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INDUSTRY REPORT

Retail Jewelry Industry in the U.S. 2017

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Nathan Munn

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Retail Jewelry Industry in the U.S. 2017 Report

US retail jewelry store sales grew 3.8 percent in 2016 to reach $30.28 billion.

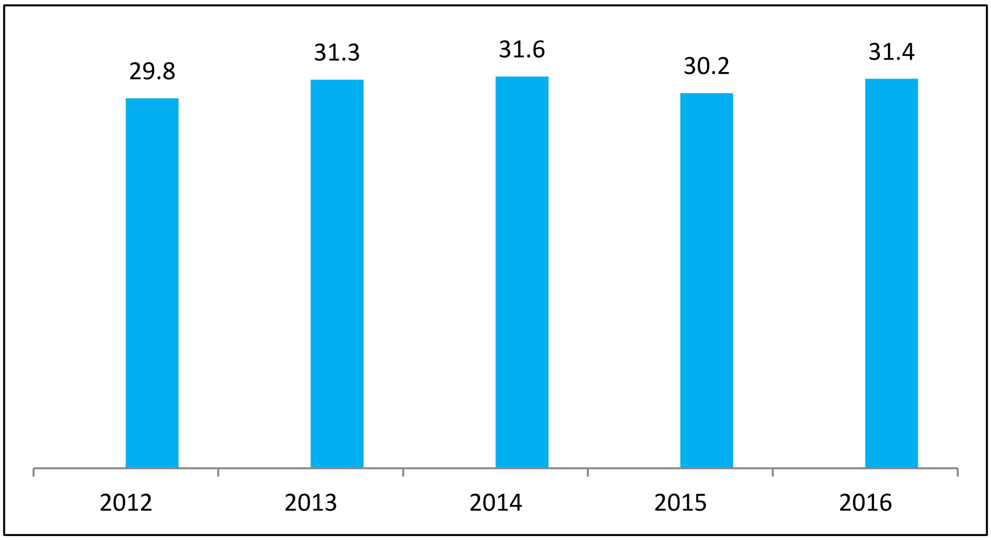
EXECUTIVE SUMMARY

In fiscal 2016, the US retail jewelry industry continued to adapt to the converging long-term trends of a shrinking brick-and-mortar footprint, growth in online sales, and unsteady consumer spending. Total sales of jewelry at US retail jewelry stores increased slightly in 2016 year-over-year but still fell short of 2014 sales figures, data from the latest US Census shows.

US jewelry stores sold $31.43 billion worth of merchandise in 2016, compared with $30.28 billion in 2015, an increase of 3.8 percent.

According to the US Bureau of Economic Analysis, total sales of jewelry across all outlets rose by 4.8 percent year-over-year in 2016.

TOTAL US RETAIL JEWELRY STORE SALES (BILLIONS): 2012 – 2016



Source: US Census

Most Signet Jewelers brands reported a decline in holiday comps in 2016.

HOLIDAY SALES

Figures from Mastercard SpendingPulse indicate that holiday jewelry sales in the US rose 0.7 percent year-over-year in 2016. In December, sales by independent jewelers were up 1.4 percent year-over-year, while total US jewelry sales for 2016 were up 0.4 percent.

A DeBeers survey of 68 Forevermark jewelers found that, for them, holiday diamond sales rose 6.4 percent year-over-year, while diamond sales for all of 2016 were up 7.6 percent.

Signet Jewelers brands reported a near-universal decline in holiday sales. Kay Jewelers holiday comps were down 4.6 percent; Jared down 4.7 percent; and Zales down 3.7 percent. Only piercing Pagoda experienced growth in comps, with a 4.2 increase year-over-year.

Tiffany & Co. reported that comps in the Americas were down 3 percent year-over-year, while Birks reported that US comps were up 16 percent.

OTHER SALES CHANNELS

Jewelry Television (JTV) enjoyed a successful 2016, reporting year-over-year sales growth of nearly 14 percent. The brand's mobile sales and viewership both increased more than 30 percent this year, with holiday sales also up 7 percent year-over-year.

According to data from the US Census Bureau, online sales of goods and services in the US continued to grow steadily throughout 2016. Total ecommerce sales in 2016 were estimated to be $394.9 billion, an increase of 15.1 percent over 2015, and accounted for around 8 percent of all retail sales in the country.

