Tiffany & Co (TIF) CEO Alessandro Bogliolo on Q2 2019 Results - Earnings Call Transcript

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FQ2: 08-28-19 Earnings Summary

Press Release

EPS of $1.12 beats by $0.08 | Revenue of $1.05B (-2.55% Y/Y) misses by $-12.88M

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Tiffany & Co (NYSE:TIF) Q2 2019 Results Earnings Conference Call August 28, 2019 9:30 AM ET

Company Participants

Jason Wong - Treasurer and VP of Investor Relations

Alessandro Bogliolo - Chief Executive Officer

Mark Erceg - Executive Vice President and Chief Financial Officer

Conference Call Participants

Oliver Chen - Cowen & Company

Matthew Boss - JPMorgan

Ike Boruchow - Wells Fargo

Lorraine Hutchinson - Bank of America

Omar Saad - Evercore ISI

Janet Kloppenburg - JJK Research

Erwan Rambourg - HSBC

Marni Shapiro - Retail Tracker

Rick Patel - Needham & Company

Jay Sole - UBS

Bob Drbul - Guggenheim

Operator

Good day, everyone, and welcome to this Tiffany & Company Second Quarter 2019 Conference Call. Today's call is being recorded. Participating on today's call is Jason Wong, Treasurer and VP of Investor Relations; Mr. Mark Erceg, Tiffany's Executive Vice President and Chief Financial Officer; and Mr. Alessandro Bogliolo, Tiffany's Chief Executive Officer.

And at this time, I would like to turn the call over to Jason Wong. Please go ahead.

Jason Wong

Thanks Amanda. Welcome and thank you for joining us on today's call. Tiffany issued its second quarter results earlier today with a news release and the filing of our report on Form 10-Q. Following some comments from Alessandro and Mark, we will be pleased to take your questions during the Q&A session.

Before continuing, please note that statements made on this call that are not historical facts are forward-looking statements. Actual results might differ materially from the planned, assumed or expected results expressed in or implied by these forward-looking statements. The company undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances, except as required by applicable law or regulation.

Additional information concerning factors, risks and uncertainties that could cause actual results to differ materially as well as the required reconciliations of the non-GAAP measures referenced in this presentation to their comparable GAAP measures is set forth in Tiffany's Form 10-Q filed earlier today with the Securities and Exchange Commission as well as the news release filed today under cover of Form 8-K. Those filings can be found on Tiffany's investor website, investor.tiffany.com by selecting Financials.

I'll now turn the call over to Alessandro.

Alessandro Bogliolo

Thanks, Jason, and welcome, everyone. Let me start by saying right upfront that our second quarter results were mixed. The top-line admittedly came in a bit light versus our ongoing expectations, but we are encouraged by the slight over deliver we achieved on the bottom-line versus our internal forecast, which Mark will elaborate on during his prepared remarks.

But first, let's spend some time putting our second quarter sales results in context. Global reported sales did drop by 3%, but this was against the backdrop that included last year's strong 12% increase, a significant decline in both sales attributed to Chinese and all other tourists and meaningful business disruption in Hong Kong.

Let's take a few additional seconds on each of this. Last year during the second quarter of 2018, we generated significant U.S. and global attention the holistic launch of PAPER FLOWERS in New York, and our Believe in Dreams campaign, which we believe drove a meaningful increase in both traffic and sales. We expect similar excitement behind our main product activations this year, but those will take place during the later stages of the third and the early part of the fourth quarter.

Second quarter sales results were also impacted by continued sharp decline in sales to both Chinese and all other tourists, which we believe lowered our reported sales by [indiscernible 5:12] percentage points. In Hong Kong where we have 10 stores and which is our fourth biggest market relative to total sales, only after the United States, Japan and Mainland China, has been presented with a unique set of challenges. Obviously, we hope for a quick and peaceful resolution to the unrest being experienced there, but in the meantime, we must acknowledge that the current situation is taking a toll on our business. In fact, we estimate that during the second quarter we lost nearly six full selling days due to unplanned store closures.

Despite all of this, our internal estimates indicate that during the second quarter, we grew constant currency retail sales to local customers on a global basis by 2% which we believe is a much better indicator of underlying brand strength and our future growth potential. And within which we once again posted strong double-digit growth with local customers in Mainland China.

Having provided some short-term commentary on the second quarter, let's now move to something much more important, our mid and long-term effort to generate sustainable top and bottom-line growth rate consistent with our position as global luxury jeweler.

We are now six quarters into the long and exciting journey we effectively began at the start of fiscal 2018, when we took the bold decision to meaningfully increase investment spending to support our six key focused areas. As we stated then, and as we continue to believe now, those investments have been carefully designed to be self reinforcing, and to work in concert with each other over time in order to ultimately allow us to consistently deliver sustainable top-line sales growth.

