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TIFFANY & CO
Form 10-K
March 17, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended January 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____

Commission file number: 1-9494

(Exact name of registrant as specified in its charter)

Delaware

13-3228013

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

727 Fifth Avenue, New York, NY

10022

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (212) 755-8000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

Common Stock, \$.01 par value per share New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of July 31, 2016, the aggregate market value of the registrant's voting and non-voting stock held by non-affiliates of the registrant was approximately \$8,002,474,636 using the closing sales price on July 29, 2016 of \$64.52. See Item

5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities. As of March 13, 2017, the registrant had outstanding 124,564,854 shares of its common stock, \$.01 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE.

The following documents are incorporated by reference into this Annual Report on Form 10-K: Registrant's Proxy Statement Dated April 7, 2017 (Part III).

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The historical trends and results reported in this annual report on Form 10-K should not be considered an indication of future performance. Further, statements contained in this annual report on Form 10-K that are not statements of historical fact, including those that refer to plans, assumptions and expectations for future periods, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements include, but are not limited to, the statements under "2017 Outlook" as well as statements that can be identified by the use of words such as 'expects,' 'projects,' 'anticipates,' 'assumes,' 'forecasts,' 'plans,' 'believes,' 'intends,' 'estimates,' 'pursues,' 'continues,' 'outlook,' 'may,' 'will,' 'can,' 'should' and variations of such words and similar expressions. Examples of forward-looking statements include, but are not limited to, statements we make regarding the Company's plans, assumptions, expectations, beliefs and objectives with respect to store openings and closings; product introductions; sales; sales growth; sales trends; store traffic; the Company's strategy and initiatives and the pace of execution thereon; the Company's objectives to compete in the global luxury market and to improve financial performance; retail prices; gross margin; operating margin; expenses; interest expense and financing costs; effective income tax rate; net earnings and net earnings per share; share count; inventories; capital expenditures; cash flow; liquidity; currency translation; macroeconomic conditions; growth opportunities; litigation outcomes and recovery related thereto; the collectability of amounts due under financing arrangements with diamond mining and exploration companies; contributions to Company pension plans; and certain ongoing or planned real estate, product, marketing, retail, customer experience, manufacturing, supply chain, information systems development, upgrades and replacement, and other operational and strategic initiatives.

These forward-looking statements are based upon the current views and plans of management, speak only as of the date on which they are made and are subject to a number of risks and uncertainties, many of which are outside of our control. Actual results could therefore differ materially from the planned, assumed or expected results expressed in, or implied by, these forward-looking statements. While we cannot predict all of the factors that could form the basis of such differences, key factors include, but are not limited to: global macroeconomic and geopolitical developments; changes in interest and foreign currency rates; changes in taxation policies and regulations; shifting tourism trends; regional instability; violence (including terrorist activities); political activities or events; weather conditions that may affect local and tourist consumer spending; changes in consumer confidence, preferences and shopping patterns, as well as our ability to accurately predict and timely respond to such changes; shifts in the Company's product and geographic sales mix; variations in the cost and availability of diamonds, gemstones and precious metals; adverse publicity regarding the Company and its products, the Company's third-party vendors or the diamond or jewelry industry more generally; any non-compliance by third-party vendors and suppliers with the Company's sourcing and quality standards, codes of conduct, or contractual requirements as well as applicable laws and regulations; changes in our competitive landscape; disruptions impacting the Company's business and operations; failure to successfully implement or make changes to the Company's information systems; gains or losses in the trading value of the Company's stock, which may impact the amount of stock repurchased; and our ability to successfully control costs and execute on, and achieve the expected benefits from, the operational and strategic initiatives referenced above; and any difficulties or delays encountered in identifying a successor chief executive officer. Developments relating to these and other factors may also warrant changes to the Company's operating and strategic plans, including with respect to store openings, closings and renovations, capital expenditures, information systems development, inventory management, and continuing execution on, or timing of, the aforementioned initiatives. Such changes could also cause actual results to differ materially from the expected results expressed in, or implied by, the forward-looking statements.

Additional information about potential risks and uncertainties that could affect the Company's business and financial results is included under "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this annual report on Form 10-K for the fiscal year ended January 31, 2017. Readers of this annual report on Form 10-K should consider the risks, uncertainties and factors outlined above and in

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this Form 10-K in evaluating, and are cautioned not to place undue reliance on, the forward-looking statements contained herein. 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.

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PART I

Item 1. Business.

GENERAL HISTORY AND NARRATIVE DESCRIPTION OF BUSINESS

Tiffany & Co. (the "Registrant") is a holding company that operates through its subsidiary companies (collectively, the "Company"). The Registrant's principal subsidiary is Tiffany and Company ("Tiffany"). Charles Lewis Tiffany founded Tiffany's business in 1837. He incorporated Tiffany in New York in 1868. The Registrant acquired Tiffany in 1984 and completed the initial public offering of the Registrant's Common Stock in 1987. The Registrant, through its subsidiaries, sells jewelry and other items that it manufactures or has made by others to its specifications.

All references to years relate to fiscal years that end on January 31 of the following calendar year.

MAINTENANCE OF THE TIFFANY & CO. BRAND

The TIFFANY & CO. brand (the "Brand") is the single most important asset of Tiffany and, indirectly, of the Company. The strength of the Brand goes beyond trademark rights (see "TRADEMARKS" below) and is derived from consumer perceptions of the Brand. Management monitors the strength of the Brand through focus groups and survey research.

Management believes that consumers associate the Brand with high-quality gemstone jewelry, particularly diamond jewelry; sophisticated style and romance; excellent customer service; an elegant store and online environment; upscale store locations; "classic" product positioning; and distinctive and high-quality packaging materials (most significantly, the TIFFANY & CO. blue box). Tiffany's business plan includes expenses to maintain the strength of the Brand, such as the following:

- Maintaining its position within the high-end of the jewelry market requires Tiffany to invest significantly in diamond and gemstone inventory, which carries a lower overall gross margin; it also causes some consumers to view Tiffany as beyond their price range;
- To provide excellent service, stores must be well staffed with knowledgeable professionals;
- Elegant stores in the best "high street" and luxury mall locations are more expensive and difficult to secure and maintain, but reinforce the Brand's luxury connotations through association with other luxury brands;
- While the classic positioning of much of Tiffany's product line supports the Brand and requires sufficient display space in its stores, management's strategy also includes an active pace of new product introductions which could result in a necessary reallocation of product display space;
- Tiffany's packaging supports consumer expectations with respect to the Brand but is expensive; and
- A significant amount of advertising is required to both reinforce the Brand's association with luxury, sophistication, style and romance, as well as to market specific products.

All of the foregoing require that management make tradeoffs between business initiatives that might generate incremental sales and earnings and Brand maintenance objectives. This is a dynamic process. To the extent that management deems that product, marketing or distribution initiatives will unduly and negatively affect the strength of the Brand, such initiatives have been and will be curtailed or modified appropriately. At the same time, Brand maintenance suppositions are regularly questioned by management to determine if any tradeoff between sales and earnings is truly worth the positive effect on the Brand. At times, management has determined, and may in the future determine, that the strength of the Brand warranted, or that it will permit, more aggressive and profitable product, marketing or distribution initiatives.

FINANCIAL INFORMATION ABOUT REPORTABLE SEGMENTS

The Company has four reportable segments: (i) Americas, (ii) Asia-Pacific, (iii) Japan and (iv) Europe. All non-reportable segments are included within Other. The Company transacts business within certain of its segments through the following channels: (i) retail, (ii) Internet, (iii) catalog, (iv) business-to-business (products drawn from the retail product line and items specially developed for the business market) and (v) wholesale distribution

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(merchandise sold to independent distributors for resale). The Company's segment information for the fiscal years ended January 31, 2017, 2016 and 2015 is reported in "Item 8. Financial Statements and Supplementary Data - Note P. Segment Information."

Americas

Sales in the Americas were 46% of worldwide net sales in 2016, while sales in the U.S. represented 88% of net sales in the Americas. Sales are transacted through the following channels: retail, Internet and catalog (in the U.S. and Canada), business-to-business (in the U.S.) and wholesale distribution (in Central/South America and the Caribbean).

Retail sales in the Americas are transacted in 125 Company-operated TIFFANY & CO. stores in (number of stores at January 31, 2017 included in parentheses): the U.S. (95), Canada (13), Mexico (11), Brazil (5) and Chile (1). Included within these totals are 13 Company-operated stores located within various department stores in Canada and Mexico. Included in the U.S. retail stores is the New York Flagship store, which represented less than 10% of worldwide net sales in 2016.

Asia-Pacific

Sales in Asia-Pacific represented 25% of worldwide net sales in 2016, while sales in Greater China represented more than half of Asia-Pacific's net sales. Sales are transacted through the following channels: retail, Internet (in Australia) and wholesale distribution.

Retail sales in Asia-Pacific are transacted in 85 Company-operated TIFFANY & CO. stores in (number of stores at January 31, 2017 included in parentheses): China (31), Korea (15), Australia (9), Hong Kong (9), Taiwan (8), Singapore (5), Macau (4), Malaysia (2), New Zealand (1) and Thailand (1). Included within these totals are 30 Company-operated stores located within various department stores.

Japan

Sales in Japan represented 15% of worldwide net sales in 2016. Sales are transacted through the following channels: retail, Internet, business-to-business and wholesale distribution.

Retail sales in Japan are transacted in 55 Company-operated TIFFANY & CO. stores. Included within this total are 50 stores located within department stores, generating approximately 75% of Japan's net sales. There are four large department store groups in Japan. The Company operates TIFFANY & CO. stores in locations controlled by these groups as follows (number of locations at January 31, 2017 included in parentheses): Isetan Mitsukoshi Ltd. (13), J. Front Retailing Co., Ltd. (Daimaru and Matsuzakaya department stores) (9), Takashimaya Co., Ltd. (8) and Seven & i Holding Co., Ltd. (Sogo and Seibu department stores) (5). The Company also operates 15 stores in other department stores.

Europe

Sales in Europe represented 11% of worldwide net sales in 2016, while sales in the United Kingdom ("U.K.") represented approximately 40% of European net sales. Sales are transacted through the following channels: retail, Internet and wholesale distribution.

Retail sales in Europe are transacted in 43 Company-operated TIFFANY & CO. stores in (number of stores at January 31, 2017 included in parentheses): the U.K. (10), Italy (9), Germany (6), France (5), Spain (3), Switzerland (3), the Netherlands (2), Austria (1), Belgium (1), the Czech Republic (1), Ireland (1), and Russia (1). Included within these

totals are eight Company-operated stores located within various department stores. Internet sales are conducted within the following countries: U.K., Austria, Belgium, France, Germany, Ireland, Italy, the Netherlands and Spain.

Other

Other consists of all non-reportable segments, including: (i) retail sales and wholesale distribution in the Emerging Markets region (which represented approximately 60% of Other net sales in 2016); (ii) wholesale sales of diamonds

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(see "PRODUCT SUPPLY CHAIN – Supply of Diamonds" below); and (iii) licensing agreements. Retail sales are transacted in five Company-operated TIFFANY & CO. stores in the United Arab Emirates.

Licensing Agreements. The Company receives earnings from a licensing agreement with Luxottica Group for the distribution of TIFFANY & CO. brand eyewear. The earnings received from this licensing agreement represented less than 1% of worldwide net sales in 2016.

In 2015, the Company entered into a licensing agreement with Coty Inc. regarding the development, production and distribution of a new line of TIFFANY & CO. brand fragrances. The Company did not receive any earnings from this agreement in 2015 or 2016, and does not expect any earnings in 2017 to be significant.

Retail Distribution Base

Management regularly evaluates opportunities to optimize its retail store base. This includes evaluating potential markets for new TIFFANY & CO. stores, as well as the renovation, relocation, or, in certain instances, closure of existing stores. Considerations include the characteristics of the markets to be served, consumer demand and the proximity of other luxury brands and existing TIFFANY & CO. locations. Management recognizes that over-saturation of any market could diminish the distinctive appeal of the Brand, but believes that there are a number of opportunities remaining in new and existing markets that will meet the requirements for a TIFFANY & CO. location in the future.

The following chart details the number of TIFFANY & CO. retail locations operated by the Company since 2012:

Year:	U.S.	Americas Canada & Latin America	Asia-Pacific	Japan	Europe	Emerging Markets	Total
2012	91	24	66	55	34	5	275
2013	94	27	72	54	37	5	289
2014	95	27	73	56	39	5	295
2015	95	29	81	56	41	5	307
2016	95	30	85	55	43	5	313

As part of the Company's strategy, management plans to increase gross retail square footage by approximately 3%, net through the addition of new stores, relocations, renovations and closings in 2017. For a summary of the Company's existing retail square footage, see "Item 2. Properties".

E-Commerce

The Company currently operates e-commerce enabled websites in 13 countries as well as informational websites in several additional countries. Sales transacted on those websites accounted for 6% of worldwide net sales in 2016, 2015 and 2014. The Company invests in ongoing website enhancements and is evaluating opportunities to expand its e-commerce sites to additional countries. In addition, management believes that these websites serve a role as marketing tools to attract customers to the Company's stores.

Products

The Company's principal product category is jewelry, which represented 92%, 93% and 92% of worldwide net sales in 2016, 2015 and 2014. The Company offers an extensive selection of TIFFANY & CO. brand jewelry at a wide range of prices. Designs are developed by employees, suppliers, independent designers and independent "named" designers (see "MATERIAL DESIGNER LICENSE" below).

The Company also sells timepieces, leather goods, sterling silver goods (other than jewelry), china, crystal, stationery, fragrances and accessories, which represented, in total, 7% of worldwide net sales in 2016, 2015 and 2014. The remaining approximately 1% of worldwide net sales were attributable to wholesale sales of diamonds and earnings received from a third-party licensing agreement.

