



Harvard Business School

9-295-047

Rev. June 9, 1995

Tiffany & Co.—1993

In July 1993, Tiffany & Company concluded an agreement with its Japanese distributor, Mitsukoshi Limited, that would fundamentally change its business in Japan. Under the new agreement, Tiffany's wholly owned subsidiary, Tiffany & Co. Japan Inc. ("Tiffany-Japan"), assumed management responsibilities in the operation of 29 Tiffany & Co. boutiques previously operated by Mitsukoshi in its stores and other locations in Japan. Tiffany looked forward to the new arrangement, as it was now responsible for millions of dollars in inventory that it previously sold wholesale to Mitsukoshi, resulting in enhanced revenues in Japan derived from higher retail prices. It was also apparent, however, that yen/dollar exchange rate fluctuations would now affect the dollar value of its Japanese sales, which would be realized in yen. Since Japanese sales were large and still growing, it seemed evident such fluctuations could have a substantial impact on Tiffany's future financial performance.

Company Background

Founded in New York in 1837, Tiffany & Co. was an internationally renowned retailer, designer, manufacturer, and distributor of luxury goods. The famous blue-box company found its initial success in fine jewelry, most notably diamonds, but had since expanded its product line to include timepieces, china, crystal, silverware, and other luxury accessories. In the fiscal year ending January 31, 1993 (FY 1992), Tiffany earned \$15.7 million on revenues of \$486.4 million, and had total assets of \$419.4 million. Recent financial statements are provided in **Exhibits 1 and 2**. An historical summary of operations is provided in **Exhibit 3**.

After more than a century of independence, Tiffany was acquired by Avon Products, Inc. in 1979. For the next several years Avon, a nationwide door-to-door cosmetics marketer, worked to expand Tiffany's product line to reach beyond its traditional affluent customer base to the larger middle market. While this diversification strategy resulted in enhanced sales for Tiffany from \$84 million in 1979 to \$124 million in 1983, operating expenses as a percentage of sales grew inordinately from 34% to 43% in 1978 and 1983, respectively. Avon soon realized that Tiffany's traditional market niche was substantially different than its own, and in 1984 decided to put the company up for sale. The most attractive offer came from Tiffany's own management, who agreed to buy back Tiffany's equity and the Fifth Avenue store building for a total of \$135.5 million. In what ultimately took the form of a leveraged buyout (LBO), the terms of the deal distributed virtually all of the equity shares to three key investor groups. Management ended up with 20% of total equity shares. Investcorp, the

Research Associate Kendall Backstrand wrote this case under the supervision of Professor W. Carl Kester as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Copyright © 1994 by the President and Fellows of Harvard College. To order copies or request permission to reproduce materials, call 1-800-545-7685, write Harvard Business School Publishing, Boston, MA 02163, or go to <http://www.hbsp.harvard.edu>. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Harvard Business School.

295-047

Tiffany & Co.—1993

Bahrain and London-based merchant bank that backed management in the deal, received 49.8% of total equity shares. The third player, General Electric Credit Corporation (GECC), ended up with 25.7% of total equity shares. It was through an \$85 million credit arrangement with GECC that management was able to refinance a substantial portion of the purchase price.¹

The aftermath of the leveraged buyout was marked by very tight free cash flow coupled with significant growth potential on the horizon. After the company had once again become profitable and realizing that the company's growth prospects demanded more cash than could be generated internally, in 1987 management offered Tiffany stock to the public at approximately \$15 a share (adjusted for a subsequent stock split). In 1989, Mitsukoshi purchased 1.5 million shares of Tiffany's common stock from GECC.² As of January 31, 1993, Mitsukoshi owned approximately 14% of Tiffany stock, the largest percentage of any single institutional investor. Three other institutional investors collectively owned approximately 26% of the stock, followed by all Tiffany executive officers and directors as a group at 4.9%.

In 1993, Tiffany was organized into three distribution channels: U.S. Retail, Direct Marketing, and International Retail. U.S. Retail included retail sales in Tiffany-operated stores in the United States and wholesale sales to independent retailers in North America. The 16 stores in this channel accounted for 50% of total sales in FY 1992. Direct Marketing, representing the smallest channel of distribution, consisted of corporate and catalog sales. In FY 1992, its sales represented 18% of Tiffany's total sales. International Retail accounted for 32% of total sales in FY 1992, including retail sales through Tiffany-operated stores and boutiques, corporate sales, and wholesale sales to independent retailers and distributors, primarily in the Far East and Europe. Jewelry sales from all three channels accounted for 65% of 1993 sales, making jewelry the most significant product line. Exhibit 4 provides financial results of Tiffany's domestic and foreign operations.