You have also heard us repeatedly state that we do not expect to deliver sustainable top-line sales growth until we have been able to introduce a sufficient number of distinctive new products, amplify and evolve marketing message with sufficient impact as to attract a significant number of new customers, reactivate lapsed ones while continuing to delight our existing customers, upgrade key aspects of our physical store network while also adding experiential elements to our in-store environment such as visual merchandising, jewelry styling bars and et cetera and develop through enabling technologies a seamless omni-channel customer experience.

We are making good progress on all of these fronts. However, as an illustration, since we believe there are inherent limits on the maximum amount of product units we can be properly supported with 360 degree marketing and PR campaigns as well as robust in-store execution without becoming confusing or distracting for our customers, we estimate that it make take until fiscal 2021 to properly refresh our product assortment with enough newness to generate balanced and sustainable growth across our entire product portfolio.

We're committed to reinvigorating the business the right way as we aim for industry leading levels of shareholder value creation which we believe defines long-term success. In the meantime it may admittedly be a bit hard to see how the strategic investment decisions we have made so far are positively impacting the business given timing shifts in new product launches as compared to last year, macroeconomic noise from lower tourism spending and the disruption taking place in Hong Kong.

Therefore, we talk it might be helpful to spend a few minutes, taking about how all of the decisions we have made about the past 18 months are working together in Mainland China, A key strategic market which from the beginning of this journey we have identified to receive a high level of management focus and investment. For example, Mainland China is where we chose to this proportionately increase marketing spending and media penetration last year. It was also Mainland China where we took the decision to stand up our retail foundation information technology platform first, back in the first quarter of 2018.

During the first half of 2019 we increased the high jewelry presence at our Beijing China World store as well as in a number of additional major stores such as Shanghai IFC and Beijing Shin Complex. And during the second quarter of 2019, we sold through limited quantities of specialty Tiffany Keys diamond pendants on WeChat for 520 or I Love You Day supported by Liu Haoran, a famous Chinese actor with 30 million Weibo followers and we enabled e-commerce on our tiffany.cn website for the first time.

We believe that all of these actions plus improvement in the relevance of our message into Chinese consumers and the launch of PAPER FLOWERS last fall has enabled us to significantly improve our brand power scores as surveyed by a third-party in Mainland China across critical consumer segment such as self-purchasing women, high spenders and gifters. These in turn allowed us to improve our overall brand power ranking in China from fourth to second place during the past year. And even more importantly we believe these actions plus others have allowed us to dramatically improve our business among domestic Chinese consumers.

For a perspective, constant currency comparable sales during the first half of 2019 grew 4 times faster than the first half of 2018 and second quarter 2019 sales grew more than 25%. In order to maintain this momentum, we have a number of real exciting strategically important initiatives, some have already begun, and others will take place in the second half of the year across Greater China, all of which are designed to continue to broaden our appeal among Chinese consumers.

Such initiatives can be grouped in four key strategies. First, we are strengthening our store network by opening or upgrading our flagship stores in three key metropolitan areas, Beijing, Shanghai, and Hong Kong. In Beijing, the relocation and upgrade of our flagship store in China World took place in Q1. In the next two quarters, we expect to have two major flagship launches in Hong Kong and Shanghai respectively. In Hong Kong, we plan to open a three-floor street-facing flagship store at 1 Peking Road in the most popular shopping area in Hong Kong among Chinese tourists, which we expect to help close the gap with other major luxury brands which have prominent stores in that area.

In Shanghai, we plan to relocate and enlarge our store to arguably the most prominent corner location in the city at Hong Kong Plaza, an area of Shanghai, where other prestigious luxury brands have significant street frontage presence. With our three flagship stores in Beijing, Shanghai and Hong Kong, we expect customers to be able to more fully experience the refinement, assortment, service and ultimately the power of the Tiffany & Company brand.

Second, we are in the process of expanding our airport duty-free store network. In Q3, we plan to open the first Tiffany store in a duty-free zone in Mainland China at the Beijing Airport with a partner. Next month, we plan to relocate and upgrade our directly owned store at the Hong Kong Airport, currently the smallest in our airport network to a full sized duty-free store. With these two stores, we expect to be able to more efficiently target the Chinese traveler retail segment.

Third, we are setting up our digital relevance with the recent e-commerce enablement of our China company website. This is important for us to be able to inform and influence purchasing decisions of customers when they are deciding which brand and specific product to buy. Apart from the additional online sales opportunity, especially in third tier

Chinese cities where we don't have a physical presence, we expect these e-commerce efforts to increase traffic and conversion rates in our physical stores and increase effectiveness of our digital marketing.

We are also increasing our weight in the Chinese digital ecosystem with the addition to WeChat limited addition program we did for Chinese Valentine's Day in August and additional ones for the holidays and for Chinese New Year.

Fourth, we have three new marketing initiatives planned for the second half of 2019. First, we plan to open Blue Box Cafes in both the new Hong Kong location at 1 Peking Road as well as the next Shanghai flagship at Hong Kong Plaza. This will be the first permanent Blue Box Cafes in Tiffany stores outside of New York. And just as in New York, we expect it will generate substantial customer attention and store traffic.