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Sales by Reportable Segment of TIFFANY & CO. Jewelry by Category

	% of total Americas Sales	% of total Asia-Pacific Sales	% of total Japan Sales	% of total Europe Sales	% of total Reportable Segment Sales	
2016						
High, fine & solitaire jewelry ^a	21	%22	%14	%15	%20	%
Engagement jewelry & wedding bands ^b	22	%35	%39	%26	%28	%
Fashion jewelry ^c	34	%35	%19	%46	%33	%
Designer jewelry ^d	12	%6	%21	%10	%12	%
2015						
High, fine & solitaire jewelry ^a	22%	24%	16%	16%	21%	%
Engagement jewelry & wedding bands ^b	23%	35%	39%	25%	28%	%
Fashion jewelry ^c	33%	33%	18%	45%	33%	%
Designer jewelry ^d	12%	7%	20%	10%	11%	%
2014						
High, fine & solitaire jewelry ^a	21%	23%	17%	16%	21%	%
Engagement jewelry & wedding bands ^b	23%	37%	41%	24%	29%	%
Fashion jewelry ^c	33%	31%	14%	47%	32%	%
Designer jewelry ^d	12%	7%	21%	10%	12%	%

a) This category includes high, fine and solitaire jewelry (other than engagement jewelry). Most sales in this category are of items containing diamonds, other gemstones or both. Most jewelry in this category is constructed of platinum, although gold was used as the primary metal in approximately 15% of sales in 2016. The average price of merchandise sold in 2016, 2015 and 2014 in this category was approximately \$6,300, \$6,300 and \$5,800 for total reportable segments.

b) This category includes engagement rings (approximately 60% of the category) and wedding bands. Most sales in this category are of items containing diamonds. Most jewelry in this category is constructed of platinum, although gold was used as the primary metal in approximately 10% of sales in 2016. The average price of merchandise sold in 2016, 2015 and 2014 in this category was approximately \$3,400, \$3,500 and \$3,800 for total reportable segments.

c) This category generally consists of non-gemstone jewelry, primarily containing sterling silver and gold jewelry, although small gemstones are used as accents in some pieces. The average price of merchandise sold in 2016, 2015 and 2014 in this category was approximately \$350, \$335 and \$310 for total reportable segments.

This category includes only items that are attributed to one of the Company's "named" designers: Elsa Peretti (refer to "MATERIAL DESIGNER LICENSE" below) and Paloma Picasso. Merchandise primarily consists of sterling silver and gold jewelry, although platinum was used as the primary metal in approximately 15% of sales in 2016.

d) Some of the items sold contain diamonds, other gemstones or a combination of both. The average price of merchandise sold in 2016, 2015 and 2014 in this category was approximately \$530, \$525 and \$535 for total reportable segments.

Items bearing the name of and attributed to one of the Company's "named" designers: Elsa Peretti and Paloma Picasso, which were previously reported across the high, fine & solitaire jewelry, engagement jewelry & wedding bands and fashion jewelry categories, have been reclassified into the designer jewelry category to conform with management's current internal analysis of product sales. Additionally, certain reclassifications within the jewelry categories have been made to the prior years' amounts to conform to the current year category presentation.

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ADVERTISING, MARKETING, PUBLIC AND MEDIA RELATIONS

The Company regularly advertises in newspapers, magazines and through digital media. Public and media relations activities are also significant to the Company's business. The Company engages in a program of media activities and marketing events to maintain consumer awareness of the Brand and TIFFANY & CO. products. It also publishes its well-known Blue Book to showcase its high-end jewelry. In 2016, 2015 and 2014, the Company spent \$299.0 million, \$302.0 million and \$284.0 million, representing 7.5%, 7.4% and 6.7% of worldwide net sales in those respective years, on advertising, marketing and public and media relations, which include costs for media, production, catalogs, Internet, visual merchandising (in-store and window displays), marketing events and other related items.

In addition, management believes that the Brand is enhanced by a program of charitable sponsorships, grants and merchandise donations. The Company also periodically makes donations to The Tiffany & Co. Foundation, a private foundation organized to support 501(c)(3) charitable organizations. The efforts of this Foundation are primarily focused on environmental conservation.

TRADEMARKS

The designations TIFFANY[®] and TIFFANY & CO.[®] are the principal trademarks of Tiffany, and also serve as tradenames. Tiffany has obtained and is the proprietor of trademark registrations for TIFFANY and TIFFANY & CO., as well as the TIFFANY BLUE BOX[®], the TIFFANY BLUE BOX design, TIFFANY BLUE[®] and the color Tiffany Blue for a variety of product categories and services in the U.S. and in other countries.

Tiffany maintains a program to protect its trademarks and institutes legal action where necessary to prevent others either from registering or using marks which are considered to create a likelihood of confusion with the Company or its products.

Tiffany has been generally successful in such actions and management considers that the Company's worldwide rights in its principal trademarks, TIFFANY and TIFFANY & CO., are strong. However, use of the designation TIFFANY by third parties on related or unrelated goods or services, frequently transient in nature, may not come to the attention of Tiffany or may not rise to a level of concern warranting legal action.

Tiffany actively pursues those who produce or sell counterfeit TIFFANY & CO. goods through civil action and cooperation with criminal law enforcement agencies. However, counterfeit TIFFANY & CO. goods remain available in many markets because it is not possible or cost-effective to eradicate the problem. The cost of enforcement is expected to continue to rise. In recent years, there has been an increase in the availability of counterfeit goods, predominantly silver jewelry, on the Internet and in various markets by street vendors and small retailers. Tiffany pursues infringers through leads generated internally and through a network of investigators, legal counsel, law enforcement and customs authorities worldwide. The Company responds to such infringing activity by taking various actions, including sending cease and desist letters, cooperating with law enforcement in criminal prosecutions, initiating civil proceedings and participating in joint actions and anti-counterfeiting programs with other like-minded third party rights holders.

Despite the general fame of the TIFFANY and TIFFANY & CO. name and mark for the Company's products and services, Tiffany is not the sole person entitled to use the name TIFFANY in every category of use in every country of the world; for example, in some countries, third parties have registered the name TIFFANY in connection with certain product categories (including, in the U.S., the category of bedding and, in certain foreign countries, the categories of food, cosmetics, clothing, paper goods and tobacco products) under circumstances where Tiffany's rights were not sufficiently clear under local law, and/or where management concluded that Tiffany's foreseeable business interests

did not warrant the expense of legal action.

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MATERIAL DESIGNER LICENSE

Since 1974, Tiffany has been the sole licensee for the intellectual property rights necessary to make and sell jewelry and other products designed by Elsa Peretti and bearing her trademarks. The designs of Ms. Peretti accounted for 9%, 8% and 8% of the Company's worldwide net sales in 2016, 2015 and 2014.

Tiffany is party to an Amended and Restated Agreement (the "Peretti Agreement") with Ms. Peretti, which largely reflects the long-standing rights and marketing and royalty obligations of the parties. Pursuant to the Peretti Agreement, Ms. Peretti grants Tiffany an exclusive license, in all of the countries in which Peretti-designed jewelry and products are currently sold, to make, have made, advertise and sell these items. Ms. Peretti continues to retain ownership of the copyrights for her designs and her trademarks and remains entitled to exercise approval and consultation rights with respect to important aspects of the promotion, display, manufacture and merchandising of the products made in accordance with her designs. Under and in accordance with the terms set forth in the Peretti Agreement, Tiffany is required to display the licensed products in stores, to devote a portion of its advertising budget to the promotion of the licensed products, to pay royalties to Ms. Peretti for the licensed products sold, to maintain total on-hand and on-order inventory of non-jewelry licensed products (such as tabletop products) at approximately \$8.0 million and to take certain actions to protect Ms. Peretti's intellectual property, including to maintain trademark registrations reasonably necessary to sell the licensed products in the markets in which the licensed products are sold by Tiffany.

The Peretti Agreement has a term that expires in 2032 and is binding upon Ms. Peretti, her heirs, estate, trustees and permitted assignees. During the term of the Peretti Agreement, Ms. Peretti may not sell, lease or otherwise dispose of her copyrights and trademarks unless the acquiring party expressly agrees with Tiffany to be bound by the provisions of the Peretti Agreement. The Peretti Agreement is terminable by Ms. Peretti only in the event of a material breach by Tiffany (subject to a cure period) or upon a change of control of Tiffany or the Company. It is terminable by Tiffany only in the event of a material breach by Ms. Peretti or following an attempt by Ms. Peretti to revoke the exclusive license (subject, in each case, to a cure period).

PRODUCT SUPPLY CHAIN

The Company manufactures jewelry in New York, Rhode Island and Kentucky, polishes jewelry in the Dominican Republic and crafts silver hollowware in Rhode Island. The Company processes, cuts and polishes rough diamonds at facilities outside the U.S. In total, these internal manufacturing facilities produce approximately 60% of the jewelry sold by the Company. The balance, including almost all non-jewelry items, is purchased from third-parties. The Company may increase the percentage of internally-manufactured jewelry in the future, but management does not expect that the Company will ever manufacture all of its needs. Factors considered by management in its decision to use third-party manufacturers include access to or mastery of various product-making skills and technology, support for alternative capacity, product cost and the cost of capital investments. To supply its internal manufacturing facilities, the Company sources precious metals, rough diamonds, polished diamonds and other gemstones, as well as certain fabricated components, from third parties.

Supply of Diamonds. The Company regularly purchases parcels of rough diamonds for polishing and further processing. The vast majority of diamonds acquired by the Company originate from Botswana, Canada, Namibia, Russia, Sierra Leone and South Africa. The Company has diamond processing operations in Belgium, Botswana, Cambodia, Mauritius and Vietnam that prepare and/or cut and polish rough diamonds for its use. The Company conducts operations in Botswana through a subsidiary in which local third-parties own minority, non-controlling interests, allowing the Company to access rough diamond allocations reserved for local manufacturers. The Company maintains a relationship and has an arrangement with these local third-parties; however, if circumstances warrant, the

Company could seek to replace its existing local partners or operate without local partners.

The Company secures supplies of rough diamonds primarily through arrangements with diamond producers and, to a lesser extent, on the secondary market. These arrangements include purchase agreements under which the Company agrees to purchase a minimum volume of rough diamonds, as well as arrangements in which the Company maintains access to rough diamonds that are offered for sale (including as a sightholder), although with no contractual obligation to purchase such rough diamonds. Additionally, the Company has a limited number of arrangements under which the Company, having provided loans to, or made equity investments in, mining projects, has agreed to, or has the right to, purchase a defined portion of a mine's output. All such supply arrangements are generally at the market

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price prevailing at the time of purchase. Management anticipates that its minimum purchase obligations of rough diamonds under all of these arrangements will be approximately \$60.0 million in 2017.

As a result of the manner in which rough diamonds are typically assorted for sale, it is occasionally necessary for the Company to knowingly purchase, as part of a larger assortment, rough diamonds that do not meet the Company's quality standards or assortment needs. The Company seeks to recover its costs related to these diamonds by selling such diamonds to third parties (generally other diamond polishers), which has the effect of modestly reducing the Company's overall gross margins. Any such sales are included in the Other non-reportable segment.

In recent years, approximately 65% - 75% (by dollar value) of the polished diamonds used in the Company's jewelry have been produced from rough diamonds that the Company has purchased. The balance of the Company's needs for polished diamonds is purchased from polishers or polished-diamond dealers generally through purchase orders for fixed quantities. These relationships may be terminated at any time by either party, but such a termination would not discharge either party's obligations under unfulfilled purchase orders accepted prior to the termination. It is the Company's intention to continue to supply the majority of its needs for diamonds by purchasing and polishing rough diamonds.

Products containing one or more diamonds of varying sizes, including diamonds used as accents, side-stones and center-stones, accounted for 59%, 59% and 58% of worldwide net sales in 2016, 2015 and 2014. Products containing one or more diamonds of one carat or larger accounted for 13%, 14% and 14% of worldwide net sales in each of those years.

Conflict Diamonds. Media attention has been drawn to the issue of "conflict" diamonds. This term is used to refer to diamonds extracted from war-torn geographic regions and sold by rebel forces to fund insurrection. Allegations have also been made that trading in such diamonds supports terrorist activities. Management believes that it is not possible in most purchasing scenarios to distinguish diamonds produced in conflict regions from diamonds produced in other regions once they have been polished. Therefore, concerned participants in the diamond trade, including the Company and nongovernment organizations, seek to exclude "conflict" diamonds, which represent a small fraction of the world's supply, from legitimate trade through an international system of certification and legislation known as the Kimberley Process Certification Scheme. All rough diamonds the Company buys, crossing an international border, must be accompanied by a Kimberley Process certificate and all trades of rough and polished diamonds must conform to a system of warranties that references the aforesaid scheme. It is not expected that such efforts will substantially affect the supply of diamonds. In addition, concerns over human rights abuses in Zimbabwe, Angola and the Democratic Republic of the Congo underscore that the aforementioned system has not deterred the production of diamonds in state-sanctioned mines under poor working conditions. The Company has informed its vendors that it does not intend to purchase Zimbabwean, Angolan or Congolese-produced diamonds. Accordingly, the Company has implemented the Diamond Source Warranty Protocol, which requires vendors to provide a warranty, and a qualified independent audit certificate, that loose polished diamonds were not obtained from Zimbabwean, Angolan or Congolese mines.

Worldwide Availability and Price of Diamonds. The availability and price of diamonds are dependent on a number of factors, including global consumer demand, the political situation in diamond-producing countries, the opening of new mines, the continuance of the prevailing supply and marketing arrangements for rough diamonds and levels of industry liquidity. In recent years, there has been substantial volatility in the prices of both rough and polished diamonds. Prices for rough diamonds do not necessarily reflect current demand for polished diamonds.

In addition, the supply and prices of rough and polished diamonds in the principal world markets have been and continue to be influenced by the Diamond Trading Company ("DTC"), an affiliate of the De Beers Group. Although the DTC's historical ability to control worldwide production has diminished due to its lower share of worldwide

production and changing policies in diamond-producing countries, the DTC continues to supply a meaningful portion of the world market for rough, gem-quality diamonds and continues to impact diamond supply through its marketing and advertising initiatives. A significant portion of the diamonds that the Company purchased in 2016 had their source with the DTC.

Sustained interruption in the supply of diamonds, an overabundance of supply or a substantial change in the marketing arrangements described above could adversely affect the Company and the retail jewelry industry as a whole. Changes in the marketing and advertising spending of the DTC and its direct purchasers could affect consumer demand for diamonds.

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The Company purchases conflict-free rough and polished colorless diamonds, in high color and clarity ranges. Management does not foresee a shortage of diamonds in these quality ranges in the short term but believes that, unless new mines are developed, rising demand will eventually create such a shortage and lead to higher prices.