Retailers Macy's, JC Penney and Sears all announced store closures in 2016.

RETAIL LANDSCAPE

All in all, 981 jewelry businesses closed up shop in the first three quarters of 2016. For comparison, a total of 2077 jewelers closed their doors in 2009. The closures are still striking when laid out as a list; JCK did the research and put a list together at the end of the year.

In February 2017, J.C. Penney announced plans to close between 130 and 140 retail stores and offer 6000 employees buyouts as part of the closures. Sales of fine jewelry at JCP outlets have been strong in recent years and the company turned a net profit for the full year in fiscal 2016 for the first time since 2010.

Forevermark jewelry is now available in more than 2000 retail locations, thanks to the company's expansion into Turkey, Hungary, South Korea and Thailand. The brand, which is less than 10 years old, is now active in 25 markets around the world.

Macy's and Sears both announced impending store closures for 2017 – 68 and 150 stores, respectively. Up to 3900 Macy's employees could lose their jobs as a result.

In January, Neiman Marcus withdrew their filing for an Initial Public Offer (IPO), which had been pending since August 2015.

A lawsuit pending by former employees has hurt Signet's stock price.

SIGNET

The stock price of Signet Jewelers fell after a March 2017 announcement that several ex-employees had banded together to bring a sexual discrimination case against Sterling Jewelers, which is owned by Signet. News of the pending lawsuit caused Signet stock to drop by 11 percent to around $65. The stock had previously reached a high of $150 in October 2015.

Signet may also be engaging in some questionable business practices in terms of how the corporation's in-house financing department balances their books. An analyst quoted in the New York Times believes that Signet may be loosening their credit standards in order to let customers buy more jewelry, a situation that may not be prudent for the company's long term stability.

The policy does do wonders for sales figures, however: for every 1 percent of Signet jewelry sales funded by the company financing program, nearly 4 percent of the company's total profits (before taxes) are generated.

Unfortunately, in the last nine months Signet's charge-off rate has risen by 8.1 percent, while cash reserves have only risen by 0.1 percent.

High gold prices contributed to weak demand for gold jewelry in 2016.

GOLD JEWELRY

According to a report from the World Gold Council, demand for gold jewelry in the U.S. dropped by 1 percent in 2016. Worldwide, demand for gold jewelry fell by 15 percent year-over-year to hit a 7-year low of just over 2040 tons. The WGC blamed the decline in demand on high gold prices.

WATCHES

In global markets, sales of precious metal timepieces declined steadily in 2016, and continued the downward trend in January 2017. From December 2016 to January 2017, sales of precious metal watches fell by 21.7 percent in Japan; 7.7 percent in Germany; and 3.9 percent in Hong Kong. Some countries enjoyed month-over-month increases in sales, however: in the US, sales were up by 5 percent; in China, 7.8 percent; and in the UK 0.9 percent.

TRENDS

Lockets, Victorian-inspired necklace and bracelet designs, opals, simple gold bands and nature-themed jewelry are all currently popular. Gold and diamond bands, priced from $400 - $2000, are being offered by several producers. The Victorian aesthetic is becoming increasingly popular among producers as vintage-styled jewelry continues to make inroads into the mainstream.

Colored-stone jewelry also continues to be popular. Peridot, amethyst, alexandrite, emerald, blue and yellow sapphire, tanzanite and opal are all prominently featured in contemporary jewelry.

De Beers reported a 30 percent increase in revenue for fiscal 2016.

DIAMOND DEMAND

Russian diamond mining conglomerate Alrosa announced 2016 revenues of $5.5 billion, an increase of 41 percent year-over-year. Analysts noted that increased demand and a drop in the value of the ruble contributed to the revenue increase.

Total diamond sales for the company, including polished and rough, rose 33 percent to reach 40 million carats.

Diamond production fell by 2 percent year-over-year to 37.4 million carats in 2016.

De Beers reported a revenue increase of 30 percent for 2016, bringing total revenues to $6.1 billion. The company announced that rough sales also increased by 37 percent, generating $5.6 billion.

The company's rough production fell to 27.3 million carats in 2016, a drop of 5 percent, but consolidated sales volumes grew by 50 percent year-over-year to reach 30 million carats.