Secondly, we will be conducting a series of consumer facing Diamonds of Tiffany events across Greater China to educate consumers on our unparalleled casting and polishing partnership to reinforce our diamond authority in this market.

Last and perhaps most importantly, on September 23rd, in Shanghai, we will inaugurate Tiffany & Company Vision & Virtuosity, the largest ever Tiffany brand exhibition. The brand will celebrate its over 180-year history and heritage in a unique experiential setting.

Instead of being just a retrospective, over 350 archival product, along with numerous high value jewelry pieces and exclusive previews from the 2019 Blue Book high jewelry collection will be displayed in a more experiential thematic environment, which matches the DNA of the Tiffany brand. We expect these initiatives to drastically increase the awareness and the depth of knowledge of our brand among the Chinese, including importantly, the millennial segment.

Now that we have provided additional insight on how our efforts are aligning across Greater China, let's shift back to the broader company for which we keep progressing on the roadmap that we shared with you about 18 months ago. Many of you have asked us about our excitement from the second half of product newness, which will be taking place all across the world. While we don't want to take the surprise away from our customers, we can mention that we have already pre-launched a colorful new extension to our iconic Tiffany T collection.

We have also already pre-launched in selected stores a reinvigorated men’s line up. And as we mentioned on last quarter's call, we are moving forward with an additional fragrance offering later this year. So while we acknowledge that we still have much to do before the full effect of the strategic investments we have made and continue to make across the business, are fully implemented across all product categories and key markets, we are very encouraged by the progress we are making, particularly in the areas where we have dedicated the most time and resources.

Let me now turn the call over to Mark, so he can share a few additional thoughts before we open up the call to your questions.

Mark Erceg

Thanks, Alex. Since you've likely already reviewed our filings, and our prepared remarks are expected to run a bit longer than recent quarters and we want to make sure we leave plenty of time for your questions, I'm going to focus my comments today on just a few salient matters.

First, gross margin in the second quarter was 130 basis points below a year ago just like it was during the first quarter. There was a little bit of negative sales leverage on fixed manufacturing other costs but our factory loads were better balanced as we built inventory to support our second half launches in anticipation of a stronger holiday season.

So the real driver of lower gross margin in the quarter was a mix impact from a meaningful increase in high jewelry sales, which as you know is an area we've been focusing on this past year. And over the balance of the year, since our second half product launches should increase the sales mix for our gold and diamond jewelry collections relative to higher margin silver jewelry, we'd expect some additional pressure on gross margin. However that should be more than offset by volume leverage as we expect to regain sales momentum and the absence of certain costs such as a bankruptcy filing of a metal refiner we recorded in the third quarter of last year.

Looking even further out, we plan to invest even more behind our high jewelry offerings and have plans to continue introducing even more gold with and without diamonds and diamond products as part of our strategic efforts with more emphasis on increasing our average unit selling price in the years ahead.

Importantly, our multi-year product and marketing plans call for moving a larger percentage of our overall sales mix, the higher price points gradually by focusing on and growing gold and diamond jewelry collections and high jewelry at a faster pace than engagement and silver jewelry.

That said it is important to note, we still have plans for both engagement and silver jewelry to grow going forward, just at rates below that was expected to be achieved in high jewelry and across our gold and diamond jewelry collections. It is for this reason that some of you might have noticed, we reframed the product imagery on all of our e-commerce sites, along with the products featured in our digital and social campaigns recently to showcase gold and diamond jewelry collections more prominently.

Second, SG&A expenses were well contained during the second quarter with total SG&A expenses as a percentage of sales dropping from 46.3% last year to 45.2% this year, a reduction of 110 basis points. Prudent cost management particularly on the labor line as we seek to create organizational efficiencies and ongoing global procurement efforts, which achieved a notable milestone this past quarter with the implementation of our new source-to-pay solution in the United States, both contributed. We also took the decision to hold back some advertising dollars in the second quarter, so that could be more effectively deployed against our strong second half product introduction plans.

Finally, from a store network perspective and in addition to the Greater China stores Alex referenced earlier, we just announced the opening of two stores in India later this fiscal year and next year, one each in Delhi and Mumbai through a joint venture with an India-based luxury retail leader. And we are continuing to make good progress on the New York flagship transformation.

From a guidance standpoint you may recall that at the start of the year and again during our first quarter earnings release, we called for a soft first half followed by a rebound during the second half, which would result in full year reported sales growth of low-single-digits. And while our first and second quarter sales results were a couple points lower than we would have liked, the reasons we have discussed, they have been generally speaking consistent with our overall expectations.

As Alex mentioned earlier tourism patterns are volatile and the situation in Hong Kong remains very fluid. In addition, the Japanese government has announced its intention to increase its sales consumption tax rate from 8% to 10% in October of this year, which is adding even more unpredictability to an already challenging macroeconomic environment. This is because in the past, business has significantly accelerated in Japan prior to consumer sales tax increases of this magnitude, and then decelerated in the months thereafter. Whether or not the same phenomenon will occur this time around is very hard to predict.