The past several years for Tiffany were marked by a trend of international expansion, beginning in 1986 when it opened a flagship retail store in London. Additional flagship stores were then opened in Munich and Zurich in 1987 and 1988, respectively. In 1990, the Zurich store was expanded. Stores in Hong Kong at the Peninsula Hotel and at the Landmark Center were opened in August 1988 and March 1989, respectively. Taipei saw the opening of a store in 1990, as did Singapore (at the Raffles Hotel), Frankfurt, and Toronto in 1991. Also in 1991, the London store was expanded. In 1992, Tiffany opened five new boutiques in Japan, and two new boutiques were opened by an independent retailer in Korea. Early 1993 saw continued international growth, with the opening of two more boutiques in Japan, a second store in Singapore's Ngee Ann City, two boutiques by independent retailers in Saipan and the Philippines, and the expansion of the Peninsula hotel store in Hong Kong.

Exhibit 5 shows the growth in the number of Tiffany stores and boutiques around the world from 31 to 79, implying a 250% increase from 1987 to 1993. These 79 retail locations included 16 stores in the United States, 56 stores in the Far East, six stores in Europe and one store in Canada, all of which ranged in size from 700 to 13,000 gross square feet, with a total of approximately 127,000 gross square feet devoted to retail purposes.

Tiffany's worldwide capital expenditures were \$22.8 million in FY 1992, compared with \$41.4 million in FY 1991. These expenditures were primarily for the opening of new stores and boutiques, and the expansion of existing stores. Management anticipated capital expenditures to drop further to \$18.0 million in FY 1993 before rebounding to approximately \$25.0 million in FY 1994. Management

¹ This included a \$75 million secured revolving credit facility, a \$10 million, 16% subordinated note due in 1992, and common stock warrants to purchase approximately 25% of the company's equity on a fully diluted basis.

² Prior to Mitsukoshi's purchase of Tiffany's common stock from GECC, Tiffany and Mitsukoshi entered into an agreement by which Mitsukoshi agreed not to purchase in excess of 19.99% of Tiffany's issued and outstanding common shares. This agreement would expire on September 21, 1994.

Tiffany & Co.—1993

295-047

also expected to open 4 or 5 new stores per year in the foreseeable future.³ To support future expansion plans, as well as fluctuations in seasonal working capital needs, management planned to rely upon internally generated funds and a \$100 million non-collateralized revolving credit facility available at interest rates based upon Eurodollar rates, a prime rate, certificate of deposit rates, or money market rates.⁴ As in the past, cash dividends were expected to be maintained at a relatively moderate level that would permit the company to retain a majority of its earnings.

Impetus for Change in the Japanese Operations

While Tiffany found new market potential across the globe, nowhere was it as promising as in Japan where Tiffany's sales accounted for only 1% of the \$20 billion Japanese jewelry market. The thriving Japanese economy of the late 1980s and very early 1990s stimulated a booming demand for certain types of expensive and glamorous western goods. Among these were Tiffany products, principally those of the fine jewelry line marketed toward older women. However, as the Japanese economy finally slowed and Japanese consumers became more cautious in their spending, the demand for Tiffany's luxury items also slumped. In response to soft consumer demand in Japan, Mitsukoshi cut back on Tiffany inventory levels. Mitsukoshi's wholesale purchases from Tiffany-Japan declined from 23% of Tiffany's total sales in FY 1991 to 15% in FY 1992. Declining wholesale shipments were also accompanied by a small decline in gross margin from 49.4% in FY 1991 to 48.7% in FY 1992. Despite lackluster consumer demand in the first half of FY 1993, however, Tiffany continued to believe that Japanese sales had attractive long-run growth potential. It was for this reason that Tiffany sought greater control over its future in Japan and ultimately decided to restructure its Japanese operations.

