TIFFANY & CO.

ONE THE OLDEST POSITIONS IN THE ELEVATION CAPITAL VALUE FUND

Tiffany is one the oldest positions in the Elevation Capital Value Fund, as we have viewed the brand/company as underappreciated and undervalued. We first established a position in Tiffany in April 2012, and currently have an average cost of US$61.74[1] (vs a current price of US$95.52[1]) since this position was initiated.

TIFFANY & CO. – A STORIED AMERICAN LUXURY HOUSE WITH BRAND MOAT

Tiffany & Co. (TIF:US, Market Capitalisation US$11.9B) is one of America's few heritage luxury houses. It currently operates 315 stores in 30 countries. The Tiffany brand is one of the most iconic global luxury brands, with a storied history that started in New York City 180 years ago when Charles Tiffany founded it in 1837.

TIFFANY - THE NUMBER ONE AMERICAN LUXURY BRAND

Based on Interbrand's Best Global Brands 2017 Rankings, Tiffany is one of the most valuable global luxury brands, ranked #5 amongst the top global luxury players in the top 100 global brands. If we only consider American luxury brands, Tiffany is the #1 American luxury brand.

TIFFANY'S EMOTIONAL CONNECTION TO THE AMERICAN PUBLIC

Marilyn Monroe's famous 1953 hit "Diamond's are a Girl's Best Friend" helped to place Tiffany into the American public consciousness. Tiffany was then immortalised by the 1961 movie "Breakfast at Tiffany's", starring film and fashion icon Audrey Hepburn, where the movie portrays the story of a young girl who transforms herself through aspiration.

VERTICALLY INTEGRATED BUSINESS MODEL

Tiffany is one of the few jewellers that has established a vertically integrated business model that provides a perception of quality and luxury to its products and services. Also, it allows Tiffany to lead the industry in ethically produced jewellery, as it believes traceability is the best means of ensuring social and environmental responsibility. However, it does increase the cost of operations, and lead to lower returns and margins.

STRONG BALANCE SHEET AND GROWING DIVIDENDS, BUT PRESSURE HAS BEEN BUILDING TO IMPROVE FINANCIAL PERFORMANCE

Tiffany has net debt totalling US$78.2M vs a market capitalisation of US$ 11.9B, has grown its dividend 16 times in the past 15 years and is currently yielding 2.09%. Despite these clear merits, Management & the Board have been under significant pressure to find growth when Tiffany's traditional core product category (jewellery with diamonds/gemstones) has been suffering from weak demand in recent years. Potentially worse, some investors believe that the Tiffany brand has lost touch with the next generation consumers, and they regard the brand as tired and old world.

AS A RESULT ACTIVIST INVESTORS ARRIVED IN THE FORM OF JANA PARTNERS & FRANCESCO TRAPANI

On 21 February 2017, Tiffany announced that JANA Partners with Mr. Francesco Trapani own ~5.1% of Tiffany's outstanding shares. Tiffany agrees to appoint three new independent directors to its Board of Directors:

1. Francesco Trapani: Former CEO of Bulgari, and former Head of Watches and Jewellery at LVMH;
2. Roger Farah: Co-CEO of the fashion brand Tory Burch (and former president of Ralph Lauren);
3. James Lillie: Former CEO of the consumer products conglomerate Jarden Corp which is now part of Newell Rubbermaid.

To date, we have observed the Board has taken a positive and co-operative step towards working with JANA/Trapani instead of trying to fight off a potential activist campaign. We suggest this is highly beneficial to the Company and all shareholders, as observed from the successful recruitment of Alessandro Bogliolo, the former COO of Bulgari (and more recently former CEO of Diesel) as Tiffany's new CEO, and the naming of Roger Farah, one of the three new directors as Chairman.