Against the backdrop of these uncertainties and after balancing our first half results against our strong second half marketing and product plans, we still expect to grow full year reported sales by low-single-digits. And relative to the bottom-line, our guidance also remains unchanged at low to mid-single-digit growth in diluted earnings per share.

Now that said, if for example, the ongoing unrest in Hong Kong persists much longer at its current rate, we may find ourselves towards the lower end of our full year reported sales and EPS guidance range. And if the situation were to deteriorate even further, or if the current level of unrest is maintained for the balance of the fiscal year, we may find ourselves toward the bottom end of our ranges.

I'll now turn the call back to Jason and we can take your questions.

Jason Wong

Thank Alessandro and Mark. Operator, we're ready to take some questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]. So we'll take our first question from Oliver Chen with Cowen & Company. Please go ahead.

Oliver Chen

Regarding your comments on gold and diamond versus silver, silver is a nice margin business and also featuring gold and diamonds seems very brand appropriate. But how does that interplay with your thoughts on the evolution of a longer term operating margin? Also, as you spoke to a lot of your comments regarding the caution points and things happening geopolitically, what are your thoughts on the guidance level and being more conservative on guidance in light of the softer top-line than you would have wanted? Thank you.

Alessandro Bogliolo

Thank you, Oliver. As for the gold versus silver evolution, silver although is the smallest part of our business in terms of metal where the order is -- the largest portion is platinum, the second is by far gold and silver is the smaller one, it's an important segment for us. And it’s a segment in which we believe. We believe as part of our heritage of our portfolio and we have planned to grow it going further as any other segment. It's true that in this particular moment, we are experiencing a stronger momentum more in the gold rather than in the silver.

So it's something that is happening in this moment, but we know also that these times can vary from season-to-season from time-to-time. And our efforts are both -- on both sides of the collections.

Mark Erceg

Yes. And I'll just add that, jewelry collection gold and gold with diamonds has very strong gross margin in its own right. I mean we're obviously not saying that we don't want to see the concept that the silver business grow, we just want to see the gold and the diamond business grow at a faster rate.

As far as the second portion of your question with respect to how we're thinking about the full year. Honestly, at this point it’s playing out largely as we anticipated. We said we have a softer first half and a stronger second half driven by the product and marketing plans that we had in place. We feel good about those programs. And we will continue to be very communicative with our owners about where we see the business trending. But right now, we see low single-digit reported sales growth and low to mid diluted EPS growth in the current context with the caveats that have been provided.

Oliver Chen

Okay. And just to follow up, last year there was an opportunity to do the marketing earlier, the customers quite dynamic and behaving earlier in some respects and the digital aspect has gotten very competitive online. So how will you approach them in terms of timing and key catalysts for marketing that's different this year versus last year as you approach the important holiday season? Thank you.

Alessandro Bogliolo

We have been analyzing very carefully the results of last year and all the good things and also the things that could have improved. And we feel very confident about the plans we have for this year in terms of campaigns, content and timing.

Jason Wong

Operator, next question?

Operator

We'll take our next question from Matthew Boss with JPMorgan.

Matthew Boss

So as we think about your six strategic outline priorities and the 2021 timeline that you cited earlier, I guess maybe since taking the helm, Alex, what do you see as your biggest wins versus areas you would say are taking longer than you initially expected?

Alessandro Bogliolo

Well, in terms of product, I have to say that, it was very clear to me that with the 18 months developing time for new product in jewelry and considering that there is only a limited number of new lines that you can -- units that you can introduce during the year, it would have been a multi-year process. This is why you will remember that already in this -

- when we announced the first quarter results last year we were very clear mentioning a long and exciting journey, because it was clear to me that to revamp a product assortment of a brand like Tiffany is a multi-year progress -- process.

So this is -- this was -- didn't come as a surprise. And I think on the marketing, we have been acting very quickly and effectively and we changed the communication, and we keep on tweaking and changing and evolving every quarter. So, to be honest with you, the longest time needed is, of course in efficiencies and especially in the cultural shift, which are the two last priorities that we mentioned in our roadmap.

And on efficiencies, we start seeing already some signs of managing costs more effectively in this quarter. But honestly, it's just the beginning, because this is a process that will take years in order to really show a significant impact on traffic. And the cultural change is something that is progressing well, but is obviously the one that takes the most because it has do with human beings and 14,000 people in the company. But I have to say, it's -- I mean there are no situations where I feel that we had a problem of where we stop, we keep on progressing on the roadmap we put together.

Matthew Boss

And then mark, maybe just on the back half of the year embedded within your full year guide. Help us to think about top-line and earnings growth that you're expecting in the third quarter relative to the fourth quarter. Any guideposts I think would be really helpful?

Mark Erceg

No, I do appreciate that, but that's something that I think we would be a little bit reticent to provide. We obviously guide on the full year with respect to the quarters, we wouldn't want to be overly prescriptive there.

Operator

Our next question will come from Ike Boruchow with Wells Fargo.

