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Tiffany Most Exposed to Luxury Slowdown Outside U.S.: Retail
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By Cotten Timberlake

Jan. 3 (Bloomberg) -- With Europeans and Asians buying fewer $65,000 diamond necklaces and $10,000 amethyst earrings, Tiffany & Co. may be in for a less-than-glittering 2012.

No U.S. luxury merchant is more exposed internationally.
The world's second largest jeweler generates almost half its sales outside of the Americas, up from 38 percent in 2006, according to data compiled by Bloomberg. Tiffany's foreign sales are concentrated in Europe, which is facing a sovereign debt crisis, and Asia, where China's growth is slowing.

"It's better to be a little more conservative for those other parts of the world," said David Schick, an analyst with Stifel Nicolaus & Co. in Baltimore who recommends holding the shares. "You are seeing more volatility in the financial markets. It's not confidence-inspiring for bigger-ticket spending. That tells you not to expect too much in the top line for Tiffany."

Tiffany's revenue was $3.09 billion in 2010 and is estimated at $3.68 billion in 2011, according to the average of
20 analysts surveyed by Bloomberg.

Analysts are scaling back their profit forecasts, and Tiffany shares have slid 21 percent since their 12-month high on July 19. Over the same period, Coach Inc. has fallen 9.4 percent, Ralph Lauren Corp. is little changed and the Standard & Poor's 500 Index is down 5.2 percent.

Bigger Impact

Slowing sales growth in Asia and Europe may have more of an effect on Tiffany's profits than revenue, Schick said. The jeweler's international stores are more profitable because they're smaller and located in densely populated areas and so have greater sales per square foot, he said.

Tiffany's operating margin in the Asia-Pacific region was
28 percent in the most recent quarter and 21 percent in Europe, compared with 17 percent in the Americas. That margin is its operating earnings as a percentage of revenue.

New York-based Tiffany pushed into Japan in 1972, selling primarily within department stores. The company opened stores in Hong Kong and London in the mid-1980s. In the past 15 years it has unveiled about 80 foreign locations, more than the 60 or so it has opened in the U.S.

With its signature six-pronged setting, Tiffany helped get Asians interested in diamond engagement rings, previously not a tradition in that part of the world. In Europe, the company positioned itself as a luxury brand with a wider range of prices than its rivals. Customers could find silver jewelry selling for the equivalent of hundreds of dollars alongside pieces in the millions.

International Stores

As of Oct. 31 Tiffany had 55 stores in Asia excluding Japan, with 32 of those in China, Hong Kong, Macau and Taiwan.
It also had 32 in Europe, out of a total 243. In the most recent quarter, sales in the Asia-Pacific region accounted for 22 percent of total revenue of $821.8 million, making it the jeweler's second largest area after the Americas. Europe accounted for 11 percent.

Ralph Lauren has little exposure in China; Europe counts for about one-fifth of its revenue. While Coach, the largest U.S. luxury leather goods maker, has been increasing its Chinese store count rapidly, most of its overseas sales come from Japan.
Both New York-based companies generate less than a third of revenue outside the U.S.

During the summer Europe's sovereign debt crisis began to spread around the globe. The euro region is already in a "mild recession," with gross domestic product rising just 0.2 percent in 2012, the Organization for Economic Cooperation and Development in Paris said Nov. 28. European luxury sales will grow 5 percent in 2012 after two years of growth over 10 percent, according to a December report from CA Chevreux in Paris.

Easing Growth

China will expand 8.5 percent this year, the lowest pace in 11 years, the OECD forecast. Luxury-sales growth will ease in 2012 from a forecast of at least 20 percent in 2011, according to the Royal Bank of Scotland.

On Nov. 29, during its most recent earnings conference call, Tiffany cited "recent weakness" in Europe. Mark Aaron, a Tiffany spokesman, declined to comment for this story.

Sales will be unchanged this year at European stores open at least 12 months, according to Dorothy Lakner, a New York- based analyst with Caris & Co. She forecast a 12 percent sales gain in 2011. Same-store sales probably grew 26 percent last year at Tiffany's Asia-Pacific stores, she said. Lakner is calling for less than half that growth in 2012.

Expectation Reset

"There has been a reset of expectations," said Lakner, who recommends buying the shares "given the strength of the brand."

Weakening sales in Europe prompted Schick to cut his estimate for 2012 per-share profit to $4.01 from $4.10.
Oppenheimer & Co.'s Brian Nagel reduced his estimate to $4.25 from $4.35. The average estimate of 22 analysts is $4.19.

Lakner dropped her Tiffany stock target price to $90 from $102 on Nov. 30. On the same day, Goldman Sachs Group Inc.'s Adrianne Shapira trimmed hers to $70 from $72. Tiffany closed on Dec. 30 at $66.26.

"For now, obviously the question is, 'Does the softness continue?'" Lakner said. "Does it continue for a quarter? For several quarters?"

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