From 1972 through July 1993, Mitsukoshi acted as the principal retailer of Tiffany products in Japan, purchasing selected goods from Tiffany-Japan on a wholesale basis. Mitsukoshi sold the products on a retail basis to the Japanese consumer, realizing profits in the form of relatively higher retail prices. Since the wholesale transactions were denominated entirely in dollars, yen/dollar exchange rate fluctuations did not represent a source of volatility for Tiffany's expected cash flows. Instead, Mitsukoshi bore the risk of any exchange-rate fluctuations that took place between the time it purchased the inventory from Tiffany and when it finally made cash settlement. Typically, Tiffany merchandise sold by Mitsukoshi was priced at a substantial premium (100% in some case) over the domestic U.S. retail price for such merchandise.⁵

The new agreement between the two companies, however, fundamentally changed both companies' financial situations. In repurchasing the merchandise previously sold by Tiffany to Mitsukoshi, Tiffany-Japan assumed new responsibility for establishing yen retail prices, holding inventory in Japan for sale, managing and funding local advertising and publicity programs, and controlling local Japanese management.⁶ Mitsukoshi, on the other hand, would no longer be an

³ Due to the significant number of Tiffany boutiques already operating in Japan, future openings there were expected to occur only at a very modest rate in the near-term future.

⁴ Tiffany's business was seasonal in nature with the fourth quarter typically representing a proportionally greater percentage of annual sales, income from operations and net income. In FY 1992, net sales totaled \$107,238,000, \$120,830,000, \$105,897,000, and \$152,431,000 for the first, second, third and fourth quarters, respectively. Management expected this pattern to continue in the future.

⁵ Tiffany management believed that a retail price reduction in Japan of 20% to 25% would likely result in a substantial increase in unit volume of jewelry sales.

⁶ The repurchase of inventory by Tiffany necessitated the reversal of \$115 million in sales and related gross profit previously recognized on merchandise sold to Mitsukoshi. Accordingly, Tiffany recorded a \$57.5 million reserve to provide for product returns, which reduced the second fiscal quarter's (ended July 31, 1993) net income by approximately \$32.7 million, or \$2.07 per share. Of the \$115 million of sales being reversed, only

295-047

Tiffany & Co.—1993

independent retailer of Tiffany products, but would still receive fees equaling 27% of net retail sales in compensation for providing boutique facilities, sales staff, collection of receivables, and security for store inventory.⁷

With greater control over retail sales in its Japanese operations, Tiffany looked forward to long-run improvement in its performance in Japan despite continuing weak local economic conditions. However, increased sales and profits were not the only changes that Tiffany could anticipate as a result of the new agreement. Tiffany now faced the risk of foreign currency fluctuations previously borne by Mitsukoshi. Past history warned Tiffany that the yen/dollar exchange rate could be quite volatile on a year-to-year, and even month-to-month, basis. **Exhibit 6** illustrates the significant strengthening of the yen against the dollar during the ten years ending in 1993. While a continuation of this strengthening would enhance the dollar value of Tiffany's yen-denominated cash inflows, there was the distinct possibility that the yen might eventually become overvalued and crash suddenly, just as the U.S. dollar did in 1985. Indeed, there was some evidence that the yen was overvalued against the dollar in 1993 (see **Exhibit 7**).

Hedging to Manage Foreign Exchange Risk

The possibility of sharp, unexpected movements in the yen/dollar exchange rate had prompted Tiffany's management to study the desirability of engaging in a program to manage exchange-rate risk. To reduce exchange-rate risk on its yen cash flows, Tiffany had two basic alternatives available to it. One was to enter into forward agreements to sell yen for dollars at a predetermined price in the future. The other was to purchase a yen put option. The terms at which Tiffany could purchase forward contracts and put options, along with other financial market data, are shown in **Exhibit 8**.

Before committing Tiffany to a hedging program, management wanted to be sure it understood what the potential risks and rewards were for each of these so-called "derivative" instruments. Perhaps more importantly, it was essential to determine whether or not a risk management program was appropriate for Tiffany, what its objectives should be, and how much, if any, exposure should be covered.

\$52.5 million of inventory held in Mitsukoshi boutiques was actually repurchased during the month of July 1993 (Mitsukoshi agreed to accept a deferred payment on \$25 million of this repurchased boutique inventory, which was to be repaid in yen on a quarterly basis with interest of 6% per annum over the next 4 1/2 years). Approximately \$62.5 million of Tiffany & Co. inventory maintained in Mitsukoshi warehouses will be repurchased throughout the period ending February 28, 1998. Payment for this warehouse inventory was to be made in yen forty days following actual receipt of the inventory.

⁷ Fees were reduced to 5% on certain high-value jewelry items repurchased from Mitsukoshi. Tiffany-Japan would also pay Mitsukoshi incentive fees equal to 5% of the amount by which boutique sales increase year-to-year, calculated on a per-boutique basis. In Tokyo, Tiffany boutiques could be established only in Mitsukoshi's stores and Tiffany-brand jewelry could be sold only in such boutiques (though Tiffany-Japan reserved the right to open a single flagship store in Tokyo).