NEW CEO – ALESSANDRO BOGLIOLO

On 13 July 2017, Tiffany named Alessandro Bogliolo as its new CEO, effective 2 October 2017. Alessandro Bogliolo was the CEO of the Italian fashion brand Diesel since 2013. He was previously the COO of the Italian jewellery and luxury goods brand Bulgari for many years until it was acquired by LVMH in 2011 (at 21x EV/EBITDA). We note that Mr. Bogliolo had worked with Mr. Francesco Trapani for many years when Mr. Trapani was the CEO of Bulgari. We believe the key reasons to Mr. Bogliolo's appointment as Tiffany's new CEO are:

1. Mr. Bogliolo's long history working at the prestigious luxury house of Bulgari in a senior leadership position;
2. Mr. Bogliolo's efforts and positive results in revitalising the Diesel brand in a relatively short period of time since his hiring in 2013;
3. Mr. Trapani's personal endorsement as Bogliolo's former boss, and the support of the JANA/Trapani alliance.

[1] As at 7 December 2017

2017 WILL BE VIEWED AS A TRANSFORMATIVE YEAR

2017 is an important year for Tiffany. Significant senior management/board changes happened during the year, mainly due to activist investor JANA Partners' involvement.

We believe that Tiffany, now led by new Chairman Roger Farah and new CEO Alessandro Bogliolo, with support from an expanded board and Chief Artistic Officer Reed Krakoff is beginning to move in the right direction.

We acknowledge that the new direction taken by the Management is not without risks. However, the status quo was not an option. With its strong brand image and an improving execution, the Company is in a sound position to grow in the years ahead by expanding its "inclusive luxury" offerings to include new/additional categories/products (e.g., home & accessories collection) outside its traditional core product category (jewellery with diamonds/gemstones), and into underserved markets such as Asia (Greater China), Europe and Latin America.

More importantly, we believe there is an elevated energy around the Tiffany brand in 2017. People are talking about Tiffany's, whether it is Tiffany's open letter to President Trump on climate change, Tiffany's "save the wild elephants" collection/campaign, Tiffany's first perfume in 15 years, the opening of The Blue Box Café (Breakfast at Tiffany's), or Reed Krakoff's new Home & Accessories Collection.

CHALLENGES AND OPPORTUNITIES ABOUND

We recognise that the Company is facing some macro/microeconomic challenges. However, we also believe that there are numerous potential opportunities for the Management to create significant value for long-term minded shareholders[2].

The test for the now reinvigorated board and management in the next 24 months is whether the Company can maintain the currently elevated energy and high engagement with the public and its customers/potential customers with new collections and marketing campaigns that capture the public's imagination, and then convert this high engagement into actual growth in comparable store sales by the end of FY2019 (31/1/2020).

UNDERVALUED BASED ON OUR ESTIMATES OF PRIVATE MARKET VALUE

Based on FY2017E EBITDA of US$1,000M (Forecast EBITDA Margin of 24.4%), and 17.0x EV/EBITDA multiple, we estimate the current "Private Market Value" or Intrinsic Value to be US$135.83 per share, with upside potential of +42%, from the current market price of US$95.52[3].

GROWTH, STOCK RE-RATING AND ACQUISITION TARGET OPPORTUNITY

We believe as the Company starts to deliver results consistent with a company offering a growth profile, not only will the stock re-rate to levels above peer group averages, it will also make the Company a more attractive acquisition target for the big multibrand luxury players in the market (e.g., LVMH, Richemont, Kering and/or Swatch) who could pay up for quality, growth and reduced company-specific risks. We believe at that stage the stock is worth in the range of US$135.83[4] to US$175.98[5] per share, compared to the current share price of US$95.52[3].

"A DIAMOND EMERGING FROM THE ROUGH"

For patient value-minded investors, we conclude that Tiffany is indeed "a diamond emerging from the rough". Even though the stock has recovered from its recent lows of $57.48 (27/6/2016) to US$95.52[3], it is still trading at a discount to its global listed peers, and is trading at a significant discount to our current "Private Market Value" estimates.

For an in-depth appraisal of our investment in Tiffany, please refer to our full presentation which can be viewed at:
http://www.elevationcapital.co.nz/tiffany/

This summary report was written in December 2017.

[2] A detailed section on Tiffany's potential risks and opportunities is included in our full presentation at http://www.elevationcapital.co.nz/tiffany/
[3] As at 7 December 2017
[4] 17x EV/FY2017E EBITDA, FY2017E EBITDA = 1,000M
[5] 20x EV/(110% FY2017E EBITDA), FY2017E EBITDA = 1,000M