

Tiffany Reports Third Quarter Results

NEW YORK, Nov 26, 2008 (BUSINESS WIRE) --

Tiffany & Co. (NYSE: TIF) today reported its results for the three-month period (third quarter) ended October 31, 2008. A one percent decline in worldwide sales reflected weakness in the U.S. offset by increased sales outside the U.S. Net earnings fell in comparison with the prior year, when a substantial gain was recorded on a sale and leaseback transaction.

Michael J. Kowalski, chairman and chief executive officer, said, "Customers have adjusted their spending in reaction to economic conditions and near-term uncertainties. Despite that, Tiffany maintained a high level of profitability in the third quarter and, in fact, net earnings per share rose 13% when excluding certain items from the prior year."

Net sales declined 1% to \$618.2 million in the third quarter. On a constant-exchange-rate basis which excludes the effect of translating foreign-currency-denominated sales into U.S. dollars (see attached "Non-GAAP Measures" schedule), worldwide net sales declined 2% and comparable store sales declined 7%.

In the nine-month period (year-to-date), net sales increased 7% to \$2.0 billion. On a constant-exchange-rate basis, worldwide net sales rose 4% and comparable store sales declined 2%.

Net earnings from continuing operations in the third quarter were \$43.8 million, or \$0.35 per diluted share. In the prior year, net earnings from continuing operations of \$103.1 million, or \$0.74 per diluted share, included: (i) a pre-tax gain of \$105.1 million, or \$0.48 per diluted share after tax, which resulted from the Company's sale-leaseback of the building housing its Tokyo flagship store; and (ii) a \$10 million contribution, or \$0.04 per diluted share after tax, to The Tiffany & Co. Foundation. Excluding those prior-year-items, net earnings per share increased 13% (see attached "Non-GAAP Measures" schedule).

In the year-to-date, net earnings from continuing operations were \$188.9 million, or \$1.49 per diluted share, compared with \$223.6 million, or \$1.60 per diluted share, in the prior year. Excluding the items mentioned above, net earnings from continuing operations increased 27% over the comparable period in 2007. In 2007, discontinued operations included an after-tax charge of \$22.6 million related to the sale of the Company's Little Switzerland business, as well as losses from those operations.

Net sales by geographical region were as follows:

- Sales in the Americas declined 7% to \$331.8 million in the third quarter and increased 1% to \$1.13 billion in the year-to-date. Incremental sales from new U.S. stores, as well as growth in both Canada and Latin America, were offset by declines in comparable U.S. store sales of 14% in the third quarter and 6% in the year-to-date. Comparable store sales declined 16% and 9% in branch stores, while sales in the New York flagship store declined 5% in the quarter and rose 5% in the year-to-date. Combined Internet and catalog sales in the U.S. declined 7% and 3% in the respective periods.
- Sales in Asia-Pacific increased 3% to \$206.0 million in the third quarter and 14% to \$642.3 million in the year-to-date. On a constant-exchange-rate basis, sales declined 1% in the quarter and increased 5% in the year-to-date, resulting from comparable store sales growth in most countries (other than Japan) and incremental sales from new stores.
- Sales in Europe rose 16% to \$58.2 million in the third quarter and 30% to \$189.3 million in the year-to-date. On a constant-exchange-rate basis, sales increased 24% and 28% due to comparable store sales growth and results from new stores.
- The Company operated 204 TIFFANY & CO. stores and boutiques at October 31, 2008 (85 in the Americas, 96 in Asia-Pacific and 23 in Europe), versus 181 locations a year ago (78 in the Americas, 87 in Asia-Pacific and 16 in Europe).
- Other sales declined 1% to \$22.3 million in the third quarter and increased 6% to \$59.5 million in the year-to-date.

Other financial highlights were:

- Gross margin (gross profit as a percentage of net sales) was 56.3% in the third quarter and 57.1% in the year-to-date, versus 54.4% and 55.5% in the prior year. The increases were due to favorable changes in product sales mix, the benefit of the Company's precious metal hedging program, and a reduction in anticipated management incentive compensation.
- Selling, general and administrative (SG&A) expenses declined 7% in the third quarter, primarily reflecting a reduction in anticipated management incentive compensation which more than offset costs related to new stores. In the year-to-date, SG&A expenses increased 6%. Excluding the \$10 million contribution to The Tiffany & Co. Foundation in 2007, SG&A expenses declined 3% in the quarter and rose 7% in the year-to-date.
- Other expenses, net of \$14.5 million in the third quarter and \$19.3 million in the year-to-date were higher than the prior

year, largely due to a \$4.3 million write-off of an interest-rate swap that the Company had entered into with Lehman Brothers Special Financing Inc., as well as foreign currency transaction losses.

