CtW Investment Group

May 10, 2017

Michael Kowalski
Chairman and Interim CEO
Tiffany & Co.
727 Fifth Avenue,
New York, New York 10022

Dear Mr. Kowalski,

We would like to reiterate our concerns, urging you to once again cast a wide net to find qualified board candidates to increase women and minority representation on the board. As noted in our earlier letter from March 2017, we believe that the replacement of Charles Marquis as Nominating Committee Chairman is necessary in order to encourage refreshment, and were pleased to learn that Mr. Marquis will be stepping down in 2018. This step and the recent board changes as a result of the agreement between Tiffany & Co. ("Tiffany") and JANA Partners LLC, however, are not sufficient to allay our concerns that the company's board suffers from excessive tenure and a dearth of diversity amongst the company's board members.

The board's composition, coupled with Tiffany's declining sales, call into question the company's ability to actively recruit and retain directors that are best suited for challenging market pressures. For example, the company has suffered from lagging sales, particularly in Europe and the Americas, over eight of the nine past quarters. The company also reported a decline in earnings per share for 2016 compared to 2015, at $3.75 per share from $3.83 per share respectively. These indicators of the company's performance and overall financial health cast serious doubts over the board's ability to oversee and evaluate the company's turnaround strategy. While we appreciate the discretion exercised by the board in limiting waivers related to the board's retirement age policy, we worry that Tiffany has largely failed to recognize the pitfalls of a highly entrenched board.

To improve the company's board composition and encourage greater board refreshment, we ask that the board consider the following actions in advance of Tiffany's annual meeting of stockholders:

- Adopt and implement a policy that requires that the initial list of candidates from which new management-supported director nominees are chosen by the Nominating and Governance Committee should include women and minority candidates (known as the "Rooney Rule").

- Disclose what, if any steps, have been taken to (i) encourage refreshment on the board, separate from the addition of the new JANA directors, and (ii) diversify Tiffany's talent pipeline for possible directors, including whether the company has interviewed at least one or more minority and/or woman candidates. The board should also disclose whether the company has retained a search firm to focus on the recruitment of a minority and/or woman candidate.

The CtW Investment Group works with pension funds sponsored by unions affiliated with Change to Win, a federation of unions representing nearly 5.5 million members, to enhance long term shareholder value through active ownership. These funds invest over $250 billion in the global capital markets and are substantial investors of Tiffany.

The Company has Further Need for Board Refreshment Due to Excessive Tenure

Tiffany's board is largely dominated by directors with lengthy tenures that may compromise their ability to remain objective. The company's average director tenure, at over 12 years even with the new JANA additions, is still significantly higher than the average tenure for S&P 500 companies of 8.2 years in 2016. Further, five directors out of the company's current 12 member board have a tenure of 15 years or more.

Excessive board tenure can lead to a variety of concerns for shareholders, including questions related to the board's ability to provide adequate oversight of the company's business operations and timely responses to ever changing market conditions. As a producer of luxury goods, this skill is particularly important to Tiffany. The current economic and political uncertainty in the United States, Tiffany's largest market, could lead to significant changes to the U.S. tax code and Wall Street regulations that may impact consumers' discretionary income.

Directors with lengthy tenure may become more complacent, and less likely to question the company's operations in the face of these challenges. Such "groupthink" mentality can detrimentally impact the value of a company. While we recognize the importance of long tenured directors' expertise and institutional knowledge, creating and maintaining a board with broad skillsets that can develop fresh ideas is essential to the long term value creation of a company.

Further, the company's attempts to appeal to a younger demographic by partnering with hip jewelry designers like Eddie Borgo and launching its HardWear campaign with Lady Gaga suggests that the board is in desperate need of refreshment given the age of most of the board members, five of which are in their early 70s.[1] The board's average age is about 67 years, compared to the average director age for S&P 500 companies is 62.4 years[2]. While we value directors with significant experience, Tiffany's attempts to target young millennials have largely fallen flat and the lackluster appeal of its products to younger customers is a reflection in part of the company's aging board.

