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INDUSTRY REPORT

Retail Jewelry Industry in the U.S. 2016

In this report:

Major retailer sales figures
Diamond prices
U.S. retail jewelry sales figures
Mergers, acquisitions and closures
Online sales

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Retail Jewelry Industry in the U.S. 2016 Report

EXECUTIVE SUMMARY

In 2016, the retail jewelry industry in the United States continued to adapt to falling diamond prices, high numbers of jewelry store closures, and an industry-wide liquidity crunch that, combined with rock-bottom prices offered by online-only retailers and foreign suppliers, is putting downward pressure on gem and jewelry prices at every step of supply chain.

At the retail level, more jewelry businesses in the United States ceased their operations in 2015 than in 2014, while major retailers continued to shutter stores and shrink their distribution networks. Online retail sales across all categories continued to grow at a healthy rate, while sales of jewelry at retail stores in the U.S. grew at the slowest pace since 2011.

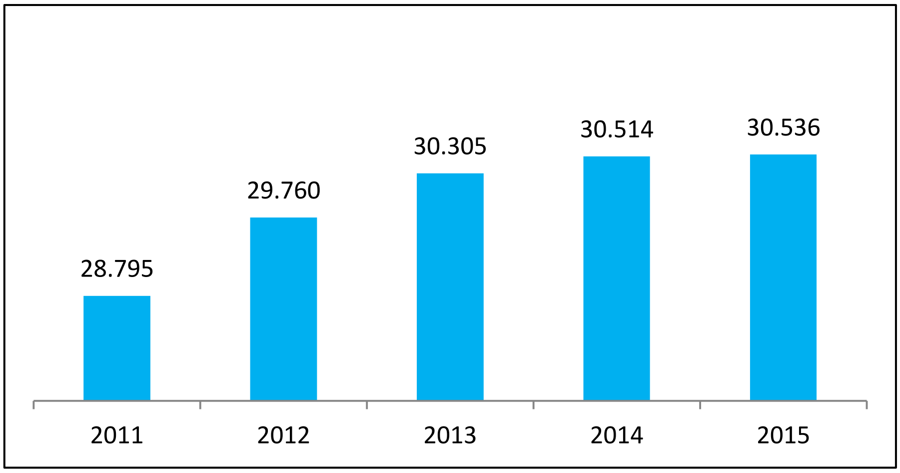
Several of the top U.S. retail jewelry brands reported increased sales and revenues in 2015, however most of these positive reports were calculated using a constant exchange rate; currency fluctuations actually resulted in net revenue losses for many jewelry brands.

Sales growth at U.S. retail jewelry stores was sluggish in 2015.

U.S. RETAIL JEWELRY SALES FIGURES

According to the most recently available figures from the Census Bureau, growth of retail jewelry store sales in the United States from 2011 to 2016 has been sluggish, particularly in the last three years. Total sales at U.S. retail jewelry stores reached $30.53 billion in 2015, only a slight increase from 2014 ($30.51 billion).

TOTAL U.S. RETAIL JEWELRY STORE SALES (IN BILLIONS)



Source: U.S. Census Bureau

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Many top retail jewelers calculate revenues using a constant exchange rate.

Combined with an increasing number of jewelry store closures and business discontinuances, this leveling out of retail jewelry store sales indicates that closures of traditional retail jewelry stores will likely continue unabated for the foreseeable future.

MAJOR RETAILER SALES

Signet

Q4 same-store sales for Signet Jewelers stores grew by 4.9% year-on-year, a marked improvement over the previous year's growth. Kay Jewelers posted same-store sales growth of 7.2% and total sales growth of 8.9% for the holiday season, year-on-year. Jared stores reported modest same-store growth of 2.7% for the holidays, and total sales growth for the season of 6.8% year-on-year.

Zale US Jewelry stores reported 6% net sales growth for the holiday season, and growth of 5.6% in same-store sales, while Zale's Jewelers grew net sales by 7.6% year-on-year during the holidays.

Peoples Jewelers grew net holiday sales by 16.5% year-on-year, while Mappins reported a jump of 25.4% in total holiday sales year-on-year.