- The effective tax rate in the third quarter was 31.7% (versus 33.9% a year ago) and 35.7% in the year-to-date (versus 36.2% a year ago).
- Net inventories of \$1.64 billion at October 31, 2008 were 12% higher than a year ago due to increased raw material and work-in-process inventories related to diamond sourcing and manufacturing operations, inventories for new stores and the sales shortfall in the latter part of the quarter.
- The Company repurchased and retired 2,269,225 shares of its Common Stock in the third quarter at a total cost of \$89.9 million, or \$39.61 per share. Purchases were temporarily suspended in the latter part of the quarter to conserve cash. In the year-to-date, the Company spent \$218.4 million to repurchase 5,375,026 shares at an average cost of \$40.63 per share. At October 31, 2008, the Company had \$402 million in authority available for future repurchases under its current program through January 2011.
- Total debt as a percentage of stockholders' equity was at a seasonal high point of 50% at October 31, 2008, versus 23% in the prior year, largely reflecting substantial share repurchase activity over the past 12 months and increased short-term borrowings. The Company has secured several short-term lending commitments, and a portion will be used to retire certain existing long-term debt that matures later in 2008.

2008/2009 Outlook:

Mr. Kowalski continued, "It is impossible to know when consumer confidence will be restored. However, even in trying times like these, we believe customers will continue to seek classic, timeless designs that do not go out of style and can be worn and enjoyed for years to come."

In November-to-date, U.S. sales have softened from levels at the end of the third quarter and the Company is forecasting a continuation of those weak trends through the fourth quarter, as well as challenging conditions, to a lesser extent, in Asia-Pacific and Europe.

Management now expects full year 2008 net earnings in a range of \$2.30 - \$2.50 per diluted share. The full-year earnings expectation is based on worldwide net sales ranging from a 2% decline to unchanged from 2007. Management is planning to reduce staffing in light of reduced consumer demand and to trim capital expenditures in order to achieve the most effective and prudent use of resources. Management's current 2008 earnings expectation does not include any fourth quarter, one-time charges resulting from such staff reductions.

Mr. Kowalski added, "We are still in the early stages of formulating our financial plans for 2009 but I can say that we will look for opportunities to increase market share, while simultaneously pursuing various cost reduction avenues appropriate for this environment, including a moderation in the rate of new store openings in 2009."

Today's Conference Call

The Company will host a conference call today at 8:30 a.m. (Eastern Time) to review these results and its outlook. Investors may listen at <http://investor.tiffany.com> ("Events and Presentations").

Next Scheduled Announcement

The Company expects to report its results for the November-December holiday period on Wednesday, January 14, 2009 with a conference call at 8:30 a.m. (Eastern Time) that day. To receive notifications of conference calls and news release alerts, please register at <http://investor.tiffany.com> ("E-Mail Alerts").

Tiffany & Co. operates jewelry and specialty retail stores and manufactures products through its subsidiary corporations. Its principal subsidiary is Tiffany and Company. The Company operates TIFFANY & CO. retail stores and boutiques in the Americas, Asia-Pacific and Europe and engages in direct selling through Internet, catalog and business gift operations. Other operations include consolidated results from ventures operated under trademarks or tradenames other than TIFFANY & CO. For additional information, please visit www.tiffany.com or call our shareholder information line at 800-TIF-0110.

This document contains certain "forward-looking" statements concerning the Company's objectives and expectations with respect to sales, operating margin and earnings per share. Actual results might differ materially from those projected in the forward-looking statements. Information concerning risk factors that could cause actual results to differ materially is set forth in the Company's 2007 Annual Report on Form 10-K and in other reports filed with the Securities and Exchange Commission. The Company undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances.

NON-GAAP MEASURES

The Company's management does not, nor does it suggest that investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. The Company presents such non-GAAP financial measures in reporting its financial results to provide investors with an additional tool to evaluate the Company's operating results.

Net Sales

The Company's reported sales reflect either a translation-related benefit from strengthening foreign currencies or a detriment from a strengthening U.S. dollar.

The Company reports information in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). Internally, management monitors its international sales performance on a non-GAAP basis that eliminates the positive or negative effects that result from translating international sales into U.S. dollars ("constant-exchange-rate basis"). Management believes this constant-exchange-rate measure provides a more representative assessment of the sales performance and provides better comparability between reporting periods.

The following table reconciles sales percentage increases (decreases) from the GAAP to the non-GAAP basis versus the previous year:

	Third Quarter 2008 vs. 2007				Year-to-Date 2008 vs. 2007			
	GAAP	Translation	Constant-Exchange-	Rate Basis	GAAP	Translation	Constant-Exchange-	Rate Basis
	Reported	Effect			Reported	Effect		
Net Sales:								
Worldwide	(1)%	1 %	(2)%		7 %	3 %	4 %	
Americas	(7)%	(1)%	(6)%		1 %	-	1 %	
U.S.	(9)%	-	(9)%		(1)%	-	(1)%	
Asia-Pacific	3 %	4 %	(1)%		14 %	9 %	5 %	
Japan	1 %	9 %	(8)%		8 %	12 %	(4)%	
Other Asia-Pacific	9 %	(3)%	12 %		23 %	3 %	20 %	
Europe	16 %	(8)%	24 %		30 %	2 %	28 %	

Comparable Store Sales:

Worldwide	(6)%	1 %	(7)%		1 %	3 %	(2)%	
Americas	(12)%	-	(12)%		(4)%	1 %	(5)%	
U.S.	(14)%	-	(14)%		(6)%	-	(6)%	
Asia-Pacific	2 %	5 %	(3)%		9 %	8 %	1 %	
Japan	2 %	9 %	(7)%		5 %	12 %	(7)%	
Other Asia-Pacific	2 %	(2)%	4 %		15 %	3 %	12 %	
Europe	3 %	(5)%	8 %		14 %	4 %	10 %	

Net Earnings

The accompanying press release presents net earnings excluding the prior-year items as discussed in items (i) -- (ii). Management believes excluding such items presents the Company's third quarter and full year results on a more comparable basis to the corresponding periods in the prior year, thereby providing investors with an additional perspective to analyze the results of operations of the Company at October 31, 2008.