Synthetic and Treated Diamonds. Synthetic diamonds (diamonds manufactured but not naturally occurring) and treated diamonds (naturally occurring diamonds subject to treatment processes, such as irradiation) are produced in growing quantities. Although significant questions remain as to the ability of producers to produce synthetic and/or treated diamonds economically within a full range of sizes and natural diamond colors, and as to consumer acceptance of these diamonds, such diamonds are becoming a larger factor in the market. Should synthetic and/or treated diamonds be offered in significant quantities, the supply of and prices for natural diamonds may be affected. The Company does not produce and does not intend to purchase or sell such diamonds.

Purchases of Precious Metals and Other Polished Gemstones. Precious metals and other polished gemstones used in making jewelry are purchased from a variety of sources for use in the Company's internal manufacturing operations and/or for use by third-party manufacturers contracted to supply Tiffany merchandise. The silver, gold and platinum sourced directly by the Company principally comes from two sources: in-ground, large-scale deposits of metals, primarily in the U.S., that meet the Company's standards for responsible mining and metals from recycled sources. While the Company may supply precious metals to a manufacturer, it cannot determine, in all circumstances, whether the finished goods provided by such manufacturer were actually produced with Company-supplied precious metals.

The Company generally enters into purchase orders for fixed quantities with precious metals and other polished gemstone vendors. Purchases are generally made at prevailing market prices, which have, with respect to precious metals, experienced substantial volatility in recent years. These relationships may be terminated at any time by either party; such termination would not discharge either party's obligations under unfulfilled purchase orders accepted prior to the termination. The Company believes that there are numerous alternative sources for other polished gemstones and precious metals and that the loss of any single supplier would not have a material adverse effect on its operations.

Finished Jewelry. Finished jewelry is purchased from approximately 45 manufacturers. However, the Company does not enter into long-term supply arrangements with its finished goods vendors. The Company does enter into merchandise vendor agreements with nearly all of its finished goods vendors. The merchandise vendor agreements establish non-price terms by which the Company may purchase and by which vendors may sell finished goods to the Company. These terms include payment terms, shipping procedures, product quality requirements, merchandise specifications and vendor social responsibility requirements. The Company generally enters into purchase orders for fixed quantities of merchandise with its vendors. These relationships may be terminated at any time by either party; such termination would not discharge either party's obligations under unfulfilled purchase orders accepted prior to termination. The Company actively seeks alternative sources for its best-selling jewelry items to mitigate any potential disruptions in supply. However, due to the craftsmanship involved in a small number of designs, the Company may have difficulty finding readily available alternative suppliers for those jewelry designs in the short term.

Watches. In 2015, management introduced new TIFFANY & CO. brand watches, which have been designed, produced, marketed and distributed through certain of the Company's Swiss subsidiaries. In support of this introduction, the Company has relationships with approximately 30 component and subassembly vendors to manufacture watches. The terms of the Company's contractual relationships with these vendors are substantially similar to those described under "Finished Jewelry" above. Sales of these new TIFFANY & CO. brand watches represented approximately 1% of worldwide net sales in both 2016 and 2015. While management anticipates an increase in these sales in 2017, it does not expect this new watch business to increase the Company's profitability in 2017, as the Company expects to continue to invest significant resources in marketing to continue to build customer awareness and further establish product differentiation.

COMPETITION

The global jewelry industry is competitively fragmented. The Company encounters significant competition in all product categories. Some competitors specialize in just one area in which the Company is active. Many competitors have established worldwide, national or local reputations for style, quality, expertise and customer service similar to

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the Company and compete on the basis of that reputation. Certain other jewelers and retailers compete primarily through advertised price promotion. The Company competes on the basis of the Brand's reputation for high-quality products, customer service and distinctive merchandise and does not engage in price promotional advertising.

Competition for engagement jewelry sales is particularly and increasingly intense. The Company's retail price for diamond jewelry reflects the rarity of the stones it offers and the rigid parameters it exercises with respect to the cut, clarity and other diamond quality factors which increase the beauty of the diamonds, but which also increase the Company's cost. The Company competes in this market by emphasizing quality.

SEASONALITY

As a jeweler and specialty retailer, the Company's business is seasonal in nature, with the fourth quarter typically representing approximately one-third of annual net sales and a higher percentage of annual net earnings. Management expects such seasonality to continue.

EMPLOYEES

As of January 31, 2017, the Company employed an aggregate of approximately 11,900 full-time and part-time persons. Of those employees, approximately 5,200 are employed in the United States.

AVAILABLE INFORMATION

The Company files annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements and amendments to reports filed or furnished pursuant to Sections 13(a), 14 and 15(d) of the Securities Exchange Act of 1934, as amended. The public may read and copy these materials at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding Tiffany & Co. and other companies that electronically file materials with the SEC. Copies of the Company's reports on Form 10-K, Forms 10-Q and Forms 8-K may be obtained, free of charge, on the Company's website at <http://investor.tiffany.com/financials.cfm>.

Item 1A. Risk Factors.

As is the case for any retailer, the Company's success in achieving its objectives and expectations is dependent upon general economic conditions, competitive conditions and consumer attitudes. However, certain factors are specific to the Company and/or the markets in which it operates. The following "risk factors" are specific to the Company; these risk factors affect the likelihood that the Company will achieve the objectives and expectations communicated by management:

(i) Challenging global economic conditions and related low levels of consumer confidence over a prolonged period of time could adversely affect the Company's sales and earnings.

As a retailer of goods which are discretionary purchases, the Company's sales results are particularly sensitive to changes in economic conditions and consumer confidence. Consumer confidence is affected by general business

conditions; political uncertainties and/or developments; changes in the market value of equity securities and real estate; inflation; interest rates and the availability of consumer credit; tax rates; and expectations of future economic conditions and employment prospects.

Consumer spending for discretionary goods generally declines during times of falling consumer confidence, which negatively affects the Company's sales and earnings.

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Certain competitors may react to such conditions by reducing retail prices and promoting such reductions; such reductions and/or inventory liquidations can have a short-term adverse effect on the Company's sales, especially given the Company's policy of not engaging in price promotional activity.

The Company has invested in and operates a significant number of stores in Greater China and anticipates continuing to do so. Any slowdown in the Chinese economy could have a negative impact on the sales and profitability of stores in Greater China as well as stores in other markets that serve Chinese tourists.

Uncertainty surrounding the current global economic environment makes it more difficult for the Company to forecast operating results. The Company's forecasts employ the use of estimates and assumptions. Actual results could differ from forecasts, and those differences could be material.

(ii) Sales may decline or remain flat in the Company's fourth fiscal quarter, which includes the Holiday selling season.

The Company's business is seasonal in nature, with the fourth quarter typically representing approximately one-third of annual net sales and a higher percentage of annual net earnings. Poor sales results during the fourth quarter would have an adverse effect on annual earnings and inventories in the short-term.

(iii) The Company conducts operations globally, the risks of which could increase its costs, reduce its profits or disrupt its business.

The Company operates globally and generates a majority of its worldwide net sales outside the United States. It also has both U.S. and foreign manufacturing operations, and relies on certain U.S. and foreign third-party vendors and suppliers. In addition, the Company maintains investments in, and has provided loans to, certain foreign suppliers. As a result, the Company is subject to the risks of doing business globally, including:

- the laws, regulations and policies of governments relating to investments, loans and operations, the costs or desirability of complying with local practices and customs and the impact of various anti-corruption and other laws affecting the activities of U.S. companies abroad;
- uncertainties from changes in U.S. or foreign taxation policies, including, for example, as a result of recent proposals to reform the manner in which the earnings of U.S. multinational corporations are taxed by the U.S. government;
- compliance by third party vendors and suppliers with the Company's sourcing and quality standards, codes of conduct, or contractual requirements as well as applicable laws and regulations;
- import and export licensing requirements and regulations, as well as unforeseen changes in regulatory requirements;
- political or economic instability in foreign countries, including the potential for rapid and unexpected changes in government, economic and political policies (including diplomatic and trade relations with other countries), political or civil unrest, acts of terrorism or the threat of international boycotts or U.S. anti-boycott legislation – as a result of, for example, (1) the United Kingdom's referendum vote to exit the European Union, as discussed below, or (2) changes in government policies resulting from the recent change in the U.S. Presidential administration;
- challenges inherent in oversight of foreign operations, systems and controls; for example, in the fourth quarter of 2015, management identified inaccuracies in the Japan segment relating to the timing of recognizing sales and related costs, as well as inventory, at period-ends. Management determined these inaccuracies did not materially affect the Company's annual or quarterly financial statements, including the reported financial information for the Japan segment. However, management has reviewed the processes and personnel involved and completed appropriate remediation activities;
- potential negative consequences from foreign governments' currency management practices;
- uncertainties as to enforcement of certain contract and other rights; and
- inventory risk exposures.

In June 2016, voters in the United Kingdom approved an advisory referendum to withdraw from the European Union, commonly referred to as "Brexit." If passed into law, negotiations will commence to determine the United Kingdom's future relationship with the European Union, including terms of trade. Such negotiations will likely be complex and

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protracted, and there can be no assurance regarding the terms or timing of any such arrangements. A withdrawal could significantly disrupt the free movement of goods, services, and people between the United Kingdom and the European Union, and result in increased legal and regulatory complexities, as well as potential higher costs of conducting business in Europe. There may be similar referendums or votes in other European countries in which the Company does business. The uncertainty surrounding the terms of the United Kingdom's withdrawal and its consequences, as well as the impact of any similar circumstances that may arise elsewhere in Europe, could increase the Company's costs and adversely impact consumer and investor confidence, and the level of consumer discretionary purchases, including purchases of the Company's products.

While these factors and the effect of these factors are difficult to predict, any one or more of them could lower the Company's revenues, increase its costs, reduce its earnings or disrupt its business.

(iv) A strengthening of the U.S. dollar against foreign currencies would negatively affect the Company's sales and profitability.

The Company operates retail stores in more than 20 countries outside of the U.S. and, as a result, is exposed to market risk from fluctuations in foreign currency exchange rates, including, among others, the Japanese Yen, Euro, British Pound, Chinese yuan and the Hong Kong dollar. In 2016, sales in countries outside of the U.S. in aggregate represented more than half of the Company's net sales and earnings from operations. A continued strengthening of the U.S. dollar against foreign currencies would require the Company to raise its retail prices in order to maintain its worldwide relative pricing structure, or reduce its profit margins in various locations outside of the U.S. Consumers in those markets may not accept significant price increases on the Company's goods; thus, there is a risk that a continued strengthening of the U.S. dollar would result in reduced sales and profitability. In addition, a continued weakening of any foreign currency relative to other currencies may negatively affect spending by foreign tourists in the various regions where the Company operates retail stores which would adversely affect its net sales and profitability.

The reported results of operations of the Company's international subsidiaries are exposed to foreign exchange rate fluctuations as the financial results of the applicable subsidiaries are translated from the local currency into U.S. dollars during the process of financial statement consolidation. If the U.S. dollar continues to strengthen against foreign currencies, the translation of these foreign currency-denominated transactions would decrease consolidated net sales and profitability. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." for a discussion of such impacts.

(v) Political activities, regional instability and/or conflict or similar events could disrupt tourist travel and local consumer spending.

Regional and global conflicts or crises, such as military actions, terrorist activities (like those that occurred in several major European cities in 2016 and 2015) and natural disasters, geopolitical or regulatory developments (and any related protests) and other similar events and conditions in the various regions and cities where the Company operates retail stores may negatively affect spending by both foreign tourists and local consumers. The Company's retail stores, many of which are located in major metropolitan areas globally, may in fact have close proximity to the locations of such events – for example, the Company's New York Flagship store is located adjacent to a private residence of the U.S. President which has, at times, impacted consumer access as a result of security measures. The occurrence of the types of events or conditions described above, or the related effect of security measures implemented to address the possibility of such occurrences, could affect consumer traffic and/or spending in one or more of the Company's locations, which could adversely affect the Company's sales and earnings. While sales in the Company's largest store (the New York Flagship) represent less than 10% of worldwide net sales, the impact of significant sales declines in any one store could still be meaningful to consolidated results.

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(vi) Changes in the Company's product or geographic sales mix could affect the Company's profitability.

The Company sells an extensive selection of jewelry and other merchandise at a wide range of retail price points that yield different gross profit margins. Additionally, the Company's geographic regions achieve different operating profit margins due to a variety of factors including product mix, store size and occupancy costs, labor costs, retail pricing and fixed versus variable expenses. The increasing availability of, and ease of access to, retail price information across markets, primarily through the Internet, may affect consumers' decisions regarding in which geographies to shop. If the Company's sales mix were to shift toward products or geographic regions that are significantly different than the Company's plans, it could have an effect, either positively or negatively, on its expected profitability.

(vii) Increases in costs of diamonds and precious metals or reduced supply availability may adversely affect the Company's ability to produce and sell products at desired profit margins.

Most of the Company's jewelry offerings are made with diamonds, gemstones and/or precious metals. A significant increase in the costs or change in the supply of these commodities could adversely affect the Company's business, which is vulnerable to the risks inherent in the trade for such commodities. A substantial increase or decrease in the cost or supply of precious metals and/or high-quality rough and polished diamonds within the quality grades, colors and sizes that customers demand could affect, negatively or positively, customer demand, sales and gross profit margins. Additionally, should synthetic diamonds (diamonds manufactured but not naturally occurring) and/or treated diamonds (naturally occurring diamonds subject to treatment processes, such as irradiation) be offered in significant quantities and gain consumer acceptance, the supply of, demand for and prices for natural diamonds may be affected.

(viii) The Company may be unable to secure and retain sufficient space for its retail stores in prime locations, and maintaining the Company's brand image and desirability to consumers requires significant investment in store construction, maintenance and periodic renovation.

The Company, positioned as a luxury goods retailer, has established its retail presence in choice store locations. Management regularly evaluates opportunities to optimize its retail store base, including potential markets for new TIFFANY & CO. stores, as well as the renovation and relocation of its existing stores. Maintaining the Company's brand image and desirability to consumers requires that stores be constructed and maintained in a manner consistent with that brand image. This requires significant capital investment, including for periodic renovations of existing stores. Renovations of existing stores may also result in temporary disruptions to an individual store's business. For example, the Company has begun the conceptual phase of a multi-year effort to renovate its New York Flagship store, which may result in business and/or consumer traffic disruptions to that store once such renovations begin. If the Company cannot secure and retain store locations on suitable terms in prime and desired luxury shopping locations, or if its investments to construct and/or renovate existing stores do not generate sufficient incremental sales and/or profitability, the Company's sales and/or earnings performance could be jeopardized.