Notably, production at De Beers' Canadian mining operation fell significantly, dropping 45 percent year-over-year to 1 million carats.

MISCELLANEOUS

Regulation. Reuters news agency reported that an executive order from U.S. President Donald Trump could suspend section 1502 of the Dodd-Frank Act, which requires public jewelry companies to report if their products contain conflict minerals.

Synthetics. Lab-grown diamonds continue to infiltrate supply chain. In March 2017, testers at the Gemological Institute of America discovered that nearly a third of the stones in a melee they were testing were lab-grown.

LVMH bought out by De Beers. The De Beers Diamond Jewellers retail chain, originally a partnership between the diamond conglomerate and LVMH, is now owned entirely by De Beers.

Movado, Hilfiger, Hugo Boss partner with Google on smart watches. The partnerships were announced in March 2017.

Baselworld is shrinking. The 2017 edition of the Baselworld event welcomed 13 percent fewer exhibitors than in 2016.

Myanmar sanctions lifted. Rubies from Myanmar, formerly Burma, can now be imported into the U.S.

POLYGON MEMBERS: THOUGHTS ON THE INDUSTRY

“From a wholesaler’s [perspective], it's been dismal. I think 2016 was great, but 2017 post elections it has just dropped off. The newer generations don't see jewelry as a necessity or even a luxury - they would rather [spend their] money on Apple or Samsung. Also, I feel that people in their late teens to early 40s [are] not buying fine watches.” *Vineet Gupta, B.G. Intl. Gems, Inc.*

“The political landscape [is uncertain].There was a solid post-election retail bump, but that has ended. Younger consumers see diamonds as a scam; my fashion-forward clients think they're old fashioned and a bad investment. As both a retailer and investor I own zero white diamonds. Why should I? They're always available on memo, and thanks to a dealer glut, wholesale margins are paper thin.” *Johnny Brookheart, ABBGS*

“As a retailer, we are starting to see movement (too small and too early to call it a "trend") of [women] who had bought alternative stones for their engagement ring (morganite, moonstone, garnet, etc.) wanting to trade [the stones] in and replace with diamond.” *Mark Perle*

“Diamonds are still in demand; in fact the numbers keep going up each year. [But] Millennial buyers don't have a lot of money. Internet [sellers] are getting the [business] [as] most retailers are still pricing their (generic) diamonds (over 75 points) at unrealistic prices today. GIA is screwing up the market by having "two-tier grading standards". We need to offer better products and give reasons why our offerings are different and better.” *Gary W. Wright*

“2016 set another sales record for our store and 2017 has been okay [so far]. I must disagree with posters who state the younger generation sees diamonds as a scam. Yes, there are some who see it that way and look for alternatives, but in my area, the bridal business is as strong as ever. In addition, we have five people in the store who actually design and create jewelry and that is something that very few stores can say.” *Gary Youngberg, AMES Silversmithing*

POLYGON MEMBERS: THOUGHTS ON THE INDUSTRY

“Most customers are coming to sell their jewelry, instead of buying new jewelry. 2016 was horrible, [but] the first 3 months of 2017 have been great. Uncertain [about] the future - there probably won’t be 5th a generation entering our family business.” *Justin Miller, Millers International Diamond Cutters Inc.*

“The whole "Millennials hate diamonds" thing does have some merit but is overblown in my opinion… We have young couples all the time who shop for diamond engagement rings. Business-wise, our OTC is great, diamond sales are up in our downtown store and [in] our luxury watch store. The internet has essentially almost ruined the business. We survivors have had to learn the ways of lowering prices to compete with Blue Niles of the world and/or make it up with incredible customer service. In our fancy mall luxury watch store, sales are robust but profits are lean.” *Jeffrey Hess, Hess Fine Art & Jewels*

“So many people were using our store to come in and try on [a] watch, then go online to purchase it. So now we carry just Shinola (which has been flying out the door), Luminox (big with outdoors types, law enforcement and military) and our certified pre-owned. 2016 was down again for us, [but] the last quarter was one of the best quarters we have seen. We are primarily a bridal store and we close about 95% of our bridal presentations; however the number of presentations we do on a daily basis has definitely dropped significantly. Millennials want an experience, so give it to them. Go the custom route, make them a part of it [instead of] picking something out of the case.” *Sheffield’s Diamonds, Inc.*