Both rough and polished diamond prices continued to fall in 2015.

DIAMOND PRICES

A December 2015 study by Bain & Company revealed that rough diamond prices have fallen by an astonishing 23% since May 2014, while polished prices have fallen 12% in the same period. In the diamond industry, manufacturers, wholesalers and retailers are all seeing their margins shrink as industry players unload inventory at what veteran jewelers say are unsustainable prices. Some say that the only reason sellers are pricing their goods so cheap is that they are chasing liquidity, sacrificing profitability in the process.

Why the mad drive to become liquid? Several industry analysts and executives say that a tightening of financing rules for jewelry businesses by major banks has led to an unprecedented absence of credit for jewelers. The closure of the Antwerp Diamond Bank – in what some speculate was a quick shutdown to avoid scrutiny of the bank's financial practices – has also taken a major source of diamond business loans out of the market.

CLOSURES

Are retail jewelers being affected by these realities? It's hard to tie the performance of the retail jewelry sector to the global diamond market, but data from the Jewelers Board of Trade seems to indicate the answer is yes.

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More than 900 retail jewelry stores in the U.S. closed their doors in 2015.

CLOSURES CONT'D.

276 jewelry businesses in the U.S. closed their doors permanently in the 3rd quarter of 2015, an increase of 25% over the same period in 2014. These closures included 237 retail jewelers, 31 wholesalers and eight manufacturers.

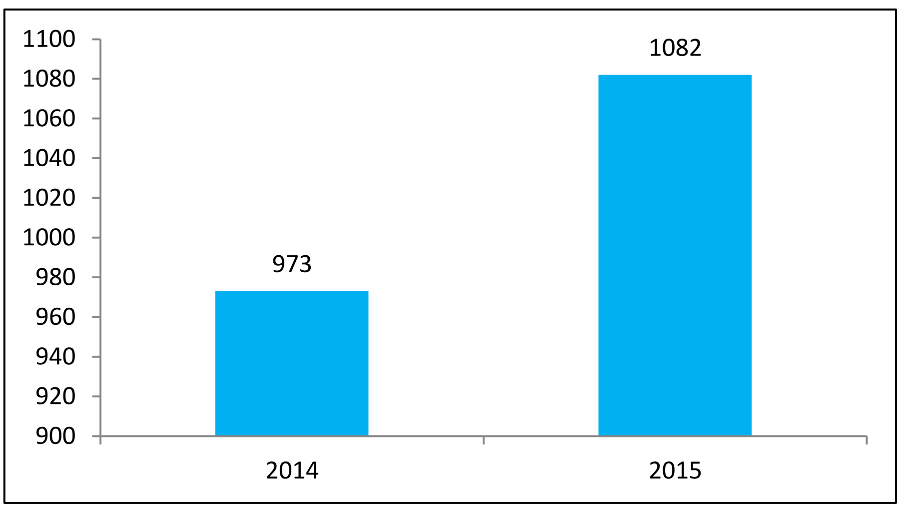
Looking at the whole year, the numbers are equally dismal: 911 North American retail jewelry stores ceased operations in 2015, an increase of 12.5% year-on-year. This shrinkage is balanced somewhat by the fact that the number of jewelry businesses entering the North American market for the first time rose by 10.2% year-on-year in 2015 to reach 292; however, considering that a majority of new businesses of any kind fail within five years, this increase in the creation of new jewelry businesses doesn't necessarily indicate a strong retail jewelry sector.

U.S. jewelry business discontinuances increased sharply in 2015.

BANKRUPTCIES AND MERGERS

Mergers and bankruptcies are also on the rise in the U.S. retail jewelry industry. Jewelry businesses that have gone bankrupt, ceased operations or have been sold or subject to a merger are counted together under a metric called Business Discontinuances. In 2015, a total of 1082 jewelry businesses were discontinued, versus 973 in 2014, an increase of 11%.

U.S. JEWELRY BUSINESS DISCONTINUANCES



Source: Jewelers Board of Trade

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Anglo-American PLC announced that it would lay off 85,000 employees.