(ix) The value of the TIFFANY & CO. and TIFFANY trademarks could decline due to third-party use and infringement.

The TIFFANY & CO. and TIFFANY trademarks are assets that are essential to the competitiveness and success of the Company's business, and the Company takes appropriate action to protect them. The Company actively pursues those who produce or sell counterfeit TIFFANY & CO. goods through civil action and cooperation with criminal law enforcement agencies. However, use of the designation TIFFANY by third parties on related goods or services and the Company's failure or inability to protect against such use could adversely affect and dilute the value of the TIFFANY & CO. brand.

Notwithstanding the general success of the Company's enforcement actions, such actions have not stopped the imitation and counterfeiting of the Company's merchandise or the infringement of the trademark, and counterfeit TIFFANY & CO. goods remain available in most markets. In recent years, there has been an increase in the availability of counterfeit goods, predominantly silver jewelry, on the Internet and in various markets by street vendors and small retailers. The continued sale of counterfeit merchandise or merchandise that infringes the Company's trademarks could have an adverse effect on the TIFFANY & CO. brand by undermining the Company's reputation for quality goods and making such goods appear less desirable to consumers of luxury goods. Damage to the TIFFANY & CO. brand could result in lost sales and earnings.

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(x) The Company's business is dependent upon the distinctive appeal of the TIFFANY & CO. brand.

The TIFFANY & CO. brand's association with quality and luxury is integral to the success of the Company's business. The Company's expansion plans for retail and direct selling operations and development, production and management support the appeal of the TIFFANY & CO. brand. Consequently, poor maintenance, promotion and positioning of the TIFFANY & CO. brand, as well as market over-saturation, may adversely affect the business by diminishing the distinctive appeal of the TIFFANY & CO. brand and tarnishing its image. This could result in lower sales and earnings.

In addition, adverse publicity regarding TIFFANY & CO. and its products, as well as adverse publicity in respect of, or resulting from, the Company's third-party vendors or the diamond or jewelry industries more generally, could adversely affect the Company's business. For example, the Company sources from third-party vendors certain products that, from time to time, may not, or may contain raw materials that do not, meet the Company's sourcing and quality standards as well as applicable requirements and regulations. In such instances, although the Company may have recourse against such third-party vendors, the Company may self-report to the relevant regulatory agencies, recall affected products and/or pay potential fines. By way of further example, during the Company's regular internal quality testing, the Company identified a potential breach of the Company's sourcing and quality standards applicable to third party vendors. The Company is currently in the early stages of assessing the composition of certain of its gold products manufactured by certain U.S. third-party vendors, which contain gold solder manufactured by other U.S. vendors, to determine whether such products are in compliance with applicable consumer products requirements and regulations.

Any of the above could harm the TIFFANY & CO. brand and reputation, cause a loss of consumer confidence in the TIFFANY & CO. brand, its products and the industry, and/or negatively affect the Company's results of operations.

The considerable expansion in the use of social media in recent years has compounded the potential scope of any negative publicity.

(xi) A significant data security or privacy breach of the Company's information systems could affect its business.

The protection of customer, employee and Company data is important to the Company, and its customers and employees expect that their personal information will be adequately protected. In addition, the regulatory environment surrounding information security and privacy is becoming increasingly demanding, with evolving requirements in the various jurisdictions in which the Company does business. Although the Company has developed and implemented systems and processes that are designed to protect personal and Company information and prevent data loss and other security breaches, such measures cannot provide absolute security. Additionally, the Company's increased use and reliance on web-based hosted (i.e., cloud computing) applications and systems for the storage, processing and transmission of information, including customer and employee information, could expose the Company, its employees and its customers to a risk of loss or misuse of such information. The Company's efforts to protect personal and Company information may also be adversely impacted by data security or privacy breaches that occur at its third-party vendors. While the Company's contractual arrangements with such third-party vendors provide for the protection of Company data, the Company cannot control these vendors or their systems and cannot guarantee that a data security or privacy breach of their systems will not occur in the future. A significant breach of customer, employee or Company data could damage the Company's reputation, its relationship with customers and the TIFFANY & CO. brand and could result in lost sales, sizable fines, significant breach-notification costs and lawsuits as well as adversely affect results of operations. The Company may also incur additional costs in the future related to the implementation of additional security measures to protect against new or enhanced data security and privacy threats, to comply with state, federal and international laws that may be enacted to address those threats or to investigate or address potential or actual data security or privacy breaches.

(xii) Any material disruption of, or a failure to successfully implement or make changes to, information systems could negatively impact the Company's business.

The Company is increasingly dependent on its information systems to operate its business, including in designing, manufacturing, marketing and distributing its products, as well as processing transactions, managing inventory and accounting for and reporting its results. Given the complexity of the Company's global business, it is critical that the Company maintain the uninterrupted operation of its information systems. Despite the Company's preventative efforts, its information systems may be vulnerable to damage, disruption or shutdown due to power outages,

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computer and telecommunications failures, computer viruses, security breaches or natural disasters. Damage, disruption or shutdown of the Company's information systems may require a significant investment to fix or replace them, and the Company could suffer interruptions in its operations in the interim.

In addition, in the ordinary course of business, the Company regularly evaluates and makes changes and upgrades to its information systems. The Company has commenced a multi-year effort to evaluate and, where appropriate, to upgrade and/or replace certain of its information systems, including systems for global customer relationship management, order management and inventory management. These system changes and upgrades can require significant capital investments and dedication of resources. While the Company follows a disciplined methodology when evaluating and making such changes, there can be no assurances that the Company will successfully implement such changes, that such changes will occur without disruptions to its operations or that the new or upgraded systems will achieve the desired business objectives. For example, in 2016 the Company recorded a pre-tax impairment charge of \$25.4 million related to software costs capitalized in connection with the development of a new finished goods inventory management and merchandising information system. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Information Systems Assessment" for a discussion of this impairment charge.

Any damage, disruption or shutdown of the Company's information systems, or the failure to successfully implement new or upgraded systems, such as those referenced above, could have a direct material adverse effect on the Company's results of operations, could undermine the Company's ability to execute on its strategic and operational initiatives, and could also affect the Company's reputation, its ability to compete effectively, its relationship with customers and the TIFFANY & CO. brand, which could result in reduced sales and profitability.

(xiii) The loss or a prolonged disruption in the operation of the Company's centralized distribution centers could adversely affect its business and operations.

The Company maintains two separate distribution centers in close proximity to one another in New Jersey. Both are dedicated to warehousing merchandise; one handles worldwide store replenishment and the other processes direct-to-customer orders. Although the Company believes that it has appropriate contingency plans, unforeseen disruptions impacting one or both locations for a prolonged period of time may result in delays in the delivery of merchandise to stores or in fulfilling customer orders.

(xiv) The loss or a prolonged disruption in the operation of the Company's internal manufacturing facilities could adversely affect its business and operations.

The Company's internal manufacturing facilities produce approximately 60% of the merchandise sold by the Company. Any prolonged disruption to their operations would require the Company to seek alternate sources of production and could have a negative effect on inventory availability and sales until such sources are established.

(xv) If diamond mining and exploration companies to which the Company or its subsidiaries have provided financing were to experience financial difficulties, those funds might not be recovered, which would reduce the Company's earnings.

The Company and its subsidiaries may, from time to time, provide financing to diamond mining and exploration companies in order to obtain rights to purchase mining output. Mining operations are inherently risky, and often occur in regions subject to additional political, social and environmental risks. Given these risks, there is no assurance that the diamond mining and exploration companies subject to these arrangements will be able to meet their obligations to the Company under their financing agreements. If a diamond mining or exploration company defaults under its financing agreement, the Company would be required to evaluate whether it should take a period charge in respect of

all or a portion of the financing, which would affect the Company's earnings.

For example, in 2016 and 2015, the Company recorded impairment charges, and related valuation allowances, of \$4.2 million and \$37.9 million, respectively, associated with a \$43.8 million financing arrangement with Koidu Limited (previously Koidu Holdings S.A.). See "Item 8. Financial Statements and Supplementary Data – Note J. Commitments and Contingencies" for additional information.

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(xvi) There is no assurance that the Company will be able to effectively and successfully grow its new watch business.

In 2015, management introduced new TIFFANY & CO. brand watches, which have been designed, produced, marketed and distributed through certain of the Company's Swiss subsidiaries. The effective development of this watch business has required and will continue to require additional resources and involves risks and uncertainties, including: (i) significant ongoing expenditures; (ii) the need to employ highly specialized and experienced personnel; (iii) new regulatory requirements; (iv) dependence on relatively small supply partners; and (v) production and distribution inefficiencies. Sales of these new TIFFANY & CO. brand watches represented approximately 1% of worldwide net sales in 2016 and 2015. While management anticipates an increase in these sales in 2017, it does not expect this new watch business to significantly contribute to the Company's profitability in the near term. As with any new business, the Company is competing with businesses with stronger market positions and has invested and will continue to invest significant resources in marketing to build customer awareness and to establish product differentiation. There is, however, no assurance that the Company will be able to effectively grow its new watch business or that such business will be successful in growing the Company's revenues or enhancing its profitability.

(xvii) If the Company is unable to effectively anticipate and respond to changes in consumer preferences and shopping patterns, or introduce new products or marketing programs that appeal to new or existing customers, the Company's sales and profitability could be adversely affected.

The Company's continued success depends on its ability to anticipate and respond in a timely and cost-effective manner to changes in consumer preferences for jewelry and other luxury goods, attitudes towards the global jewelry industry as a whole, as well as the manner and locations in which consumers purchase such goods. The Company recognizes that consumer tastes cannot be predicted with certainty and are subject to change, which is compounded by the expanding use of digital and social media by consumers and the speed by which information and opinions are shared. The Company's product development strategy is to introduce new design collections, primarily jewelry, and/or expand certain existing collections annually. In addition, management intends to continue to invest in marketing and public relations programs designed to build awareness of the Brand, its heritage and its products, as well as to enhance the Brand's association among consumers with quality and luxury. There can be no assurance these strategies will appeal to new or existing customers or will result in increased sales or profitability. Further, if the Company is unable to anticipate and respond in a timely and cost-effective manner to changes in consumer preferences and shopping patterns, the Company's sales and profitability could be adversely impacted.

In addition, approximately 75% of the Company's stores are located within luxury department stores and shopping malls and benefit from the ability of those locations to generate consumer traffic. A substantial decline in department store and/or mall traffic may negatively impact the Company's ability to maintain or increase its sales in existing stores, as well as its ability to open new stores.

(xviii) The price of the Company's common stock may periodically rise or fall based on the Company's achievement of earnings forecasts and investors' expectations.

The Company's strategic planning process is designed to maximize its long-term strength, growth, and profitability, and not to achieve an earnings target in any particular fiscal period. Management believes that this longer-term focus is in the best interests of the Company and its stockholders. At the same time, however, the Company recognizes that, from time to time, it may be helpful to provide investors with guidance as to management's annual earnings forecast. If, or when, the Company announces actual results that differ from those that have been forecast by management or others, the market price of the Company's common stock could be adversely affected.

The Company periodically returns value to its stockholders through common stock share repurchases and payment of quarterly cash dividends. The market price of the Company's common stock could be adversely affected if the

Company's share repurchase activity and/or cash dividend rate differs from investors' expectations.

(xix) Recent changes in the Company's executive management team may be disruptive to, or cause uncertainty in, its business, results of operations and the price of the Company's common stock.

On February 5, 2017, Frederic Cumenal stepped down from his position as Chief Executive Officer of the Company, and the Company's Board of Directors appointed Michael J. Kowalski, Chairman of the Board, as the Company's Interim Chief Executive Officer. The Company's Board of Directors has commenced an external search to recruit a successor with the assistance of a leading executive search firm. In addition to this recent change, certain members

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of the Company's executive management team have left the Company in recent years, which has required the Company to focus time and resources on recruiting the new members of its current executive management team. These changes in the Company's executive management team, may be disruptive to, or cause uncertainty in, the Company's business, and any additional changes to the executive management team could have a negative impact on the Company's ability to manage and grow its business effectively. In addition, if the Company is not effective in succession planning, there may be a negative impact on the Company's ability to successfully hire for key executive management roles, including the Chief Executive Officer position, in a timely manner. Any such disruption or uncertainty or difficulty in efficiently and effectively filling key roles could have a material adverse impact on the Company's results of operations and the price of the Company's common stock.

(xx) Environmental and climate changes could affect the Company's business.

The Company operates retail stores in more than 20 countries and has both domestic and foreign manufacturing operations that are susceptible to the risks associated with climate change, including the potential for more frequent and severe weather events. Such events could result in social, cultural and economic disruptions in these areas, including the disruption of local infrastructure and transportation systems that could limit the ability of the Company's employees and/or its customers to access the Company's stores or manufacturing locations. Despite the fact that the Company is pursuing numerous initiatives to reduce its environmental footprint, including its recent pledge to achieve net-zero greenhouse gas emissions by the year 2050, there remains the risk that insufficient global cooperation could lead to heightened levels of climate change. While the Company has a program for reviewing its vulnerability to the impacts of severe weather events and other risks associated with climate change, these events could nonetheless negatively affect the Company's business and operations.

Item 1B. Unresolved Staff Comments.

NONE

Item 2. Properties.