Tiffany & Co.—1993

295-047

Exhibit 1 Consolidated Income Statements (\$000 except per share amounts)

a. Annual Income Statements

| | Years ended January 31, | |
|--|--------------------------------|----------------|
| | 1993 | 1992 |
| Net sales | \$486,396 | \$491,906 |
| Cost of goods sold | <u>249,363</u> | <u>248,897</u> |
| Gross profit | 237,033 | 243,009 |
| Selling, general and administrative expenses | 209,140 | 180,939 |
| Provision for uncollectible accounts | <u>1,152</u> | <u>1,042</u> |
| Income/(loss) from operations | 26,741 | 61,028 |
| Interest expense and financing costs | 7,231 | 6,337 |
| Other income | <u>415</u> | <u>375</u> |
| Income/(loss) before income taxes | 19,925 | 55,066 |
| (Benefit)/provision for income taxes | <u>4,213</u> | <u>23,261</u> |
| Net income/(loss) | \$15,712 | \$25,470 |

b. Second Quarter Income Statements (\$000 except per share amounts)

| | Six months ended July 31, | |
|--|----------------------------------|--------------|
| | 1993* | 1992 |
| Net sales | \$223,714 | \$228,068 |
| Product return for Japan realignment | <u>(115,000)</u> | <u>0</u> |
| | 108,714 | 228,068 |
| Cost of goods sold | 117,486 | 119,481 |
| Cost related to product return for Japan realignment | <u>(57,500)</u> | <u>0</u> |
| Gross profit | 48,728 | 108,587 |
| Selling, general and administrative expenses | 99,792 | 92,578 |
| Provision for uncollectible accounts | <u>906</u> | <u>458</u> |
| Income/(loss) from operations | (51,970) | 15,551 |
| Other expenses, net | <u>3,410</u> | <u>3,453</u> |
| Income/(loss) before income taxes | (55,380) | 12,098 |
| (Benefit)/provision for income taxes | <u>(23,867)</u> | <u>5,106</u> |
| Net income/(loss) | \$(31,513) | \$6,992 |

*Exhibit 1b recognizes the loss in net income for the second fiscal quarter ending July 31, 1993 due to the repurchase.

Goal: To examine the role of risk management in foreign exchange rate exposure.

Thought questions:

1. In what way(s) is Tiffany exposed to exchange-rate risk subsequent to its new distribution agreement with Mitsukoshi? How serious are these risks?
2. Should Tiffany actively management its yen-dollar exchange-rate risk? Why or why not?
3. If Tiffany were to manage exchange-rate risk activity, what should be the objectives of such a program? Specifically, what exposures should be actively managed? How much of these exposures should be covered, and for how long?
4. As instruments for risk management, what are the chief differences of foreign-exchange options and forward or futures contracts? What are the advantages and disadvantages of each? Which, if either, of these types of instruments would be most appropriate for Tiffany to use if it chose to manage exchange-rate risk?

295-047

Tiffany & Co.—1993

Exhibit 2 Consolidated Balance Sheets (\$000)

| | July 31, 1993 | Years ended January 31, | |
|--|----------------|-------------------------|---------------|
| | | 1993 | 1992 |
| Assets | | | |
| Current Assets | | | |
| Cash and short-term investments | \$ 6,665 | \$ 6,672 | \$ 3,972 |
| Accounts receivable, less allowances of \$4,170 and \$7,293 | 51,432 | 51,378 | 51,687 |
| Income tax receivable | 10,630 | - | - |
| Inventories | 247,891 | 224,151 | 213,435 |
| Prepaid expenses | <u>14,058</u> | <u>10,107</u> | <u>12,777</u> |
| Total current assets | 330,676 | 293,408 | 281,871 |
| Property and equipment, net | 96,320 | 94,454 | 88,975 |
| Deferred income taxes | 21,205 | 5,723 | 5,047 |
| Other assets, net | 26,204 | 25,770 | 18,989 |
| Total assets | 474,405 | 418,255 | 394,882 |
| Liabilities and Stockholders' Equity | | | |
| Current Liabilities | | | |
| Short-term borrowings | 24,235 | 22,458 | 43,566 |
| Accounts payable and accrued liabilities | 98,497 | 61,919 | 66,781 |
| Income taxes payable | 0 | 2,679 | 7,371 |
| Merchandise and other customer credits | <u>6,029</u> | <u>5,318</u> | <u>4,687</u> |
| Total current liabilities | 128,761 | 92,374 | 122,405 |
| Long-term trade payable | 26,472 | - | - |
| Reserve for product return | 31,768 | - | - |
| Long-term debt | 101,500 | 101,500 | 50,000 |
| Deferred income taxes | 0 | 3,858 | 7,957 |
| Postretirement benefit obligation | 14,510 | 13,560 | 11,960 |
| Other long-term liabilities | 1,921 | 2,157 | 2,521 |
| Shareholders' equity | | | |
| Common stock, \$.01 par value; authorized 30,000 shares, issued 15,660 and 15,620 | 157 | 156 | 159 |
| Additional paid-in capital | 69,969 | 69,553 | 67,927 |
| Retained earnings | 107,002 | 140,705 | 129,364 |
| Foreign currency translation adjustments ^a | <u>(7,655)</u> | <u>(5,608)</u> | <u>2,680</u> |
| Total stockholders' equity | 169,473 | 204,806 | 200,039 |
| Total liabilities and shareholders' equity | \$474,405 | \$418,255 | \$394,882 |

