

# [Tiffany hedging management assignment](https://assignbuster.com/tiffany-hedging-management-assignment/)

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Tiffany looked forward to the new arrangement, as it was now responsible for millions of dollars in inventory that it previously sold wholesale to Mitosis, 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 soul growing, It seemed evident such fluctuations could have a substantial Impact on Tiffany 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 many 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, 1 993 (FYI 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 Exalt 3. After more than a century of independence, Tiffany was acquired by Avon Products, Inc. In 1979. For the next overall years Avon, a nationwide door-to-door cosmetics marketer, worked to expand Tiffany 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 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 own management, who agreed to buy back Tiffany equity and the Fifth Avenue store building for a total of $135. 5 million. In what ultimately took the form of a leveraged buyout (LOBO), 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.