Ike Boruchow

Just two quick ones from me. I guess, I'm trying to -- the first point for Alex. Just trying to marry the comments about the assortment refresh really not being completed till fiscal '21 kind of combined with the outlook for improving fundamentals and top-line to the rest of the year. Why would you think that the top-line and fundamentals can improve, if you're thinking that the product assortment really won't be refreshed until next year? And then a quick one for Mark, we've heard from some companies -- I know that you guys are not a promotional brand. I understand that. But in terms of competitively when you look across the globe, are you seeing some of the wholesalers and e-tailers, retailers being a little bit more competitive on pricing year-to-date? We've heard some rumblings of that? Any kind of would be helpful.

Alessandro Bogliolo

Okay, well. As for the product assortment I mean I don’t want to be misunderstood in the sense that it just an area in which we are progressing literally every quarter. And if you look also at the past 12 months, we have had important launches like PAPER FLOWERS, T True diamond, then we had Return to Tiffany Love Bugs and we are now talking about a colorful version of Key et cetera. So it's a progress, a continuous to progress. The point is that what is important is that to reach a critical mass of newness in order to really see results being steady growing because it's a process, it's a path, it's a journey. So I'm confident about the second part of this year because we will be in a much better position than we were one year ago, but I expect one year later to be in a much better position than we will be in the second half. So it's really a path with steady growth.

Mark Erceg

Yes. The other thing I would offer on that as you think about where we are fiscal year-to-date, reported sales are down 2.7%, contained within that is about over -- slightly over 2 points of FX scrape, which we think is going to be based on current spot rates, largely a push, it might cost us 20, 30 basis points in the balance of the year, but it's not going to be nearly as consequential.

If you think about the comps that we're going to be starting to dial up against last year in Q1 and Q2, for both quarterly posted plus 7s. That was a plus 3 in Q3 and it was flat basically in Q4. New stores is also going to be contributing a lot more in the second half than it did in the first half. You heard out talk about some very large stores that are going to be coming online, so that should be a contributor. And of course, the biggest thing is just the product and the marketing and the holiday plans and everything else that we've been doing.

So you feel good about where we sit right now based on the way we've laid out the year. As far as the question on price promotional activity, you're right. We don't engage in any of those types of activities. And frankly, while we continue to do the scrapes, we haven't seen anybody out there doing things in our particular space that gives us at this point any cause or concern.

Operator

Our next question will come from Lorraine Hutchinson with Bank of America.

Lorraine Hutchinson

It sounds like the newness will ramp and have a greater impact on sales starting in the fourth quarter. Do you expect to launch sufficient newness next year that you'll be able to continue to grow top-line more sustainably from here on?

Alessandro Bogliolo

Absolutely, that is exactly the plan and I am glad because thanks to a different approaches feeding the company, thanks also to the JW workshop that we have set together for prototyping a new product. I have to say that the company has been -- has accelerated a lot the place of product design and development. And we are now in a situation where we have a very clear assortment already prototype for 2020, and we are working now on 2021. So we have really a long-term visibility on our assortment that was not the case just one year ago. So yes, I think the things have been working very well in this. And we will have a very strong pipeline for next year and the year to come.

Operator

We'll take your next question from Omar Saad with Evercore ISI.

Omar Saad

Alex I wonder, I just wanted to follow up on the newness question. Sorry to beat the drum. You guys made the point in the prepared remarks that there's a certain mix of newness that without overloading the system or overloading the customer but without becoming too distracting. Could you elaborate on that? Are you saying there's too much newness now or not enough or the wrong kind of newness or you need more of a different type of newness, I'm just trying to understand what the bottleneck is?

Alessandro Bogliolo

Thank you, Omar. My assessment is that -- and it’s quite clear on the market, that in the past few years our number of introductions of distinctive new products was below industry standard. We have decided one and half year ago to increase the level to industry standard that is roughly speaking around 15% of sales coming from newness.

Now more than that would be too much, because experience has said, so that’s also because there is only a number of new products that customers can absorb during one year. Because jewelry is different from fashion, it’s not every season everything changes, and so there is only a certain cadence. And this was clear since the beginning. It’s part of the rules of luxury jewelry. And we are following on this path. So there is no slowdown, there is no acceleration. We are just following the path that we have set. And I’m very pleased about it I have to say.

Omar Saad

Could you also maybe discuss the decline in SG&A dollars? And are you guys pulling back on investment or marketing? How much of this is sustainable? And should we worry about the need to invest, especially with the flagship renovation coming up making sure that there's dollars in the budget for that? Thank you

Mark Erceg

That’s a great question I would say. We did make a comment that we did pull back a little bit of some of the marketing spending in the second quarter in order to put that specifically against the new large wave of product and marketing endeavors we have planned for the second half of the year. In total, for the full year, we have planned to spend in a dollarized basis very similar levels of marketing funds in '19 we spend versus '18. And you'll recall that from 2018 we made a meaningful step up in the amount of marketing dollars that we're investing behind the business.