The Company leases its various store premises (other than the New York Flagship store, which is owned by the Company) under arrangements that generally range from 3 to 10 years. The following table provides information on the number of locations and square footage of Company-operated TIFFANY & CO. stores as of January 31, 2017:

	Total Stores	Total Gross Retail Square Footage	Gross Retail Square Footage Range	Average Gross Retail Square Footage
Americas:				
New York Flagship	1	45,500	45,500	45,500
Other stores	124	676,200	1,000 - 17,600	5,500
Asia-Pacific	85	240,600	400 - 12,800	2,800
Japan:				
Tokyo Ginza	1	13,300	13,300	13,300
Other stores	54	140,100	1,600 - 7,500	2,600
Europe:				
London Old Bond Street	1	22,400	22,400	22,400
Other stores	42	135,300	600 - 9,600	3,200
Emerging Markets	5	7,900	400 - 3,600	1,600
Total	313	1,281,300	400 - 45,500	4,100

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NEW YORK FLAGSHIP STORE

The Company owns the building, but not the air rights above the building, housing its New York Flagship store at 727 Fifth Avenue, which was designed to be a retail store for Tiffany and is well located for this function. Approximately 45,500 gross square feet of this 124,000 square foot building are devoted to retail sales, with the balance devoted to administrative offices, certain product services, jewelry manufacturing and storage. The New York Flagship store is also the focal point for marketing and public relations efforts. Sales in this store represent less than 10% of worldwide net sales.

RETAIL SERVICE CENTER

The Company's Retail Service Center ("RSC"), located in Parsippany, New Jersey, comprises approximately 370,000 square feet. Approximately half of the building is devoted to office and information technology operations and half to warehousing, shipping, receiving, merchandise processing and other distribution functions. The RSC receives merchandise and replenishes retail stores. The Company has a 20-year lease for this facility, which expires in 2025, and has two 10-year renewal options.

CUSTOMER FULFILLMENT CENTER

The Company owns the Customer Fulfillment Center ("CFC") in Whippany, New Jersey and leases the land on which the facility resides. The CFC is approximately 266,000 square feet and is primarily used for warehousing merchandise and processing direct-to-customer orders. The land lease expires in 2032 and the Company has the right to renew the lease for an additional 20-year term.

MANUFACTURING FACILITIES

The Company owns and operates jewelry manufacturing facilities in Cumberland, Rhode Island and Lexington, Kentucky, and leases a jewelry manufacturing facility in Pelham, New York as well as a facility in the Dominican Republic which performs certain functions such as jewelry polishing. Lease expiration dates range from 2019 to 2023. The owned and leased facilities total approximately 225,000 square feet.

The Company leases a facility in Belgium and owns facilities in Botswana, Cambodia, Mauritius and Vietnam (although the land in Botswana, Cambodia and Vietnam is leased) that prepare, cut and/or polish rough diamonds for use by Tiffany. These facilities total approximately 280,000 square feet and the lease expiration dates range from 2021 to 2062.

Item 3. Legal Proceedings.

Arbitration Award. On December 21, 2013, an award was issued (the "Arbitration Award") in favor of The Swatch Group Ltd. ("Swatch") and its wholly owned subsidiary Tiffany Watch Co. ("Watch Company"; Swatch and Watch Company, together, the "Swatch Parties") in an arbitration proceeding (the "Arbitration") between the Registrant and its wholly owned subsidiaries, Tiffany and Company and Tiffany (NJ) Inc. (the Registrant and such subsidiaries, together, the "Tiffany Parties") and the Swatch Parties.

The Arbitration was initiated in June 2011 by the Swatch Parties, who sought damages for alleged breach of agreements entered into by and among the Swatch Parties and the Tiffany Parties in December 2007 (the "Agreements"). The Agreements pertained to the development and commercialization of a watch business and, among other things, contained various licensing and governance provisions and approval requirements relating to business,

marketing and branding plans and provisions allocating profits relating to sales of the watch business between the Swatch Parties and the Tiffany Parties.

In general terms, the Swatch Parties alleged that the Tiffany Parties breached the Agreements by obstructing and delaying development of Watch Company's business and otherwise failing to proceed in good faith. The Swatch Parties sought damages based on alternate theories ranging from CHF 73.0 million (or approximately \$73.0 million at January 31, 2017) (based on its alleged wasted investment) to CHF 3.8 billion (or approximately \$3.8 billion at January 31, 2017) (calculated based on alleged future lost profits of the Swatch Parties and their affiliates over the entire term of the Agreements).

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The Registrant believes that the claims of the Swatch Parties are without merit. In the Arbitration, the Tiffany Parties defended against the Swatch Parties' claims vigorously, disputing both the merits of the claims and the calculation of the alleged damages. The Tiffany Parties also asserted counterclaims for damages attributable to breach by the Swatch Parties, stemming from the Swatch Parties' September 12, 2011 public issuance of a Notice of Termination purporting to terminate the Agreements due to alleged material breach by the Tiffany Parties, and for termination due to such breach. In general terms, the Tiffany Parties alleged that the Swatch Parties did not have grounds for termination, failed to meet the high standard for proving material breach set forth in the Agreements and failed to provide appropriate management, distribution, marketing and other resources for TIFFANY & CO. brand watches and to honor their contractual obligations to the Tiffany Parties regarding brand management. The Tiffany Parties' counterclaims sought damages based on alternate theories ranging from CHF 120.0 million (or approximately \$121.0 million at January 31, 2017) (based on its wasted investment) to approximately CHF 540.0 million (or approximately \$542.0 million at January 31, 2017) (calculated based on alleged future lost profits of the Tiffany Parties).

The Arbitration hearing was held in October 2012 before a three-member arbitral panel convened in the Netherlands pursuant to the Arbitration Rules of the Netherlands Arbitration Institute (the "Rules"), and the Arbitration record was completed in February 2013.

Under the terms of the Arbitration Award, and at the request of the Swatch Parties and the Tiffany Parties, the Agreements were deemed terminated. The Arbitration Award stated that the effective date of termination was March 1, 2013. Pursuant to the Arbitration Award, the Tiffany Parties were ordered to pay the Swatch Parties damages of CHF 402.7 million (the "Arbitration Damages"), as well as interest from June 30, 2012 to the date of payment, two-thirds of the cost of the Arbitration and two-thirds of the Swatch Parties' legal fees, expenses and costs. These amounts were paid in full in January 2014.

Prior to the ruling of the arbitral panel, no accrual was established in the Company's consolidated financial statements because management did not believe the likelihood of an award of damages to the Swatch Parties was probable. As a result of the ruling, in the fourth quarter of 2013, the Company recorded a charge of \$480.2 million, which included the damages, interest, and other costs associated with the ruling and which was classified as Arbitration award expense in the consolidated statement of earnings.

On March 31, 2014, the Tiffany Parties took action in the District Court of Amsterdam to annul the Arbitration Award. Generally, arbitration awards are final; however, Dutch law does provide for limited grounds on which arbitral awards may be set aside. The Tiffany Parties petitioned to annul the Arbitration Award on these statutory grounds. These grounds include, for example, that the arbitral tribunal violated its mandate by changing the express terms of the Agreements.

A three-judge panel presided over the annulment hearing on January 19, 2015, and, on March 4, 2015, issued a decision in favor of the Tiffany Parties. Under this decision, the Arbitration Award is set aside. However, the Swatch Parties took action in the Dutch courts to appeal the District Court's decision, and a three-judge panel presided over an appellate hearing in respect of the annulment, and the related claim by the Tiffany Parties for return of the Arbitration Damages and related costs, on June 29, 2016. That panel's decision, which may be appealed to the Supreme Court of the Netherlands, is pending. As a result of this ongoing appellate process, the Arbitration Award may ultimately be upheld by the courts of the Netherlands. Registrant's management expects that the annulment action is not likely to be ultimately resolved until, at the earliest, Registrant's fiscal year ending January 31, 2018.

If the Arbitration Award is finally annulled, management anticipates that the claims and counterclaims that formed the basis of the Arbitration, and potentially additional claims and counterclaims, will be litigated in court proceedings between and among the Swatch Parties and the Tiffany Parties. The identity and location of the courts that would hear such actions have not been determined at this time.

In any litigation regarding the claims and counterclaims that formed the basis of the arbitration, issues of liability and damages will be pled and determined without regard to the findings of the arbitral panel. As such, it is possible that the court could find that the Swatch Parties were in material breach of their obligations under the Agreements, that the Tiffany Parties were in material breach of their obligations under the Agreements or that neither the Swatch Parties nor the Tiffany Parties were in material breach. If the Swatch Parties' claims of liability were accepted by the court, the damages award cannot be reasonably estimated at this time, but could exceed the Arbitration Damages and could have a material adverse effect on the Registrant's consolidated financial statements or liquidity.

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Although the District Court issued a decision in favor of the Tiffany Parties, an amount will only be recorded for any return of amounts paid under the Arbitration Award when the District's Court decision is final (i.e., after all rights of appeal have been exhausted) and return of these amounts is deemed probable and collection is reasonably assured. As such, the Company has not recorded any amounts in its consolidated financial statements related to the District Court's decision.

Additionally, management has not established any accrual in the Company's consolidated financial statements for the year ended January 31, 2017 related to the annulment process or any potential subsequent litigation because it does not believe that the final annulment of the Arbitration Award and a subsequent award of damages exceeding the Arbitration Damages is probable.

Royalties payable to the Tiffany Parties by Watch Company under the Agreements and sales of watches manufactured by Watch Company and sold in TIFFANY & CO. stores were not significant in any year.

In 2015, management introduced new TIFFANY & CO. brand watches, which have been designed, produced, marketed and distributed through certain of the Company's Swiss subsidiaries. The effective development and growth of this watch business has required and will continue to require additional resources and involves risks and uncertainties.

Other Matters. The Company is from time to time involved in routine litigation incidental to the conduct of its business, including proceedings to protect its trademark rights, litigation with parties claiming infringement of patents and other intellectual property rights by the Company, litigation instituted by persons alleged to have been injured upon premises under the Company's control and litigation with present and former employees and customers. Although litigation with present and former employees is routine and incidental to the conduct of the Company's business, as well as for any business employing significant numbers of employees, such litigation can result in large monetary awards when a civil jury is allowed to determine compensatory and/or punitive damages for actions claiming discrimination on the basis of age, gender, race, religion, disability or other legally protected characteristic or for termination of employment that is wrongful or in violation of implied contracts. However, the Company believes that all such litigation currently pending to which it is a party or to which its properties are subject will be resolved without any material adverse effect on the Company's financial position, earnings or cash flows.

Gain Contingency. On February 14, 2013, Tiffany and Company and Tiffany (NJ) LLC (collectively, the "Tiffany plaintiffs") initiated a lawsuit against Costco Wholesale Corp. ("Costco") for trademark infringement, false designation of origin and unfair competition, trademark dilution and trademark counterfeiting (the "Costco Litigation"). The Tiffany plaintiffs sought injunctive relief, monetary recovery and statutory damages on account of Costco's use of "Tiffany" on signs in the jewelry cases at Costco stores used to describe certain diamond engagement rings that were not manufactured by Tiffany. Costco filed a counterclaim arguing that the TIFFANY trademark was a generic term for multi-pronged ring settings and seeking to have the trademark invalidated, modified or partially canceled in that respect. On September 8, 2015, the U.S. District Court for the Southern District of New York (the "Court") granted the Tiffany plaintiffs' motion for summary judgment of liability in its entirety, dismissing Costco's genericism counterclaim and finding that Costco was liable for trademark infringement, trademark counterfeiting and unfair competition under New York law in its use of "Tiffany" on the above-referenced signs. On September 29, 2016, a civil jury rendered its verdict, finding that Costco's profits on the sale of the infringing rings should be awarded at \$5.5 million, and further finding that an award of punitive damages was warranted. On October 5, 2016, the jury awarded \$8.25 million in punitive damages. The aggregate award of \$13.75 million is not final, and is subject to post-verdict motion practice and ultimately to adjustment by the Court. In such post-verdict motion practice, the Tiffany plaintiffs asserted that the profits award should be trebled and that Costco should also pay the Tiffany plaintiffs' legal fees in respect of this matter. Management expects that the Court will enter its final judgment as to the damages and other monetary recovery that Costco will be ordered to pay to the Tiffany plaintiffs during the

Company's 2017 fiscal year. Management also expects that Costco will appeal this judgment, and that the Tiffany plaintiffs will be unable to enforce the judgment while the appeal is pending. As such, the Company has not recorded any amount in its consolidated financial statements related to this gain contingency as of January 31, 2017, and expects that this matter will not ultimately be resolved until, at the earliest, the Company's fiscal year ending January 31, 2018.

Item 4. Mine Safety Disclosures.

Not Applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

In calculating the aggregate market value of the voting stock held by non-affiliates of the Company shown on the cover page of this Annual Report on Form 10-K, 860,775 shares of Common Stock beneficially owned by the executive officers and directors of the Company (exclusive of shares which may be acquired on exercise of employee stock options) were excluded, on the assumption that certain of those persons could be considered "affiliates" under the provisions of Rule 405 promulgated under the Securities Act of 1933, as amended.

Performance of Company Stock

The Registrant's Common Stock is traded on the New York Stock Exchange. In consolidated trading, the high and low selling prices per share for shares of such Common Stock for 2016 were:

	High	Low
First Quarter	\$ 74.06	\$ 59.75
Second Quarter	\$ 72.18	\$ 56.99
Third Quarter	\$ 74.81	\$ 58.77
Fourth Quarter	\$ 85.44	\$ 71.86

On March 13, 2017, the high and low selling prices quoted on such exchange were \$88.93 and \$88.29. On March 13, 2017, there were 14,241 holders of record of the Registrant's Common Stock.

In consolidated trading, the high and low selling prices per share for shares of such Common Stock for 2015 were:

	High	Low
First Quarter	\$ 90.83	\$ 82.64
Second Quarter	\$ 96.33	\$ 84.83
Third Quarter	\$ 96.43	\$ 74.28
Fourth Quarter	\$ 84.19	\$ 59.73

The following graph compares changes in the cumulative total shareholder return on the Company's stock for the previous five fiscal years to returns for the same five-year period on (i) the Standard & Poor's 500 Stock Index and (ii) the Standard & Poor's 500 Consumer Discretionary Index. Cumulative shareholder return is defined as changes in the closing price of the stock on the New York Stock Exchange, plus the reinvestment of any dividends paid on the stock. The graph assumes an investment of \$100 on January 31, 2012 in the Company's common stock and in each of the two indices as well as the reinvestment of any subsequent dividends.

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Total returns are based on market capitalization; indices are weighted at the beginning of each period for which a return is indicated. The stock performance shown in the graph is not intended to forecast or be indicative of future performance.