RETAILERS, MINING COMPANIES DOWNSIZING

Major retailers are also scaling back their operations: In November 2015, Pandora announced the elimination of 116 retailers from the company's global distribution network, most of which were in the U.S.; in September, Macy's announced the imminent closure of 40 stores and announced plans to lay off 4500 employees.

At the top of the supply chain, the world's largest producers of gems are also cutting costs through mine closures, asset sales and massive layoffs. In December, mining giant Anglo-American PLC announced that it would lay off 85,000 people and sell around 60% of the company's assets in an effort to remain profitable.

Anglo-American's sales fell by 17% in the first half of 2015, representing a loss of nearly $2 billion, while the company's share price had dropped 72% from previous highs by December 2015, mainly due to low commodity prices.

Two prominent jewelry chains in the U.S. ceased operations in 2015.

U.S. JEWELRY CHAIN CLOSURES

Among the retail jewelry store closures that the U.S. market absorbed in 2015, several chains also shuttered operations. At least one chain closed as the result of tax problems and/or illegal activity.

G.M. Pollack & Sons

Maine-based retail jewelry chain G.M. Pollack & Sons had been selling jewelry for more than 60 years, and operated 13 stores at the chain's peak, before going out of business in 2015. In 2010 the chain was ranked #37 by National Jeweler Magazine in their list of the Top 50 Jewelers in North America. G.M. Pollack had remained a family business until it was sold to the store's employees in 2009.

Romano's Jewelers

Romano's Jewelers in California was forced to declare bankruptcy due to unpaid taxes and other bills. As well, the owner of Romano's and two employees were charged with identity theft and fraud after a customer was caught selling stolen financial information to store employees in exchange for payments from the owner; the owner used the information to make fraudulent purchases from his own stores.

Gold prices have actually declined in recent years, from highs reached in 2011.

GOLD PRICES

While gold is currently enjoying an upswing in value, it is important to note that the price of the precious metal has actually fallen considerably over the past 5 years. In late 2011, gold reached a high point of over $1800 an ounce; compared with the current price of just over $1200, we can see that the real gold rally began quite some time ago before falling to lows that are just now being recovered from.

According to the World Gold Council, demand for gold remained robust in 2015, with demand for gold jewelry increasing by 6% year-over-year for Q3 2015. The WGC notes that China and India are the strongest drivers of gold purchases in the world, with the two countries accounting for about 45% of total global gold purchases. However, the United States experienced strong growth in gold purchases in Q3 2015, where sales of US Mint Eagle gold coins increased to their highest level since the 2nd quarter of 2010.

Online purchases made from desktop and mobile devices continue to increase.

ONLINE RETAIL SALES

ComScore analysis of online retail commerce in 2015 shows strong growth in purchases being made from both desktop and mobile platforms. In the first three quarters of 2015, retail sales made via desktop purchases grew 7% year-over-year to reach $179 billion. For the 3rd quarter alone, combined online ecommerce sales reached $69.7 billion, including $11.4 billion in retail purchases made exclusively from mobile devices.

Blue Nile, the dominant online retailer of jewelry, reported a 1.4% increase in year-on-year sales for 2015. Net cash from operating activities was $8 million for the year ending January 2016, compared with $17.2 million for the year ending January 2015.

CONCLUSION

The retail jewelry industry in the U.S. continues to adapt to the rise of online retailing, downward price pressure from economic trends, and unpredictable geopolitical events that impact the global supply chain of gems and precious metals.

Retail and wholesale jewelers in the United States are struggling to compete with foreign suppliers, who are willing to accept razor-thin margins or even losses to convert stones and metals into cash. Banks are requiring more transparency from jewelers, particularly at the top of supply chain, and better loan guarantees from dealers in Europe and North America.

Retail jewelers in the U.S. would do well to invest in efforts to retain their existing customers, improve their online ecommerce abilities, consider smaller retail spaces to reduce overhead, and invest in quality employees who know how to make a sale, can keep customers happy and are savvy about trends and innovations happening in the industry.