^aThe accounting for foreign exchange translation gains and losses is governed by the Statement of Financial Accounting Standards #52 (FASB #52). Under this accounting method, all foreign assets and liabilities are translated at the exchange rate prevailing on the balance sheet date. Equity accounts are translated at historical rates. Income statement items are translated either at the prevailing rate on the date that a sale or purchase occurred, or a weighted average of exchange rates for the appropriate period. An important provision in FASB #52 is that translation gains and losses are *not* flowed through the income statement. Instead, they are booked directly to a separate equity account such as "Foreign Currency Translation Adjustments" or "Cumulative Translation Adjustment." Only if and when an asset is sold or liquidated does the realized translation gain or loss move from the translation adjustment account to flow through the income statement.

Tiffany & Co.—1993

295-047

Exhibit 3 Historical Summary (\$000 except per share amounts; years ended January 31)

| | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Summary of operations | | | | | | |
| Net sales | \$486,396 | \$491,906 | \$455,712 | \$383,964 | \$290,344 | \$230,488 |
| Income/(loss) from operations | 26,741 | 61,028 | 67,806 | 60,977 | 44,193 | 33,691 |
| Interest expense and financing costs | 7,231 | 6,337 | 4,475 | 2,578 | 826 | 2,174 |
| Income/(loss) before income taxes | 19,925 | 55,066 | 63,475 | 58,387 | 43,032 | 31,194 |
| Net income/(loss) | \$ 15,712 | \$ 25,470 | \$ 36,661 | \$ 33,305 | \$ 24,901 | \$ 16,176 |
| Capital expenditures | \$ 22,754 | \$ 41,385 | \$ 24,835 | \$ 14,040 | \$ 9,680 | \$ 1,895 |
| Depreciation and amortization | 11,425 | 8,134 | 5,487 | 3,455 | 1,634 | 1,118 |
| Common shares outstanding | 15,620 | 15,870 | 15,670 | 15,560 | 15,370 | 12,570 |
| Income/(loss) per share | \$1.00 | \$20.1 | \$2.34 | \$2.13 | \$1.62 | \$1.17 |
| Cash dividends per share | \$0.28 | \$0.28 | \$0.26 | \$0.18 | \$0.10 | - |
| Dividend payout (%) | 28.0 | 14.0 | 11.0 | 8.0 | 6.0 | 0.0 |
| Financial position | | | | | | |
| Net working capital ^a | \$220,813 | \$203,032 | \$162,265 | \$127,074 | \$ 89,082 | \$ 66,772 |
| Inventories | 224,151 | 213,435 | 173,964 | 142,545 | 103,771 | 70,778 |
| Total assets | 419,355 | 394,882 | 307,268 | 237,061 | 162,648 | 126,669 |
| Total debt | 123,958 | 93,566 | 49,272 | 32,565 | 7,253 | - |
| Shareholders' equity | 204,806 | 200,039 | 176,183 | 135,568 | 99,193 | 71,621 |
| Book value per share | \$13.11 | \$12.61 | \$11.24 | \$8.71 | \$6.29 | \$5.70 |
| Average annual P/E | 34.0 | 24.2 | 16.9 | 19.8 | 14.3 | 14.5 |
| Stock price | | | | | | |
| High | \$52.90 | \$57.50 | \$53.80 | \$61.30 | \$29.70 | \$27.30 |
| Low | \$23.00 | \$32.60 | \$27.50 | \$26.00 | \$14.00 | \$9.70 |
| Equity beta (β) | 1.35 | | | | | |
| Selected ratios | | | | | | |
| Current ratio | 3.2 | 2.3 | 2.3 | 2.5 | 2.5 | 2.4 |
| Net profit margin (%) | 3.2 | 6.5 | 8.0 | 8.7 | 8.6 | 7.3 |
| Return on assets (%) | 4.0 | 8.0 | 12.0 | 14.0 | 15.0 | 13.0 |
| Return on equity (%) | 8.0 | 16.0 | 21.0 | 25.0 | 25.0 | 23.0 |
| Asset turnover | 1.16 | 1.25 | 1.48 | 1.62 | 1.79 | 1.82 |
| Total debt/total capital (%) | 30.0 | 24.0 | 16.0 | 14.0 | 4.0 | 0.0 |