	1/31/12	1/31/13	1/31/14	1/31/15	1/31/16	1/31/17
Tiffany & Co.	\$ 100.00	\$ 105.24	\$ 135.48	\$ 143.26	\$ 107.59	\$ 136.00
S&P 500 Stock Index	100.00	116.78	141.91	162.09	161.01	193.28
S&P 500 Consumer Discretionary Index	100.00	123.67	157.51	178.00	191.84	223.45

Dividends

It is the Company's policy to pay a quarterly dividend on its Common Stock, subject to declaration by its Board of Directors. In 2015, a dividend of \$0.38 per share of Common Stock was paid on April 10, 2015. On May 28, 2015, the Company announced a 5% increase in its regular quarterly dividend rate to a new rate of \$0.40 per share of Common Stock which was paid on July 10, 2015, October 13, 2015 and January 11, 2016.

In 2016, a dividend of \$0.40 per share of Common Stock was paid on April 11, 2016. On May 26, 2016, the Company announced a 12.5% increase in its regular quarterly dividend rate to a new rate of \$0.45 per share of Common Stock which was paid on July 11, 2016, October 11, 2016 and January 10, 2017.

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Issuer Purchases of Equity Securities

In January 2016, the Registrant's Board of Directors approved the termination of the Company's then-existing share repurchase program, which was approved in March 2014 and had authorized the Company to repurchase up to \$300.0 million of its Common Stock through open market transactions (the "2014 Program"), in favor of a new share repurchase program ("2016 Program"). The 2016 Program, which will expire on January 31, 2019, authorizes the Company to repurchase up to \$500.0 million of its Common Stock through open market transactions, block trades or privately negotiated transactions. Purchases under the 2014 Program were, and purchases under the 2016 Program have been, executed under a written plan for trading securities as specified under Rule 10b5-1 promulgated under the Securities and Exchange Act of 1934, as amended, the terms of which are within the Company's discretion, subject to applicable securities laws, and are based on market conditions and the Company's liquidity needs. Approximately \$310.4 million remained available for repurchase under the 2016 Program at January 31, 2017.

The following table contains the Company's purchases of equity securities in the fourth quarter of 2016:

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (in millions)
November 1, 2016 to November 30, 2016	39,480	\$ 73.10	39,480	\$ 310.4
December 1, 2016 to December 31, 2016	—	\$ —	—	\$ 310.4
January 1, 2017 to January 31, 2017	—	\$ —	—	\$ 310.4
TOTAL	39,480	\$ 73.10	39,480	\$ 310.4

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Item 6. Selected Financial Data.

The following table sets forth selected financial data, certain of which have been derived from the Company's consolidated financial statements for fiscal years 2012-2016, which ended on January 31 of the following calendar year:

(in millions, except per share amounts, percentages, ratios, stores and employees)	2016 ^a	2015 ^b	2014 ^c	2013 ^d	2012	
EARNINGS DATA						
Net sales	\$4,001.8	\$4,104.9	\$4,249.9	\$4,031.1	\$3,794.2	
Gross profit	2,490.3	2,491.3	2,537.2	2,340.4	2,163.3	
Selling, general & administrative expenses	1,769.1	1,731.2	1,645.8	1,555.9	1,466.1	
Net earnings	446.1	463.9	484.2	181.4	416.2	
Net earnings per diluted share	3.55	3.59	3.73	1.41	3.25	
Weighted-average number of diluted common shares	125.5	129.1	129.9	128.9	127.9	
BALANCE SHEET AND CASH FLOW DATA						
Total assets *	\$5,097.6	\$5,121.6	\$5,171.8	\$4,745.1	\$4,628.9	
Cash and cash equivalents	928.0	843.6	730.0	345.8	504.8	
Inventories, net	2,157.6	2,225.0	2,362.1	2,326.6	2,234.3	
Short-term borrowings and long-term debt (including current portion) *	1,107.1	1,095.8	1,107.8	996.3	957.4	
Stockholders' equity	3,028.4	2,929.5	2,850.7	2,734.0	2,611.3	
Working capital	2,940.8	2,778.5	2,850.8	2,431.1	2,485.4	
Cash flows from operating activities	702.1	813.6	615.1	154.7	328.3	
Capital expenditures	222.8	252.7	247.4	221.4	219.5	
Stockholders' equity per share	24.33	23.10	22.04	21.31	20.57	
Cash dividends paid per share	1.75	1.58	1.48	1.34	1.25	
RATIO ANALYSIS AND OTHER DATA						
As a percentage of net sales:						
Gross profit	62.2	% 60.7	% 59.7	% 58.1	% 57.0	%
Selling, general & administrative expenses	44.2	% 42.2	% 38.7	% 38.6	% 38.6	%
Earnings from operations	18.0	% 18.5	% 21.0	% 7.5	% 18.4	%
Net earnings	11.1	% 11.3	% 11.4	% 4.5	% 11.0	%
Capital expenditures	5.6	% 6.2	% 5.8	% 5.5	% 5.8	%
Return on average assets *	8.7	% 9.0	% 9.8	% 3.9	% 9.5	%
Return on average stockholders' equity	15.0	% 16.1	% 17.3	% 6.8	% 16.8	%
Total debt-to-equity ratio *	36.6	% 37.4	% 38.9	% 36.4	% 36.7	%
Dividends as a percentage of net earnings	49.0	% 43.8	% 39.5	% 93.9	% 38.1	%
Company-operated TIFFANY & CO. stores	313	307	295	289	275	
Number of employees	11,900	12,200	12,000	10,600	9,900	

The Company adopted ASU No. 2015-03 – Simplifying the Presentation of Debt Issuance Costs retrospectively as of February 1, 2016. Accordingly, debt issuance costs were reclassified from an asset to a direct deduction from long-term debt in each of the years presented. See "Item 8. Financial Statements and Supplementary Data - Note B. Summary of Significant Accounting Policies" for additional information.

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NOTES TO SELECTED FINANCIAL DATA

a. Financial information and ratios for 2016 include the following amounts, totaling \$38.0 million of pre-tax expense (\$24.0 million net after tax expense, or \$0.19 per diluted share):

\$25.4 million of net pre-tax expense (\$16.0 million net after tax expense, or \$0.13 per diluted share) associated with an asset impairment charge related to software costs capitalized in connection with the development of a new finished goods inventory management and merchandising information system. See "Item 8. Financial Statements and Supplementary Data - Note B. Summary of Significant Accounting Policies" and "Note E. Property, Plant and Equipment" for additional information; and

\$12.6 million of net pre-tax expense (\$8.0 million net after tax expense, or \$0.06 per diluted share) associated with impairment charges related to financing arrangements with diamond mining and exploration companies. See "Item 8. Financial Statements and Supplementary Data - Note B. Summary of Significant Accounting Policies" for additional information.

b. Financial information and ratios for 2015 include the following amounts, totaling \$46.7 million of net pre-tax expense (\$29.9 million net after tax expense, or \$0.24 per diluted share):

\$37.9 million of net pre-tax expense (\$24.3 million net after tax expense, or \$0.19 per diluted share) associated with impairment charges related to a financing arrangement with Koidu Limited. See "Item 8. Financial Statements and Supplementary Data - Note J. Commitments and Contingencies" for additional information; and

\$8.8 million of net pre-tax expense (\$5.6 million net after tax expense, or \$0.05 per diluted share) associated with severance related to staffing reductions and subleasing of certain office space for which only a portion of the Company's future rent obligations will be recovered.

c. Financial information and ratios for 2014 include \$93.8 million of net pre-tax expense (\$60.9 million net after tax expense, or \$0.47 per diluted share) associated with the redemption of \$400.0 million in aggregate principal amount of certain senior notes prior to their scheduled maturities. See "Item 8. Financial Statements and Supplementary Data - Note G. Debt" for additional information.

d. Financial information and ratios for 2013 include the following amounts, totaling \$482.1 million of net pre-tax expense (\$299.2 million net after-tax expense, or \$2.32 per diluted share):

\$480.2 million pre-tax expense associated with the Swatch arbitration award and \$7.5 million pre-tax income associated with a foreign currency transaction gain on this expense. See "Item 8. Financial Statements and Supplementary Data - Note J. Commitments and Contingencies" for additional information regarding the arbitration proceeding; and

\$9.4 million pre-tax expense associated with severance related to staffing reductions and subleasing of certain office space for which only a portion of the Company's future rent obligations will be recovered.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and related notes. All references to years relate to fiscal years which ended on January 31 of the following calendar year.

KEY STRATEGIES

The Company's key strategies are:

• To enhance the customer experience through engaging service and store environments.

To ensure a superior shopping experience, the Company employs highly qualified sales and customer service professionals, focuses on enhancing sales and product training programs, and is investing in enhancing its information systems for customer relationship management. The Company also focuses on enhancing the design of its stores, as well as the creative visual presentation of its merchandise, to provide an engaging luxury experience in both its new and existing stores.

• To regularly develop and introduce new products.

The Company's product development strategy is to introduce new design collections, primarily in jewelry, and/or expand certain existing collections annually, both of which are intended to appeal to the Company's existing customer base as well as to new customers. The Company is also investing in the watch category, which it deems appropriate for the Brand and which presents an incremental long-term growth opportunity.

• To enhance customer awareness of the TIFFANY & CO. trademark (the "Brand"), its heritage, its products and its association with quality and luxury.

The Brand is the single most important asset of Tiffany and, indirectly, of the Company. Management intends to continue to invest in marketing and public relations programs designed to build awareness of the Brand, its heritage and its products, as well as to enhance the Brand's association among consumers with quality and luxury. Management monitors these efforts and the strength of the Brand through market research.

• To expand and optimize its global distribution base.

Management intends to continue to expand and optimize its global store base by evaluating potential markets for new TIFFANY & CO. stores, as well as through the renovation, relocation, or, in certain cases, the closure of existing stores. Management will also continue to pursue opportunities to grow sales through its e-commerce websites and utilize the websites to drive store traffic. Management recognizes that over-saturation of any market could diminish the distinctive appeal of the Brand, but believes that there are a number of potential worldwide locations remaining that meet financial and Brand requirements.

• To improve its business operations and processes, while efficiently managing its capital and costs

The Company is focused on improving its business operations and processes, including by realizing greater efficiencies in its product supply chain and other operations, and enhancing its global procurement capabilities.

•

To maintain substantial control over product supply through direct diamond sourcing and internal jewelry manufacturing.

The Company has developed substantial product supply infrastructure related to the procurement and processing of diamonds and to the manufacturing of jewelry. This infrastructure is intended to ensure adequate product supply and favorable product costs while adhering to the Company's quality and ethical standards. The Company will continue to supplement its internal capabilities through its network of external suppliers.

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Through the efforts above, management is committed to the following long-term financial objectives:

• To achieve improved operating margins, through both improved gross margin and efficient expense management.

Management's long-term objective is to improve gross margin, including through controlling product input costs, realizing greater efficiencies in its product supply chain and adjusting retail prices when appropriate. Additionally, management is focused on efficient selling, general and administrative expense management, thereby generating sales leverage on fixed costs. These efforts are collectively intended to generate a higher rate of operating earnings growth relative to sales growth, and management targets an improvement in operating margin of 50 basis points per year over the long term.

• To increase store productivity and profitability.

Management is focused on increasing the frequency of store visits and the percentage of store visitors who make a purchase, as well as optimal utilization of square footage, to grow sales and sales per square foot.

• To improve inventory and other asset productivity and cash flow.

Management's long-term objective is to maintain inventory growth at a rate less than sales growth, with greater focus on efficiencies in product sourcing and manufacturing as well as optimizing store inventory levels, all of which is intended to contribute to improvements in cash flow and return on assets.

• To maintain a capital structure that provides financial strength and the ability to invest in strategic initiatives, while also allowing for the return of excess capital to shareholders.

2016 SUMMARY

Worldwide net sales decreased 3% to \$4.0 billion reflecting declines in the Americas and Europe partly offset by an increase in Japan and unchanged sales in Asia-Pacific, and comparable store sales decreased 5% due to declines in all regions except Japan. On a constant-exchange-rate basis (see "Non-GAAP Measures"), worldwide net sales decreased 3% and comparable store sales decreased 5% reflecting similar trends.

The Company added a net of 6 TIFFANY & CO. stores (opening seven in Asia-Pacific, three in Europe and one in the Americas, while closing three in Asia-Pacific and one each in Japan and Europe and relocating 5 stores) resulting in a 3% net increase in gross retail square footage.

The Company expanded its offerings within several existing jewelry collections, including its TIFFANY T and RETURN TO TIFFANY® LOVE collections, and introduced new watch designs.

Earnings from operations as a percentage of net sales ("operating margin") decreased 0.5 percentage point. Excluding impairment charges recorded in 2016 and 2015 (see "Non-GAAP Measures"), operating margin decreased 0.7 percentage point. An improvement in gross margin was more than offset by a lack of sales leverage on selling, general and administrative ("SG&A") expenses.

Net earnings decreased 4% to \$446.1 million, or \$3.55 per diluted share. Net earnings in 2016 included impairment charges of \$0.19 per diluted share (see "Non-GAAP Measures") and an income tax benefit of \$0.05 per diluted share (as a result of the conclusion of a tax examination). Net earnings in 2015 included charges of \$0.24 per diluted share (see "Non-GAAP Measures"). Excluding these charges, net earnings per diluted share declined 2% to \$3.75.

Inventories, net decreased 3%.

Cash flow from operating activities of \$702.1 million in 2016, compared with \$813.6 million in 2015. Free cash flow (see "Non-GAAP Measures") of \$479.3 million in 2016, compared with \$560.9 million in 2015. Cash flow from operating activities and free cash flow in 2016 include a voluntary cash contribution of

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\$120.0 million made by the Company to its U.S. pension plan (See "Item 8. Financial Statements and Supplementary Data - Note N. Employee Benefit Plans").

The Company returned cash to shareholders by continuing to pay regular quarterly dividends (which were increased 2.5% effective July 2016 to \$0.45 per share, or an annualized rate of \$1.80 per share) and spending \$183.6 million to repurchase 2.8 million shares of its Common Stock.

RESULTS OF OPERATIONS

Non-GAAP Measures

The Company reports information in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). Internally, management also monitors and measures its performance using certain sales and earnings measures that include or exclude amounts, or are subject to adjustments that have the effect of including or excluding amounts, from the most directly comparable GAAP measure ("non-GAAP financial measures"). The Company presents such non-GAAP financial measures in reporting its financial results to provide investors with useful supplemental information that will allow them to evaluate the Company's operating results using the same measures that management uses to monitor and measure its performance. The Company's management does not, nor does it suggest that investors should, consider non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. These non-GAAP financial measures presented here may not be comparable to similarly-titled measures used by other companies.