So the second quarter itself is specifically concerned while certainly a little less in marketing versus a year ago in the quarter of that in the prior period had to launch PAPER FLOWERS. Obviously it wasn't structure economics. I can tell you the amount of dollars by the waiver items and the benefit items and other cost takeout items we affected in the quarter was much larger than any marketing shift that you might have seen.

Operator

We'll take our next question from Janet Kloppenburg with JJK Research.

Janet Kloppenburg

I was wondering if you could talk a little bit about the tourist levels in the in North America. Did they worsen in 2Q versus 3Q? And if you could talk about the local North America customer and the performance there and your outlook? And just lastly, I believe your guidance had included an outlook for tourism in the United States to flatten out by the end of the year. And I'm just wondering what's embedded in guidance if that's changed or not? Thanks so much.

Alessandro Bogliolo

So about -- well first of all, I would like to underline that the domestic trade, to domestic customers on a global basis were positive once again plus 2% versus plus 3% the previous quarter. And this for me is a very important point because it's a largest part of sales in which where the brand is suited for future growth. Having said so, it's true that under two reasons we have been suffering in the second quarter as well. I have to say that the decrease in sales to Chinese tourists on a global basis has been similar in the second quarter, as well as during the first quarter. And the same would apply to non-Chinese tourists, because also there especiallly due to the strong dollar there has been a decrease in sales to tourists.

So it's something that was already there in the first quarter and basically in the same order of magnitude also in the second quarter. Now as it refers to U.S. or North America consumers, we have experienced since few quarters quite softer trend. This quarter, the sales to -- domestic sales in the U.S. was slightly down. But I'm very confident that with all the marketing activities and the push we have in the second part of the year if things remain the same, we will a good performance, because we are really focusing on the second part of the year.

Janet Kloppenburg

And just as a follow-up, Mark, just a clarification on marketing. I know that this second half will benefit from contraction in the first half. But overall marketing spend for fiscal '19, will it be relatively flat year-over-year or what will that dynamic look like? Thanks.

Mark Erceg

Yes, yes. For the full year, we expect the marketing dollar spent in 2019 to be very comparable to 2018, which again is a significant step up in '17.

Operator

We'll take our next question from Erwan Rambourg with HSBC.

Erwan Rambourg

I wanted to come back on Hong Kong. I'm just wondering, if you could tell us what Hong Kong is as a proportion of either sales or profits and what you're losing in Hong Kong today? Do you think, you're recouping it partly elsewhere whether it's Mainland China, or Japan or Korea or elsewhere? And then maybe quite surprising, timing for development of flagship in Kowloon and in the airport, will that help you mitigate the pain somewhat?

Secondly, I just wanted to from Mark have a clarification around how the pipeline of products in H2 plays out from a gross margin perspective? I understand your comment in terms of pressure for the long-term linked to the fact that you're going higher end. I'm not sure I understood what we need to have a mindful gross margin in H2, could that stabilize or could that rebound after H1?

And then thirdly and lastly, if you have any updates on how the space -- the temporary space near the flagship in New York plays out into the holiday season, what setup will you have for the holiday season in New York? Thank you.

Mark Erceg

I was trying to wind it up and knock him down. I don't have to probably really ask people to try and hold themselves to one question. So with respect to Hong Kong, it’s our fourth largest markets, it’s critically important for us. We talked about the fact that we lost six store days during the second quarter, but that's just indicative of what's happening in that market today. Obviously right now there's a lot of folks focused on various matters and shopping may not be their primary concern. For us Hong Kong is a country or is a market that is mid-single-digits of total sales. If that was to be down by 20%, hypothetically, that would take 1 point off the full year sales block. If it was down by 40% and it was mid-single-digits, it would take off 2 full points for the year, just to give you some sense of it.

As far as the gross margin question is concerned, we really talked about happening in the first quarter in the second quarter was very strong high jewelry sales, which has a lower gross margin associated with it. And we talked about that in the past. As we think about the first half, second half, inflection points on gross margin, one of the key things to note is that we believe we will restore our volume momentum, and we'll get fixed cost leverage as a result of that going into the second half.

We also believe that there's some one-time items like the filing of a metal refiner that went into bankruptcy during the third quarter of last year and a few other items, some of which are related to obsolescence and a few other things that are coming to pass.

We are confident that we can continue to expand our operating margin on a going forward basis, once we get to a sustainable profit sales growth, because of all the things that that will do to the P&L as well as our cost takeout initiatives. And then as far as the flagship store is concerned, I’ll let Alex address your questions about the temp space.

Alessandro Bogliolo

Yes. Well, about the flagship store, it's -- as you know it's a huge project that we are following very closely and we are now in the process of building the temporary store next door and we are evaluating the plans for not only for these holidays but also for then the shifts that we have to go to, the moving, the physical moving next year. So we are still working in the plans in order to maximize the benefit not only short but also medium-term. So we don't have a clear decision at this point in time.

Erwan Rambourg

Thank you. But will that temp space to be open for the current holiday season?

Mark Erceg

Will the temp space be open for the holiday season?

Alessandro Bogliolo

Yes, this is what we are evaluating.