^aExcluding short-term borrowings.

Exhibit 4 Domestic and Foreign Operations (\$000)

| | Years ended January 31, | |
|-------------------------------|-------------------------|-----------|
| | 1993 | 1992 |
| Domestic | | |
| Net sales | \$414,558 | \$439,055 |
| U.S. | 326,828 | 316,282 |
| Export | 87,730 | 122,773 |
| Income/(loss) from operations | 73,559 | 98,229 |
| Identifiable assets | 287,127 | 278,730 |
| Foreign | | |
| Net sales | 71,838 | 52,851 |
| Income/(loss) from operations | 2,381 | 3,888 |
| Identifiable assets | 132,228 | 116,152 |

295-047

Tiffany & Co.—1993

Exhibit 5 Worldwide Retail Locations

| End of Fiscal | Tiffany's Subsidiary Companies | | | | | Independent | | Total |
|---------------|--------------------------------|--------|--------|-------------|-----------|-------------|--------|-------|
| | North America and Europe | | | Pacific Rim | | Mitsukoshi | Others | |
| | U.S. | Canada | Europe | Japan | Elsewhere | | | |
| 1987 | 8 | 0 | 2 | 0 | 0 | 21 | 0 | 31 |
| 1988 | 9 | 0 | 3 | 0 | 1 | 21 | 0 | 34 |
| 1989 | 9 | 0 | 5 | 0 | 2 | 24 | 0 | 40 |
| 1990 | 12 | 0 | 5 | 0 | 3 | 27 | 0 | 47 |
| 1991 | 13 | 1 | 7 | 0 | 4 | 38 | 2 | 65 |
| 1992 | 16 | 1 | 7 | 7 | 4 | 36 | 4 | 75 |
| 1993 | 16 | 1 | 6 | 37 | 5 | 8 | 6 | 79 |

Exhibit 8 Selected Financial Market Data (end of month) (continued)

C. June, 1993 Yen-Dollar Foreign Currency Option Prices (100ths of a cent per yen; each option contract is for ¥6,250,000)

| Strike Price | Month of Maturity | | | Strike Price | Month of Maturity | | |
|--------------|-------------------|--------|-----------|--------------|-------------------|--------|-----------|
| | July | August | September | | July | August | September |
| Calls | | | | Puts | | | |
| 87.0 | | | | 87.0 | | | 0.36 |
| 89.0 | | | | 89.0 | | | 0.54 |
| 90.0 | | | | 90.0 | 0.25 | 0.50 | 0.92 |
| 91.0 | | | 3.32 | 91.0 | | | 1.04 |
| 91.5 | | | | 91.5 | | 0.85 | |
| 92.0 | 1.54 | | 2.52 | 92.0 | 0.57 | 1.07 | 1.44 |
| 92.5 | | | | 92.5 | 0.94 | 1.12 | 1.63 |
| 93.0 | 1.02 | | | 93.0 | 1.16 | | |
| 93.5 | | | 2.22 | 93.5 | 1.02 | | 2.06 |
| 94.0 | 0.94 | 1.46 | 1.99 | 94.0 | 1.26 | | |
| 94.5 | 0.66 | 1.15 | | 94.5 | | | |
| 95.0 | 0.59 | 1.21 | 1.33 | 95.0 | | | |
| 96.0 | | 0.70 | 0.93 | 96.0 | | | |
| 97.0 | | 0.55 | 0.78 | 97.0 | | | |
| 98.0 | | | 0.59 | 98.0 | | | |