Net Sales. The Company's reported net sales reflect either a translation-related benefit from strengthening foreign currencies or a detriment from a strengthening U.S. dollar. Internally, management monitors and measures its sales performance on a non-GAAP basis that eliminates the positive or negative effects that result from translating sales made outside the U.S. into U.S. dollars ("constant-exchange-rate basis"). Sales on a constant-exchange-rate basis are calculated by taking the current year's sales in local currencies and translating them into U.S. dollars using the prior year's foreign exchange rates. Management believes this constant-exchange-rate basis provides a useful supplemental basis for the assessment of sales performance and of comparability between reporting periods. The following table reconciles the sales percentage increases (decreases) from the GAAP to the non-GAAP basis versus the previous year:

	2016			2015		
	GAAP Reported	Translation Effect	Constant- Exchange- Rate Basis	GAAP Reported	Translation Effect	Constant- Exchange- Rate Basis
Net Sales:						
Worldwide	(3)%	—	% (3)%	(3)%	(5)%	2 %
Americas	(5)	—	(5)	(4)	(2)	(2)
Asia-Pacific	—	(1)	1	(2)	(5)	3
Japan	12	12	—	(2)	(12)	10
Europe	(10)	(7)	(3)	(1)	(13)	12
Other	(8)	—	(8)	(13)	—	(13)
Comparable Store Sales:						
Worldwide	(5)%	—	% (5)%	(6)%	(6)%	— %
Americas	(6)	(1)	(5)	(6)	(2)	(4)
Asia-Pacific	(9)	(2)	(7)	(5)	(5)	—
Japan	16	11	5	(7)	(12)	5
Europe	(14)	(5)	(9)	(5)	(14)	9

Other (15) — (15) (15) — (15)

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Statements of Earnings. Internally, management monitors and measures its earnings performance excluding certain items listed below. Management believes excluding such items provides a useful supplemental basis for the assessment of the Company's results relative to the corresponding period in the prior year. The following tables reconcile certain GAAP amounts to non-GAAP amounts:

(in millions, except per share amounts)	GAAP	Impairment charges ^a	Non-GAAP
Year Ended January 31, 2017			
SG&A expenses	\$1,769.1	\$ (38.0)	\$ 1,731.1
As a % of sales	44.2 %		43.3 %
Earnings from operations	721.2	38.0	759.2
As a % of sales	18.0 %		19.0 %
Provision for income taxes ^b	230.5	14.0	244.5
Net earnings	446.1	24.0	470.1
Diluted earnings per share*	3.55	0.19	3.75

*Amounts may not add due to rounding.

^a Expenses associated with the following:

\$25.4 million of net pre-tax expense (\$16.0 million net after tax expense, or \$0.13 per diluted share) associated with an asset impairment charge related to software costs capitalized in connection with the development of a new finished goods inventory management and merchandising information system (see "Information Systems Assessment"); and \$12.6 million of net pre-tax expense (\$8.0 million net after tax expense, or \$0.06 per diluted share) associated with impairment charges related to financing arrangements with diamond mining and exploration companies (see "Financing Arrangements with Diamond Mining and Exploration Companies").

The income tax effect resulting from the adjustments has been calculated as both current and deferred tax benefit (expense), based upon the tax laws and statutory income tax rates applicable in the tax jurisdiction(s) of the underlying adjustment.

(in millions, except per share amounts)	GAAP	Impairment charges ^c	Specific cost-reduction initiatives ^d	Non-GAAP
Year Ended January 31, 2016				
SG&A expenses	\$1,731.2	\$ (37.9)	\$ (8.8)	\$ 1,684.5
As a % of net sales	42.2 %			41.0 %
Earnings from operations	760.1	37.9	8.8	806.8
As a % of net sales	18.5 %			19.7 %
Provision for income taxes ^b	246.0	13.6	3.2	262.8
Net earnings	463.9	24.3	5.6	493.8
Diluted earnings per share	3.59	0.19	0.05	3.83

^c Expenses associated with impairment charges related to a financing arrangement with Koidu Limited (see "Financing Arrangements with Diamond Mining and Exploration Companies").

Expenses associated with specific cost-reduction initiatives which included severance related to staffing reductions and subleasing of certain office space for which only a portion of the Company's future rent obligations will be recovered.

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(in millions, except per share amounts)	GAAP	Debt extinguishment ^e	Non-GAAP
Year Ended January 31, 2015			
Loss on extinguishment of debt	\$ 93.8	\$ (93.8)	\$ —
Provision for income taxes ^b	253.4	32.8	286.2
Net earnings	484.2	60.9	545.1
Diluted earnings per share	3.73	0.47	4.20

^e Expenses associated with the redemption of \$400.0 million in aggregate principal amount of certain senior notes prior to their scheduled maturities (see "Loss on Extinguishment of Debt").

Free Cash Flow. Internally, management monitors its cash flow on a non-GAAP basis. Free cash flow is calculated by deducting capital expenditures from net cash provided by operating activities. The ability to generate free cash flow demonstrates how much cash the Company has available for discretionary and non-discretionary purposes after deduction of capital expenditures. The Company's operations require regular capital expenditures for the opening, renovation and expansion of stores and distribution and manufacturing facilities as well as ongoing investments in information technology. Management believes this provides a useful supplemental basis for assessing the Company's operating cash flows. The following table reconciles GAAP net cash provided by operating activities to non-GAAP free cash flow:

(in millions)	Years Ended January 31,	
	2017	2016
Net cash provided by operating activities	\$ 702.1	\$ 813.6
Less: Capital expenditures	(222.8)	(252.7)
Free cash flow ^a	\$ 479.3	\$ 560.9

^a Free cash flow in 2016 reflects a voluntary cash contribution of \$120.0 million made by the Company to its U.S. pension plan (See "Item 8. Financial Statements and Supplementary Data - Note N. Employee Benefit Plans").

Comparable Store Sales

Comparable store sales include only sales transacted in Company-operated stores open for more than 12 months. Sales for relocated stores are included in comparable store sales if the relocation occurs within the same geographical market. Sales for a new store are not included in comparable store sales if that store was relocated from one department store to another or from a department store to a free-standing location. In all markets, the results of a store in which the square footage has been expanded or reduced remain in the comparable store base.

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Net Sales

The Company generates sales through its retail, Internet, wholesale, business-to-business and catalog channels (see "Item 1. Business - Financial Information about Reportable Segments").

Net sales by segment were as follows:

(in millions)	2016	2015	2014	2016 vs 2015 % Change	2015 vs 2014 % Change
Americas ^a	\$1,841.9	\$1,947.0	\$2,033.5	(5)	(4)
Asia-Pacific ^b	999.1	1,003.1	1,025.2	—	(2)
Japan ^c	604.4	541.3	554.3	12	(2)
Europe ^d	457.6	505.7	513.3	(10)	(1)
Other	98.8	107.8	123.6	(8)	(13)
	\$4,001.8	\$4,104.9	\$4,249.9	(3)	(3)

a) Represented 46% of worldwide net sales in 2016, 47% in 2015 and 48% in 2014, while sales in the U.S. represented 88% of net sales in the Americas in those periods. Total sales in the Company's New York Flagship store represented less than 10% of worldwide net sales in 2016, 2015 and 2014.

b) Represented 25% of worldwide net sales in 2016 and 24% in 2015 and 2014, while sales in Greater China represented more than half of Asia-Pacific's net sales in those periods.

c) Represented 15% of worldwide net sales in 2016 and 13% in 2015 and 2014.

d) Represented 11% of worldwide net sales in 2016 and 12% in 2015 and 2014, while sales in the United Kingdom ("U.K.") represented approximately 40% of European net sales in those periods.

Net Sales — 2016 compared with 2015. In 2016, worldwide net sales decreased \$103.1 million, or 3%, reflecting declines in the Americas and Europe, an increase in Japan and unchanged sales in Asia-Pacific. There was no significant impact from foreign currency translation on worldwide net sales.

In 2016, jewelry sales represented 92% of worldwide net sales. Changes in jewelry sales by product category relative to the prior year were as follows:

(in millions)	\$ Change	% Change
High, fine & solitaire jewelry	\$ (75.0)	(9)%
Engagement jewelry & wedding bands	(20.2)	(2)
Fashion jewelry	(11.8)	(1)
Designer jewelry	4.2	1

The decrease in sales of high, fine & solitaire jewelry reflected declines across the category, while the engagement jewelry & wedding bands category decreased due to a shift in sales mix towards wedding bands. The fashion jewelry category decreased as declines in silver jewelry, although at a smaller rate than in prior year, more than offset increases in gold jewelry.

Items bearing the name of and attributed to one of the Company's "named" designers: Elsa Peretti and Paloma Picasso, which were previously reported across the high, fine & solitaire jewelry, engagement jewelry & wedding bands and fashion jewelry categories, have been reclassified into a designer jewelry category to conform with management's current internal analysis of product sales. Additionally, certain reclassifications within the jewelry categories have been made to the prior years' amounts to conform to the current year category presentation.

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Changes in net sales by reportable segment were as follows:

(in millions)	Comparable Store Sales	Non-comparable Store Sales	Wholesale/Other	Total
Americas	\$ (96.1)	\$ 2.3	\$ (11.3)	\$(105.1)
Asia-Pacific	(80.1)	59.8	16.3	(4.0)
Japan	78.8	(1.3)	(14.4)	63.1
Europe	(59.7)	13.1	(1.5)	(48.1)

In 2016, jewelry sales represented 90%, 98%, 93% and 96% of total sales in the Americas, Asia-Pacific, Japan and Europe, respectively. Changes in jewelry sales relative to the prior year were as follows:

Change in Jewelry Sales	Average Price per Unit Sold		Number of Units Sold
	As Reported	Impact of Currency Translation	
Americas	1 %	—	(6)%
Asia-Pacific	(5)%	(2)%	4 %
Japan	(2)%	11 %	13 %
Europe	(1)%	(6)%	(9)%

Americas. In 2016, total sales decreased \$105.1 million, or 5%, which management attributed to lower sales to U.S. customers and foreign tourist spending (primarily Chinese tourists). Comparable store sales decreased \$96.1 million, or 6%. On a constant-exchange-rate basis, both total sales and comparable store sales decreased 5%.

The decrease in the number of jewelry units sold reflected declines across most categories, particularly in fashion silver jewelry.

Asia-Pacific. In 2016, total sales were approximately equal to the prior year, decreasing \$4.0 million, partly reflecting new stores and increased wholesale sales; comparable store sales decreased \$80.1 million, or 9%. Management attributed performance in this region to increased purchasing by local customers and declines in spending by foreign tourists. In addition, sales growth in China, increased wholesale sales in Korea, a decelerating rate of retail sales declines in Hong Kong and varying performance in other countries. On a constant-exchange-rate basis, total sales increased 1% and comparable store sales decreased 7%.

The increase in the number of jewelry units sold reflected increases in fashion jewelry, particularly in silver jewelry, and wedding bands within the engagement category. Management attributed the decrease in the average price per jewelry unit sold to a shift in mix away from high, fine & solitaire jewelry to fashion jewelry and within the engagement jewelry & wedding bands category toward wedding bands.

Japan. In 2016, total sales increased \$63.1 million, or 12%, and comparable store sales increased \$78.8 million, or 16%. On a constant-exchange-rate basis, total sales were in line with prior year and comparable store sales increased 5%. Management attributed this performance to higher spending by local customers and lower spending by Chinese tourists, as well as lower wholesale sales.

The increase in number of jewelry units sold primarily reflected increases in the fashion jewelry, designer jewelry and the engagement jewelry & wedding bands categories. Management attributed the decrease in the average price per jewelry unit sold to a shift away from the high, fine & solitaire jewelry category to designer jewelry, as well as a shift in sales mix within the fashion jewelry category towards silver jewelry.

Europe. In 2016, total sales decreased \$48.1 million, or 10%, and comparable store sales decreased \$59.7 million, or 14%, which management attributed to lower spending by foreign tourists and local customers across continental Europe. On a constant-exchange-rate basis, total sales decreased 3% and comparable store sales decreased 9%, as

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softness across continental Europe was partially offset by sales increases in the U.K. (particularly in the second half of the year, largely attributable to foreign tourist spending).

The decrease in the number of jewelry units sold reflected decreases across all categories, especially in fashion silver jewelry. Management attributed the decrease in average price per unit sold to the negative effect of currency translation, which offset a favorable shift toward higher-priced products within the engagement jewelry & wedding bands category.

Other. In 2016, total sales decreased \$9.0 million, or 8%, partly due to a \$16.9 million, or 22%, sales decline in the Emerging Markets region partly offset by an increase in wholesale sales of diamonds.

Net Sales — 2015 compared with 2014. In 2015, worldwide net sales decreased \$145.0 million, or 3%, due to lower sales in all regions. The strengthening of the U.S. dollar versus other currencies had the translation effect of reducing worldwide net sales growth by 5%, with net sales on a constant-exchange-rate basis increasing 2% (due to growth in Europe, Japan and Asia-Pacific, while sales in the Americas decreased modestly from the prior year).

In 2015, jewelry sales represented 93% of worldwide net sales. Changes in jewelry sales by product category were as follows:

(in millions)	\$ Change	% Change
High, fine & solitaire jewelry	\$ (16.3)	(2)%
Engagement jewelry & wedding bands	(78.8)	(6)
Fashion jewelry	(16.9)	(1)
Designer jewelry	(20.7)	(4)

The decrease in the high, fine & solitaire jewelry category reflected lower sales of fine jewelry partly offset by increased high jewelry sales. The decrease in the engagement jewelry & wedding bands category reflected decreases in both solitaire diamond rings and wedding bands. The decrease in the fashion jewelry category reflected a decline in sales of entry-level price point jewelry, largely in silver, partly offset by growth in gold jewelry sales. The decrease in designer jewelry primarily reflected decreases in gold and silver jewelry.