Erwan Rambourg

Okay.

Alessandro Bogliolo

But just to clarify, but the flagship store will be fully operating during the holiday.

Operator

Our next question will come from Marni Shapiro with Retail Tracker.

Marni Shapiro

I'm excited about all the product launches in the back half of the year. So if you could just talk a little bit about -- you've touched on the marketing effort, you've pushed the marketing into the back half of the year. Are these launches global launches and is the marketing push global? Sometimes you launch things here in North America, sometimes and roll them out across the country. Can you talk a little bit more specifically about that?

And do the launches hit across multiple categories? So from silvers through gold, fashion through the highest end or they're more concentrated into the area where you're sort of leaning on anyway, which is the more gold and fashion jewelry?

Alessandro Bogliolo

Thank you for your question. That is actually a great point because in the past 12 months, as we were in the process of accelerating our launches, we were forced to have staggered launches around the world while -- and this is the reason why we have postponed launches to the second part of the year in order to be able to have truly global launches. So the answer is yes, there will be global launches worldwide in the second part of the year.

As for the kinds of products, let me say there is a good range of price points. Main focus is actually on gold, plain and with diamond, but there are also newness in more entry price both in gold as well as silver as well as of course in the fine jewelry $20,000 up to I would say $80,000 that will be introduced. So it's quite I would say price wise and as a kind of absorbing it's quite widespread.

Operator

We will take our next question from Brian Nagel with Oppenheimer.

Brian Nagel

So the question I have, we spent or we talked a lot about today and in prior calls, just about the impact of the headwind of softer sales to foreign tourists in key markets. As you look at this issue, are there levers that Tiffany can pull or is the company more just at the mercy of this, whether it would be currencies or other factors. And I guess the levers, are there marketing levers? Or are there -- either shorter or longer term there to help really offset this top-line headwind?

Alessandro Bogliolo

Well, thank you for the question. It's actually tourists flows are important for Tiffany and for all luxury brands and this is something of course that goes beyond our control, because it as to do with exchange rates but also simply arrival of customers, tourists in different countries, et cetera. Now there are ways of course we have and we have put in place in order to try to address this. First of all is, when there are less -- there is lesser spending abroad to concentrate on the domestic markets. So try to get to the consumers in the local market where they are. And in this we have a strong position, because we have a network that is truly global. So we are capable to reach out to customers if they travel but also if they stay at home.

The second kind of activity we are doing and this was one of the examples I was making about China is, to be present selectively but in very important airport locations. Because, for example, this is the reason for having a store in the Beijing airport because Chinese tourists at that point can purchase at Beijing while they are flying out regardless of the destination of their flight or the reason for enlarging the Hong Kong airport store is because on Hong Kong is crucial point, where people not only as a final destination but also a connecting flight and is a very nice shopping environment. So this is another activity we have -- we can do.

And then the third we are doing -- and the third one is that of balancing our inventory. So for example, this is why I mentioned before during the prepared remarks, we have shifted high jewelry assortments to mainland China, to stores in Shanghai and Beijing, because as Chinese tourists tend to spend less abroad then they -- we have more availability of high jewelry products in the country in that way we can partially offset the sales approach.

Now all of this is what is in our hands. Of course, all this can only partially offset the new sales abroad, because it's normal but somebody when the tourist tends to spend more freely, more heavily and -- but this is what we can do and we are doing it actively.

Brian Nagel

Thank you for all the color, Alex. If I could just slip one more unrelated question. Just any update on the engagement category. Particularly following the launch of the new setting a little while ago, and just how overall sales track there and any idea from a market share perspective? Thanks.

Alessandro Bogliolo

Well, about our engagement jewelry in constant currencies in the second quarter was basically flat, so I think it was down 1%. In the previous quarter, it was minus 3% I think. So it has been trading a little bit better, but it has been, let me say, basically in line with also the other collections. The other collections were at constant currencies at plus 1%, engagement jewelry was minus 1%. So I would say, it's in line with the overall trend, actually doing a little bit better than global sales.

Operator

And our next question will come from Rick Patel with Needham & Company.

Rick Patel

Thank you. Good morning. So guidance assumes a comp improvement in the back half. Can you provide some color by region in terms of where do you see the most opportunity to drive an inflection? And perhaps, where you anticipate sales softness will persist? You talked about or you touched on softness in the UK and Japan potentially continuing as pressure point, but curious how you're thinking about the other regions?

Mark Erceg

So I think what we would say at this point as we look across the geographic landscape, we would expect markets like mainland China to continue to perform well. Europe, while it has been kind of flattish. We do believe that the product and marketing plans we have there will allow us to grow comparable store sales and constant currency in those regions. North America is probably the single largest opportunity for us. Last year, we had a relatively soft holiday and with the programs we have in place this year, we really believe that we should be able to do a better job of connecting with the U.S. consumer, and given its size, that's clearly the largest opportunity for us.