The following table reconciles GAAP net earnings from continuing operations and net earnings from continuing operations per diluted share ("EPS") to the non-GAAP net earnings from continuing operations and net earnings from continuing operations per diluted share, as adjusted:

	Three Months Ended		Three Months Ended	
	October 31, 2008	October 31, 2007	October 31, 2008	October 31, 2007
(in thousands, except per share amounts)	\$	EPS	\$	EPS
Net earnings from continuing operations, as reported	\$ 43,777	\$ 0.35	\$ 103,102	\$ 0.74
Gain on Tokyo sale-leaseback	-	-	(66,497)	(0.48)

Contribution to The Tiffany & Co. Foundation	-	-	6,025	0.04
Net earnings from continuing operations, as adjusted	\$ 43,777	\$ 0.35	\$ 42,630	\$ 0.31

Nine Months Ended Nine Months Ended

(in thousands, except per share amounts)	October 31, 2008		October 31, 2007	
	\$	EPS	\$	EPS
Net earnings from continuing operations, as reported	\$ 188,937	\$ 1.49	\$ 223,638	\$ 1.60
Gain on Tokyo sale-leaseback	-	-	(66,497)	(0.48)
Contribution to The Tiffany & Co. Foundation	-	-	6,025	0.04
Net earnings from continuing operations, as adjusted	\$ 188,937	\$ 1.49	\$ 163,166	\$ 1.17

TIFFANY & CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited, in thousands, except per share amounts)

	Three Months		Nine Months	
	Ended October 31,		Ended October 31,	
	2008	2007	2008	2007
Net sales	\$ 618,230	\$ 627,323	\$ 2,018,782	\$ 1,885,614
Cost of sales	270,210	285,776	866,306	838,203
Gross profit	348,020	341,547	1,152,476	1,047,411
Other operating income	-	105,051	-	105,051
Selling, general and administrative expenses	269,499	288,403	839,151	793,563
Earnings from continuing operations	78,521	158,195	313,325	358,899
Other expenses, net	14,453	2,306	19,305	8,139
Earnings from continuing operations before income taxes	64,068	155,889	294,020	350,760
Provision for income taxes	20,291	52,787	105,083	127,122
Net earnings from continuing operations	43,777	103,102	188,937	223,638
Loss from discontinued operations, net of tax	-	(1,555)	-	(27,547)
Net earnings	\$ 43,777	\$ 101,547	\$ 188,937	\$ 196,091

Net earnings from continuing operations per share:

Basic	\$ 0.35	\$ 0.76	\$ 1.51	\$ 1.64
Diluted	\$ 0.35	\$ 0.74	\$ 1.49	\$ 1.60

Net earnings per share:

Basic	\$ 0.35	\$ 0.75	\$ 1.51	\$ 1.44
Diluted	\$ 0.35	\$ 0.73	\$ 1.49	\$ 1.40

Weighted-average number of common shares:

Basic	123,399	136,124	125,190	136,452
Diluted	124,899	139,487	127,053	139,943

TIFFANY & CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands)

	October 31, 2008	January 31, 2008	October 31, 2007
ASSETS			
Current assets:			
Cash and cash equivalents and short-term investments	\$ 160,376	\$ 246,654	\$ 391,120
Accounts receivable, net	164,269	193,974	168,678
Inventories, net	1,638,479	1,372,397	1,465,502
Deferred income taxes	33,069	20,218	15,216
Prepaid expenses and other current assets	70,375	89,072	91,682
Total current assets	2,066,568	1,922,315	2,132,198
Property, plant and equipment, net	738,287	748,210	757,542
Other assets, net	334,720	330,379	312,969
	\$ 3,139,575	\$ 3,000,904	\$ 3,202,709
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	\$ 414,364	\$ 44,032	\$ 59,843
Current portion of long-term debt	100,682	65,640	5,552
Accounts payable and accrued liabilities	236,191	203,622	204,579
Income taxes payable	6,930	203,611	95,816
Merchandise and other customer credits	67,924	67,956	67,092
Total current liabilities	826,091	584,861	432,882
Long-term debt	306,226	343,465	397,795
Pension/postretirement benefit obligations	86,355	79,254	100,712
Other long-term liabilities	140,704	131,610	130,463
Deferred gains on sale-leasebacks	134,444	145,599	144,973
Stockholders' equity	1,645,755	1,716,115	1,995,884
	\$ 3,139,575	\$ 3,000,904	\$ 3,202,709

SOURCE: Tiffany & Co.

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