Items bearing the name of and attributed to one of the Company's "named" designers: Elsa Peretti and Paloma Picasso, which were previously reported across the high, fine & solitaire jewelry, engagement jewelry & wedding bands and fashion jewelry categories, have been reclassified into the designer jewelry category to conform with management's current internal analysis of product sales. Additionally, certain reclassifications within the jewelry categories have been made to the prior years' amounts to conform to the current year category presentation.

Changes in net sales by reportable segment were as follows:

(in millions)	Comparable Store Sales	Non-comparable Store Sales	Wholesale/Other	Total
Americas	\$ (103.5)	\$ 12.9	\$ 4.1	\$(86.5)
Asia-Pacific	(46.0)	32.7	(8.8)	(22.1)
Japan	(36.4)	9.6	13.8	(13.0)
Europe	(24.0)	11.7	4.7	(7.6)

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In 2015, jewelry sales represented 89%, 98%, 93% and 96% of total sales in the Americas, Asia-Pacific, Japan and Europe, respectively. Changes in jewelry sales relative to the prior year were as follows:

	Average Price per Unit Sold		Number of Units Sold
	As Reported	Impact of Currency Translation	
Change in Jewelry Sales			
Americas	6	% (2)% (11
Asia-Pacific	4	% (5)% (6
Japan	(2)% (12)% —
Europe	—	% (14)% (2

Americas. In 2015, total sales decreased \$86.5 million, or 4%, and comparable store sales decreased \$103.5 million, or 6%, while on a constant-exchange-rate basis, total sales decreased 2% and comparable store sales decreased 4%. Management attributed the decrease in total sales and comparable store sales to lower foreign tourist spending in the U.S. (which management believes was the result of a strong U.S. dollar) as well as to lower sales to U.S. customers. The strong sales growth in Canada and Latin America was more than offset by currency translation.

The decrease in the number of jewelry units sold reflected decreases across most categories, especially in entry-level price point silver jewelry. Management attributed the increase in the average price per jewelry unit sold to price increases and a shift in sales mix toward higher-priced products within the fashion jewelry category and toward high jewelry.

Asia-Pacific. In 2015, total sales decreased \$22.1 million, or 2%, and comparable store sales decreased \$46.0 million, or 5%, while on a constant-exchange-rate basis, total sales increased 3% and comparable store sales were unchanged. Sales rose in China and declined in Hong Kong; overall sales results were negatively affected by currency translation.

The decrease in the number of jewelry units sold primarily reflected declines in entry-level price point silver jewelry. Management attributed the increase in the average price per jewelry unit sold to price increases and a shift in sales mix toward higher-priced products within the fashion jewelry category and toward high jewelry.

Japan. In 2015, total sales decreased \$13.0 million, or 2%, and comparable store sales declined \$36.4 million, or 7%, while on a constant-exchange-rate basis, total sales increased 10% and comparable store sales increased 5%. Management attributed the decrease in sales to currency translation, which offset higher spending by foreign tourists.

Management attributed the decrease in average price per unit sold to currency translation, which offset the favorable effect of price increases and a shift in sales mix toward higher-priced products.

Europe. In 2015, total sales decreased \$7.6 million, or 1%, and comparable store sales declined \$24.0 million, or 5%, while on a constant-exchange-rate basis, total sales increased 12% and comparable store sales increased 9%. Growth across the region, which management attributed to higher spending by foreign tourists and, to a lesser extent, higher sales to local customers was entirely offset by currency translation.

The decrease in the number of jewelry units sold was attributed to soft demand for silver jewelry. Management attributed the increase in average price per jewelry unit sold to price increases and a shift in sales mix toward higher-priced products, entirely offset by currency translation.

Other. In 2015, total sales decreased \$15.8 million, or 13%, partly due to a \$9.2 million, or 11%, sales decline in the Emerging Markets region that largely reflected lower comparable store sales. The remainder of the decrease was related to lower wholesale sales of diamonds.

Store Data. In 2016, the Company increased gross retail square footage by 3%, net, through store openings, closings and relocations. The Company opened 11 stores and closed five: opening seven in Asia-Pacific (three in China, two

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in Australia and one each in Korea and New Zealand), three in Europe (two in Italy and one in the Netherlands) and one in the Americas (in Canada) while closing three stores in Asia-Pacific (two in China and one in Singapore) and one each in Japan and Europe (in Germany). In addition, the Company relocated five existing stores.

In 2015, the Company increased gross retail square footage by 4%, net, through store openings, closings and relocations. The Company opened 16 stores and closed four: opening three in the Americas (in the U.S., Canada and Chile), 11 in Asia-Pacific (five in China, two in Macau and one each in Korea, Singapore, Taiwan and Thailand) and two in Europe (in Spain and Switzerland) while closing one store in the Americas and three stores in Asia-Pacific. In addition, the Company relocated nine existing stores.

Sales per gross square foot generated by all company-operated stores were approximately \$2,700 in 2016, \$2,900 in 2015 and \$3,100 in 2014. The declines in 2016 and 2015 reflected the effects of decreased sales (which in 2015 were negatively affected by currency translation) and growth in retail square footage.

Gross Margin

(in millions)	2016	2015	2014
Gross profit	\$2,490.3	\$2,491.3	\$2,537.2
Gross profit as a percentage of net sales	62.2	% 60.7	% 59.7

Gross margin (gross profit as a percentage of net sales) increased 1.5 percentage points in 2016 reflecting favorable product input costs and the effect of price increases, and, to a lesser extent, favorable changes in product sales mix.

Gross margin increased 1.0 percentage point in 2015 reflecting favorable product input costs that were partly offset by a shift in sales mix to higher-priced, lower-margin products. In addition, the benefit from retail price increases was partly offset by the negative effect from the strong U.S. dollar.

Management periodically reviews and adjusts its retail prices when appropriate to address product input cost increases, specific market conditions and changes in foreign currencies/U.S. dollar relationships. Its long-term strategy is to continue that approach, although significant increases in product input costs or weakening foreign currencies can affect gross margin negatively over the short-term until management makes necessary price adjustments. Among the market conditions that management considers are consumer demand for the product category involved, which may be influenced by consumer confidence, and competitive pricing conditions. Management uses derivative instruments to mitigate certain foreign exchange and precious metal price exposures (see "Item 8. Financial Statements and Supplementary Data – Note H. Hedging Instruments"). Management increased retail prices in both 2016 and 2015 across most geographic regions and product categories, some of which were intended to mitigate foreign currency fluctuations.

Selling, General and Administrative Expenses

(in millions)	2016	2015	2014
As reported:			
SG&A expenses	\$1,769.1	\$1,731.2	\$1,645.8
SG&A expenses as a percentage of net sales	44.2	% 42.2	% 38.7
Excluding items in "Non-GAAP Measures":			
SG&A expenses	\$1,731.1	\$1,684.5	\$1,645.8
SG&A expenses as a percentage of net sales	43.3	% 41.0	% 38.7

SG&A expenses increased \$37.9 million, or 2%, in 2016 and \$85.4 million, or 5%, in 2015. SG&A expenses in 2016 included various impairment charges and, in 2015, included loan impairment charges and certain expenses associated with specific cost-reduction initiatives. See "Non-GAAP Measures" for further details.

SG&A expenses in 2016 (excluding the 2016 and 2015 items noted in "Non-GAAP Measures") increased \$46.6 million, or 3%, largely reflecting increased store occupancy and depreciation expenses and labor and incentive compensation costs. There was no significant effect on SG&A expense changes from foreign currency translation.

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SG&A expenses in 2015 (excluding the 2015 items noted in "Non-GAAP Measures") increased \$38.7 million, or 2%, largely reflecting increased marketing expenses and store occupancy and depreciation expenses partly offset by decreased labor costs (primarily lower variable labor costs for incentive compensation and sales commissions partly offset by increased costs for U.S. pension and postretirement benefit plans). The strengthening of the U.S. dollar had the effect of decreasing SG&A expense growth by 4%.

The Company's SG&A expenses are largely fixed in nature. Variable costs (which include items such as variable store rent, sales commissions and fees paid to credit card companies) typically represent approximately 15 - 20% of total SG&A expenses.

Earnings from Operations (dollars in millions)	2016	2015	2014
As reported:			
Earnings from operations	\$721.2	\$760.1	\$891.4
Operating margin	18.0 %	18.5 %	21.0 %
Percentage point change from prior year	(0.5)	(2.5)	13.5
Excluding other operating expenses:			
Earnings from operations	\$759.2	\$806.8	\$891.4
Operating margin	19.0 %	19.7 %	21.0 %
Percentage point change from prior year	(0.7)	(1.3)	1.3

The declines in both 2016 and 2015 resulted from sales deleveraging of SG&A expenses, which were only partly offset by higher gross margins.

Results by segment are as follows:

(in millions)	2016	% of Net Sales	2015	% of Net Sales	2014	% of Net Sales
Earnings from operations*:						
Americas	\$373.0	20.3 %	\$390.8	20.1 %	\$435.5	21.4 %
Asia-Pacific	256.0	25.6	264.4	26.4	281.6	27.5
Japan	204.6	33.9	199.9	36.9	196.0	35.4
Europe	81.6	17.8	97.4	19.3	110.5	21.5
Other	5.9	6.0	6.4	6.0	4.9	4.0
	921.1		958.9		1,028.5	
Unallocated corporate expenses	(161.9)	(4.0)%	(152.1)	(3.7)%	(137.1)	(3.2)%
Earnings from operations before other operating expenses	759.2	19.0 %	806.8	19.7 %	891.4	21.0 %
Other operating expenses	(38.0)		(46.7)		—	
Earnings from operations	\$721.2	18.0 %	\$760.1	18.5 %	\$891.4	21.0 %

*Percentages represent earnings from operations as a percentage of each segment's net sales.

On a segment basis, the ratio of earnings from operations to each segment's net sales in 2016 compared with 2015 was as follows:

Americas – the ratio increased 0.2 percentage point due to an improvement in gross margin, largely offset by a lack of sales leverage on operating expenses resulting from a decrease in net sales;

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• Asia-Pacific – the ratio decreased 0.8 percentage point due to a lack of sales leverage on operating expenses, primarily attributable to new store-related expenses, partly offset by an improvement in gross margin;

• Japan – the ratio decreased 3.0 percentage points primarily due to a decrease in gross margin that reflected an unfavorable impact tied to the strengthening of the Yen on the Company's program to utilize Yen forward contracts for a portion of its forecasted merchandise purchases; and

• Europe – the ratio decreased 1.5 percentage points due to a decrease in net sales resulting in a lack of sales leverage on operating expenses, partly offset by an improvement in gross margin.

On a segment basis, the ratio of earnings from operations to each segment's net sales in 2015 compared with 2014 was as follows:

• Americas – the ratio decreased 1.3 percentage points due to a decrease in net sales resulting in sales deleveraging of operating expenses, partly offset by an improvement in gross margin;

• Asia-Pacific – the ratio decreased 1.1 percentage points due to increased store-related operating expenses and marketing spending, partly offset by an improvement in gross margin;

• Japan – the ratio increased 1.5 percentage points due to leveraging of operating expenses (as operating expenses decreased at a higher rate than sales), partly offset by a decrease in gross margin attributable to currency translation; and

• Europe – the ratio decreased 2.2 percentage points resulting from increased store-related operating expenses and marketing spending, partly offset by an improvement in gross margin.

Unallocated corporate expenses include costs related to administrative support functions which the Company does not allocate to its segments. Such unallocated costs include those for centralized information technology, finance, legal and human resources departments. Unallocated corporate expenses increased by \$9.8 million in 2016 and \$15.0 million in 2015, primarily due to increased costs, including depreciation and amortization expense, associated with upgrades to the Company's information technology systems as well as increased incentive compensation expense in 2016.

Included in other operating expenses in the table above, the 2016 amount represented \$25.4 million associated with an impairment charge related to software costs capitalized in connection with the development of a new finished goods inventory management and merchandising information system (see "Item 8. Financial Statements and Supplementary Data - Note B. Summary of Significant Accounting Policies and Note E. Property, Plant and Equipment") and \$12.6 million associated with impairment charges related to financing arrangements with diamond mining and exploration companies (see "Item 8. Financial Statements and Supplementary Data - Note B. Summary of Significant Accounting Policies").

Included in other operating expenses in the table above, the 2015 amount represented \$37.9 million associated with impairment charges related to a financing arrangement with Koidu Limited and \$8.8 million of expenses associated with specific cost-reduction initiatives. See "Item 8. Financial Statements and Supplementary Data - Note J. Commitments and Contingencies."

Interest Expense and Financing Costs

Interest expense and financing costs decreased \$3.0 million, or 6%, in 2016 due to lower interest expense. Interest expense and financing costs decreased \$13.9 million, or 22%, in 2015 as a result of lower interest expense on long-term debt (reflecting the October 2014 redemption of long-term debt using proceeds from the issuance of lower-rate long-term debt in September 2014) as well as lower average credit facility borrowings.

Other (Income) Expense, Net

Other (income) expense, net includes interest income as well as gains/losses on investment activities and foreign currency transactions. Net income of \$1.4 million in 2016 compared with net expense of \$1.2 million in 2015. The \$2.6 million change was primarily due to reduced foreign currency transaction losses. Net expense of \$1.2

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million in 2015 compared with net income of \$2.8 million in 2014. The \$4.0 million change was primarily due to foreign currency transaction losses.

Loss on Extinguishment of Debt

In 2014, the Company recorded a loss on extinguishment of debt of \$93.8 million associated with the redemption of all of the aggregate principal amount outstanding of the Company's (i) \$100.0 million principal amount of 9.05% Series A Senior Notes due December 23, 2015; (ii) \$125.0 million principal amount of 10.0% Series A-2009 Senior Notes due February 13, 2017; (iii) \$50.0 million principal amount of 10.0% Series A Senior Notes due April 9, 2018; and (iv) \$125.0 million principal amount of 10.0% Series B-2009 Senior Notes due February 13, 2019 (collectively, the "Private Placement Notes") prior to maturity in accordance with the respective note purchase agreements governing each series of Private Placement Notes, which included provisions for make-whole payments in the event of early repayment.

Provision for Income Taxes

The effective income tax rate was 34.1% in 2016 compared with 34.7% in 2015 and 34.4% in 2014. The effective income tax rate in 2016 was reduced by 1.0 percentage point due to an income tax benefit of \$6.6 million, or \$0.05 per diluted share, resulting from the conclusion of a tax examination during the first quarter of 2016.