The Board's Composition Remains a Concern, Having Not Added a New Director in Five Years, Outside of the JANA Nominees

Prior to the addition of the JANA board members, Tiffany's board had not added a new director for almost five years. Rather than replace the existing long tenured Tiffany directors with the new JANA directors, the board elected to expand its size from 10 to 13. As a result, the addition of new board members actually reduces the number of women on the board to about 17% and provides no improvement as to the ethnic composition of the board. For a company that has a diverse target consumer base focused on women and various global markets, it is concerning that the board's composition does not reflect its primary demographic. Tiffany's board is also an outlier compared to the S&P 500, where women now constitute approximately 21% of all S&P 500 companies and minority board members now constitute approximately 13.9% of the S&P 500.

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[1] https://www.forbes.com/sites/barrysamaha/2017/03/17/how-tiffany-co-is-luring-millineals-by-partnering-with-the-whitney-biennial-2017/#315152787395

[2] 2017 ISS Board Practices Study, p. 45.

Various studies suggest the correlation between improved company performance and board diversity. By way of example, a study of major S&P 500 companies found that gender and ethnic diversity on a board had a positive effect on firm value. Having a wide variety of perspectives and backgrounds not only encourages healthier debate and new ideas in the boardroom, but also has a demonstrated impact on the company's long term performance. Given the board diversity amongst similar luxury good peers, such as Coach, Tiffany's board appears to have inadequately addressed the issue of recruitment of new directors who offer a more diverse perspective on the company's business endeavors.

The Company Should Adopt a "Rooney Rule" Policy to Encourage More Diverse Board Candidates

We are concerned about Tiffany's lack of any policy on diversity with regards to the consideration of a director nominees. Adoption of a policy that requires the board to, at a minimum, consider diverse candidates would be a substantial improvement to Tiffany's current nominating process. The inclusion of minority or female candidates in the nomination process can help to combat unconscious bias among interviewers and increase the likelihood of diverse candidates overall.

This type of recruitment methodology also prevents boards from merely having a token number of directors of diverse backgrounds on the board, allowing them to evaluate candidates based on their merits rather than as a member of a specific group. The board should adopt a "Rooney Rule" type policy in an effort to both enhance the board diversity of the company now, but also to develop an adequate pool of candidates in the event of future openings on the board.

The Company Should Disclose Their Talent Pipeline Strategy

The board has stated it will be providing limited waivers with regards to its mandatory retirement age of 74 years old for directors and has provided such waiver to Charles Marquis who has committed to leave the board in 2018. Based on this information, we anticipate that within the next three years alone, Tiffany's board will have at least three open seats, making a strong talent pipeline strategy even more crucial as the company attempts to improve its performance. We note that three of the five Nominating Committee members have a tenure of more than 15 years, leading to concerns regarding the efficacy of the company's recruitment process. We also note that the last time Tiffany's appeared to have retained search firm for new directors was 2015, and there is no indication to shareholders regarding the outcome of this search.

Greater diversity amongst board members can help to broaden the talent pool at all levels of the company's work force. While the board provides for annual self-evaluations, shareholders suffer from a lack of disclosure as to what areas of the board's current membership could be improved upon in the eyes of Tiffany's own directors, and what steps may be taken to remedy these concerns. The board should disclose what, if any, steps have been taken to identify and recruit potential diverse candidates prior to the opening of a board seat.

Conclusion

While the company's share price has maintained fairly steady gains, Tiffany's prolonged slump in sales and disappointing financial results remain a concern for long term investors. The composition of the board changed only after the involvement of an activist investor, but these changes did not address long overdue reforms to a board that appears to suffer from tell-tale signs of insularity. A robust recruitment process is an essential part of beginning board refreshment. We urge the board to adopt the changes outlined above to ensure that its composition is as diverse as the customer base that it serves and tries to win over.

We would be happy to discuss our recommendations with you at your convenience. Please contact my colleague Tejal K. Patel at (202) 721-6079 or tejal.patel@ctwinvestmentgroup.com to pursue such discussion.

Thank you.

Dieter Waizenegger
Executive Director