Tiffany & Co.—1993

295-047

Exhibit 6 Yen/Dollar Exchange Rates (end of period)

| Month | Yen/Dollar | Month | Yen/Dollar |
|------------|------------|------------|------------|
| 1983 | 231.70 | Jan., 1992 | 125.55 |
| 1984 | 251.60 | Feb. | 129.15 |
| 1985 | 200.25 | Mar. | 132.92 |
| 1986 | 158.30 | Apr. | 133.30 |
| 1987 | 121.25 | May | 127.75 |
| 1988 | 125.05 | June | 125.87 |
| 1989 | 143.80 | July | 127.20 |
| 1990 | 135.75 | Aug. | 123.08 |
| | | Sept. | 120.07 |
| Jan., 1991 | 131.45 | Oct. | 123.45 |
| Feb. | 132.95 | Nov. | 124.75 |
| Mar. | 140.60 | Dec. | 124.86 |
| Apr. | 136.38 | | |
| May | 138.45 | Jan., 1993 | 124.73 |
| June | 137.90 | Feb. | 118.25 |
| July | 137.42 | Mar. | 114.88 |
| Aug. | 136.85 | Apr. | 111.05 |
| Sept. | 132.85 | May | 107.08 |
| Oct. | 130.60 | June | 106.50 |
| Nov. | 130.08 | | |
| Dec. | 124.90 | | |

End of Year Exchange Rates

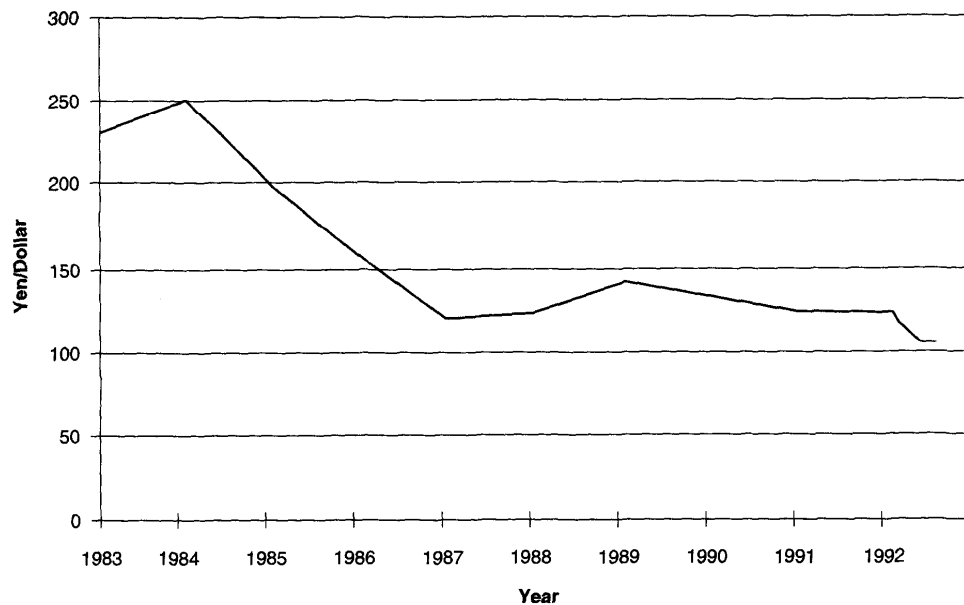
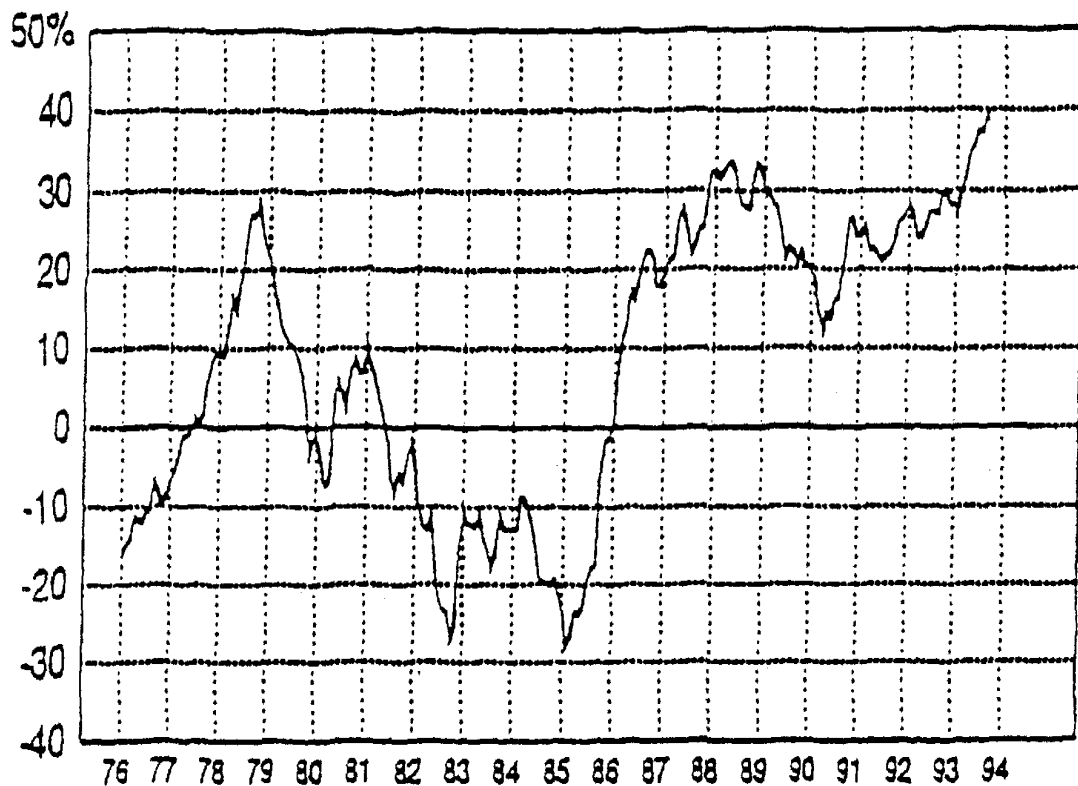