Japan, we've talked about Japan and the consumption tax change there, that's a little bit of a wildcard. Back in 2014, when the consumption tax went from 5% to 8%, we saw a meaningful pull forward of business in the two month period prior to the implementation of that tax increase and then it kind of fell away. So how that breaks over the third and fourth quarters is a little bit of a wildcard for us. But generally speaking, we expect the regions to perform better in the second half than they did in the first for all the reasons we've cited.

Rick Patel

And can you also provide some color on the performance of your newly revamped websites. Are you getting the responses that you expected from consumers in terms of traffic and conversion? And is there anything to call out in terms of regions or categories that may be working particularly well online in light of your marketing pullback in the first half?

Alessandro Bogliolo

Well, this moment is little bit of a delicate moment for our online sales, because as you know, we just replatformed during the end of April and May our website. So basically there is -- there are many newness, new features, new imagery, new copies that have been put in the website, which is totally new. So we have -- on one side, we are constantly learning from this newness. And we are AB testing in order to see what's better, what that can be improved, so it's a work in process. And especially, you know that when you change completely your platform, especially also the wording et cetera, that has an impact on the surcharging engine optimization because of the algorithms of Google's and the other search engines that take a few months in order to come back to the normal efficiency.

So all these to say that these three months had been a bit disruptive, quite disruptive I should say, with a negative trend in our online sales. But we are -- we were expecting that and we are seeing an improvement in that. This is the reason why we did all these changes during the summer in order to be ready for the second part of the year, which is when the most important season is also for online sales. Consider also that simultaneously, we have opened the China website as e-commerce so it could be another big effort. The start has been has been very positive, but it's just one month. But we are off to a good start.

Operator

And we'll take our next question from Jay Sole with UBS.

Jay Sole

Mark, I just have a question about tariffs. Did tariffs in China have any impact on gross margin in the quarter? And does some of the recent news from China about the increase in tariffs that they're making have any -- will that have any impact on the business going forward? Thank you.

Mark Erceg

That's great question. And the tariff is an area that we've been spending a lot of time. And it's important to point out just how much movement there has been. If you go back to before July 1st of 2018 and you look at the product types, whether it's silver or yellow gold, white gold, platinum, what have you, our all-in blended weighted average tariff was roughly 28%. Then in July of 2018 with the tariff cuts that went into effect, that dropped down to high-single-digit percentage. We dialed back around in September, mid-September of '18, it went up into the mid-teens. And by June of this year, we are basically back to the mid 20s.

With the current discussion taking place, what could be triggered in December, what actually take us above where we were when this whole thing started. So instead of being at 28%, we could be in the low 30s potentially. So it's an area that we're watching very, very closely. Because of the way we ship product typically from the U.S, there is a bit of a lag effect in when that tends to hit us. We don't expect a large additional impact if those December tariffs were to take effect this fiscal. That said, we have used some pricing in the past to help mitigate some of these areas. But as the pricing also would go in the opposite direction to follow the tariffs down, we've had to be very flexible and responsive in marketplace.

The biggest concern that we have frankly on a longer term basis is the tariff differential between a company such as ourselves who manufacturers most things in the U.S. versus some of the European competitors. And that's where, when we got together last quarter, we talked about the fact that we didn't feel it would be appropriate to take pricing actions and maybe do that unilaterally and get ourselves into and uncompetitive price situation, so we did have to eat that last round of tariffs. Whether or not we have to do something like that again, we have to make that determination over the next many weeks and months. But for now for the fiscal, I think we're in a reasonably good place. But longer term, it's an area that we obviously have a lot of concern about and are watching very closely.

Operator

And we will take our last question from Bob Drbul with Guggenheim.

Bob Drbul

Hi, Mark. Just a question for you on the systems investments that you're making. I was just wondering if you could just give us an update on any milestones that you're at with the systems piece of it and anything that we should be looking forward for the next several quarters? Thanks.

Mark Erceg

Yes. No, that's great. Thank you. And Alex alluded to one of the big system thing that we just did recently, which was standing up our e-com platform in China. That took a lot of work by a lot of folks. And I think we are going to be very well served by that. And in the first quarter discussion, we talked about the advanced planning system we just stood up in the merchandising supply chain side of the house. And we did mention that we just stood up our source-to-pay system -- our Coupa system, in the U.S. this past quarter. So we are making good progress.

We still have a lot of work to do, but we have a very strong dedicated team toward making sure that we stand these things up one after the next to allow us to really start running the company with global platforms and global processes and global systems. And frankly that's also one of the things that ultimately will allow us to just be more efficient in total as we look to find ways to create additional investment dollars that we can put into top-line growth.

Jason Wong

Thanks, Bob. It's now 9:30. So in the interest of everyone's time, we'll now wrap up the Q&A session. Please note on your calendars that Tiffany expects to report its third quarter results on Thursday, December 5th, before the market opens and we'll host a conference call. Thanks to all of you who were participating on this call and to so many of you for your continued interest in Tiffany. I look forward to hearing from you with any additional questions or comments as I begin my IR role here at Tiffany.

Operator, we can now conclude the call.

Operator

Thank you for your participation. You may now disconnect.