved from <https://www.lvmh.com/investors/profile/financial-indicators/#groupe>
- Macroaxis. (2021). *Tiffany Filter Stocks by Fundamentals*. Retrieved from <https://www.macroaxis.com/invest/ratio/TIF--EBITDA>
- Macrotrends. (2010-2021). *Tiffany EPS - Earnings per Share 2006-2020 | TIF*. Retrieved from <https://www.macrotrends.net/stocks/charts/TIF/tiffany/eps-earnings-per-share-diluted>
- Marketscreener. (2021). *TIFFANY & CO. (TIF)*. Retrieved from <https://www.marketscreener.com/quote/stock/TIFFANY-CO-14597/financials/>
- Mordor Intelligence. (2020). *GEMS AND JEWELRY MARKET - MARKET, GROWTH, TRENDS, AND FORECASTS (2020-2025)*. Retrieved from <https://www.>

- mordorintelligence.com/industry-reports/gems-and-jewelry-market
- OECD (2016), *Society at a Glance 2016*, OECD Publishing, Paris; Philipov, D, and J. Dorbritz. (2003) *Demographic consequences of economic transition in countries of Central and Eastern Europe*. Strasbourg: Council of Europe Publishing
- Ospina, E. and Roser, M. (2018). *Marriages and Divorces*. Retrieved from <https://ourworldindata.org/marriages-and-divorces>
- Pandora (2019). *Pandora Annual Report 2019*. Retrieved from <http://pandoragroup.com/staticcontent?url=http://pandoragroup.gcs-web.com/static-files/84d758a8-9d17-4e4b-bfa6-59e4dd29ec51&format=pdf&title=Annual%20Report%202019>
- Resource World. (2016). *Why Mining Companies Delist*. Retrieved from <https://resourceworld.com/mining-companies-delist/>
- Statista Research Department. (2020). *Tiffany & Co. net sales worldwide by region from 2013 to 2019*. Retrieved from <https://www.statista.com/-statistics/314414/tiffany-andco-global-net-sales-by-region/>
- Signet. (2019). *Annual Report 2019*. Retrieved from https://s2.q4cdn.com/912924347/files/doc_financials/2019/SIG_2019_AR_10K.pdf
- SWOT Analysis of Tiffany & Co. (2019). *SWOT Analysis of Tiffany & Co*. Retrieved from <https://bradyorgtheory.home.blog/2019/02/11/swot-analysis-of-tiffany-co/>
- Sudjaiampun W. (2020). *White gold, platinum, 90% Gold, 18k Gold... what's the difference?* Retrieved from <https://abovediamond.com/learn-gold/>
- Tiffany & Co. (2020). *Company Profile*. Retrieved from <https://investor.tiffany.com/overview>
- Tiffany & Co. (2020). *Product*. Retrieved from <https://www.tiffany.com/sustainability/product/>
- Tiffany & Co. (2020). *The Tiffany & Co. Timeline*. Retrieved from <https://www.tiffany.com/world-of-tiffany/world-of-tiffany/the-world-of-tiffany-timeline/>
- Tiffany & Co. (2009). *Annual Report 2008*. Retrieved from <https://investor.tiffany.com/node/14336/html>

- Vaibhav Global Limited. (2020). *Annual report 2019-20*. Retrieved from <https://www.vaibhavglobal.com/sites/default/files/report-management/Annual%20Report%20-%202019-20%20%28VGL%29.pdf>
- Voice online. (2019). *Louis Vuitton* ปิคดีลซื้อ *Tiffany & Co.* มูลค่า 16,200 ล้านดอลลาร์.
Retrieved from <https://voicetv.co.th/read/u5qDXBAX2>
- Wattanapong Jaiwat. (2019). ลือ! *LVMH* สนใจซื้อกิจการ *Tiffany & Co* เสริมความแข็งแกร่งธุรกิจ.
Retrieved from <https://brandinside.asia/rumours-lvmh-explores-potential-merge-tiffany-and-co-to-expand-to-us-market/>



APPENDIX

Appendix A: Tiffany's consolidated financial statements for fiscal years 2015-2019, which ended on January 31 of the following calendar year.

<i>(in millions, except per share amounts, percentages, ratios, stores and employees)</i>	2019 ^{b, c}	2018 ^c	2017 ^d	2016 ^e	2015 ^f
EARNINGS DATA					
Net sales	\$ 4,424.0	\$ 4,442.1	\$ 4,169.8	\$ 4,001.8	\$ 4,104.9
Gross profit	2,761.9	2,811.0	2,610.7	2,499.0	2,505.2
Selling, general & administrative expenses	2,029.3	2,020.7	1,801.3	1,752.6	1,706.1
Earnings from operations	732.6	790.3	809.4	746.4	799.1
Net earnings	541.1	586.4	370.1	446.1	463.9
Net earnings per diluted share	4.45	4.75	2.96	3.55	3.59
Weighted-average number of diluted common shares	121.6	123.5	125.1	125.5	129.1
BALANCE SHEET AND CASH FLOW DATA					
Total assets ^a	\$ 6,660.1	\$ 5,333.0	\$ 5,468.1	\$ 5,097.6	\$ 5,121.6
Cash and cash equivalents	874.7	792.6	970.7	928.0	843.6
Inventories, net	2,463.9	2,428.0	2,253.5	2,157.6	2,225.0
Short-term borrowings and long-term debt (including current portion)	1,032.0	996.8	1,003.5	1,107.1	1,095.8
Stockholders' equity	3,335.4	3,130.9	3,248.2	3,028.4	2,929.5
Working capital ^a	2,905.1	3,041.4	3,258.5	2,940.8	2,778.5
Cash flows from operating activities	670.9	531.8	932.2	705.7	817.4
Capital expenditures	320.6	282.1	239.3	222.8	252.7
Stockholders' equity per share	27.53	25.77	26.10	24.33	23.10
Cash dividends paid per share	2.29	2.15	1.95	1.75	1.58

Source: Tiffany Annual Report 2019