Exhibit 7 Japanese Yen: Percent Over/Under Valued vs. U.S. Dollar^a



Source: *Currency and Bond Market Trends* (Merrill Lynch: October 27, 1994), p. 22.

^a Estimates of over- and under-valued percentages are based on long-run purchasing power parity estimates. The Purchasing Power Parity (PPP) theory of exchange rate determination holds that long-run trends in exchange rates are determined by cumulative differences in national inflation rates. Specifically, PPP maintains that $S = P_f/P_d$, where S is the spot exchange rate expressed as foreign currency per unit of domestic currency, P_f is the foreign national price level, and P_d is the domestic national price level. Relative PPP stipulates that $\dot{s} = \dot{p}_f - \dot{p}_d$, where \dot{s} is the rate of change in the exchange rate, and \dot{p}_f and \dot{p}_d are the national rates of inflation in the foreign and domestic currencies, respectively. Currencies that weaken faster (or strengthen more slowly) than the rate justified by the difference in national inflation rates are said to be depreciating in *real* terms. Likewise, currencies that strengthen faster (or weaken more slowly) than the rate justified by the inflation rate difference are said to be appreciating in *real* terms.

Exhibit 8 Selected Financial Market Data (end of month)

A. Interest Rates

1993 Eurodollar Interest Rates (percentage)

| | One Month | Three Months | Six Months | One Year |
|----------|------------------|---------------------|-------------------|-----------------|
| January | 3.1250 | 3.2500 | 3.3750 | 3.6875 |
| February | 3.1250 | 3.1250 | 3.2500 | 3.5000 |
| March | 3.1250 | 3.1875 | 3.3125 | 3.5625 |
| April | 3.0625 | 3.1250 | 3.2500 | 3.5000 |
| May | 3.1875 | 3.3125 | 3.4375 | 3.8125 |
| June | 3.1250 | 3.2500 | 3.5000 | 3.6875 |

1993 Euroyen Interest Rates (percentage)

| | | | | |
|----------|--------|--------|--------|--------|
| January | 3.5000 | 3.4375 | 3.3750 | 3.3125 |
| February | 3.2188 | 3.2813 | 3.2188 | 3.2188 |
| March | 3.5313 | 3.4063 | 3.4063 | 3.4063 |
| April | 3.2188 | 3.2188 | 3.2813 | 3.3125 |
| May | 3.2500 | 3.2500 | 3.3438 | 3.4375 |
| June | 3.1875 | 3.1875 | 3.1876 | 3.2501 |

B. 1993 Yen-Dollar Exchange Rates (yen per dollar)

| | Spot | Forward | |
|----------|-------------|------------------|---------------------|
| | | One Month | Three Months |
| January | 124.800 | 124.845 | 124.865 |
| February | 118.000 | 118.015 | 118.025 |
| March | 116.650 | 116.665 | 116.675 |
| April | 111.600 | 111.605 | 111.605 |
| May | 107.250 | 107.255 | 107.230 |
| June | 106.350 | 106.355 | 106.330 |