

INDUSTRY OVERVIEW

The jewelry industry continued to shine during the second half of 2013. According to IDEX Online Research, fine jewelry and watch sales reached a record \$79.5 billion in 2013, a 7.8% increase from 2012. Jewelry was one of the most popular gifts during the holiday season, leading to a 6.9% increase in sales during November and December. Although jewelry is generally considered a luxury item, this holiday season many consumers viewed it as both an investment and a more meaningful gift than apparel or electronics. In addition, shoppers tended to spend more on fewer people this year, choosing more expensive gifts for those who mattered most. Jewelry retailers capitalized on this via their marketing campaigns, which tugged at the heart strings and promoted themes like love and family.



TREND TRACKER

Three month NOLVs	Increasing ↑
Sales Trends	Increasing ↑
Gross Margin	Consistent
Discounting	Decreasing ↓

NOLVs: NOLVs have been increasing up to 0.5 percentage points.

Sales Trends: Sales have been up throughout the industry.

Gross Margin: Gross margin has been relatively stable for most retailers as the positive impact of lower commodity prices has yet to be fully realized.

Discounting: Discounting has decreased. Although some discounting is used in-store, promotions are not being heavily advertised and the overall promotional message is muted.

Commodity	Current Price	% Change LY
Gold	\$1,337	(14.1%)
Silver	\$21.16	(24.6%)
Platinum	\$1,456	(7.6%)

Note(s): Prices are as of March 4, 2014.

KEY INDUSTRY DRIVERS

- **Merger:** In late February, UK-based Signet Jewelers announced it was acquiring chief rival Zale Corp. for \$690 million. This merger will create a jewelry behemoth with stores throughout the U.S., Canada, and the UK.
- **Mid-tier versus high-end:** Mid-tier jewelry stores such as Zale, Kay, and Jared had been outperforming higher end stores; however, this trend reversed during the holidays. Tiffany & Co. reported a 7.0% increase in comparable store sales in the Americas for November/December. Zale's comparable store sales for the November/December timeframe increased 2.0%. Signet, which operates Kay and Jared in the U.S., reported that comparable store sales in the U.S. increased 4.9% for the eight weeks ended December 28, 2013.
- **Pricing:** After surging to record highs during the recession, gold prices declined nearly 30% in 2013. Prices for silver, diamonds, and platinum also declined. Although acquisition costs have fallen, retailers have generally maintained prices in order to boost margin and allow more flexibility with promotions.
- **Product trends:** Retailers continue to use proprietary and exclusive brands to differentiate themselves. In recent months, sales have been driven by bridal jewelry, colored stones, and charm bracelets. White gold and alternative metals remain popular, but yellow gold is beginning to make a comeback. Watch sales have also rebounded, particularly men's luxury watches and women's fashion watches. However, as "smart" watches are unveiled, demand for men's and women's timepieces could wane.

SALES TRENDS

The following table illustrates comparable store sales trends for major public jewelry retailers (Represents the most recent fiscal quarter sales reported):

	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Zale Corp.	1.9%	4.4%	5.6%	1.4%
Signet/Sterling	N/A	4.2%	4.9%	8.1%
Tiffany & Co.	N/A	1.0%	0.0%	3.0%
Blue Nile	7.2%	10.1%	18.7%	16.9%

Note(s): The most recent quarter for Zale ended January 31, 2014; Signet/Sterling ended November 2, 2013; Tiffany & Co. ended October 31, 2013; Blue Nile ended December 29, 2013 and represents net sales.

OUTLOOK

The jewelry industry is expected to continue to perform well over the next several months. Retailers will continue to focus on managing inventory levels and improving margins through better sourcing and more thoughtful promotional activity.

Experience

GA is one of the largest liquidators of retail inventory and has been involved in a variety of liquidations, ranging from the disposition of excess inventory and the closing of underperforming stores, to full-scale liquidations of national retailers with hundreds of stores. GA has experience with full and partial liquidations of companies throughout a variety of retail sectors, some of which are detailed below:

Whitehall Jewelers	Linens 'N Things	Circuit City	Tower Records
Friedman's	Fashion Bug	Mervyns	Payless Shoe Source
Fortunoff	Borders	Movie Gallery	A&P
Jo-Ann Fabrics	Boot Town	Eddie Bauer	Macy's

These experiences, in addition to numerous others, provide GA with valuable insight into the market trends and the consumer response that can be expected in a liquidation. They give us an understanding as to recovery values that can be achieved for retailers within these industries. In addition to this liquidation experience, GA has worked with and appraised numerous retailers, including industry leaders within each sector. While our clients remain confidential, GA's extensive list of appraisal experience includes:

- Many jewelry retailers, including one of the largest in the United States, with locations throughout the country and net sales exceeding \$1.4 billion annually.
- Several e-commerce and multi-channel retailers, as well as flash sale websites and auction websites. In particular, GA has appraised 71 of the top 500 e-commerce companies as reported by *Internet Retailer*.
- Numerous retailers of apparel and accessories, including major department store retailers and a variety of specialty retailers that are found in malls throughout the country.
- Leading off-price retailers of apparel and accessories, including major national and regional chains.
- Retailers of consumer electronics, including smaller, more localized chains, as well as regional, national, and international retailers with close to 4,500 store locations.
- Major national and regional discount and dollar stores, including one of the country's largest chains, with over 10,000 stores.
- Leading book retailers, including one with over 700 store locations and sales of upwards of \$4.5 billion.
- Sporting goods retailers that specialize in a number of products, including those for outdoor sports, recreational ball sports, hunting, camping, and fishing, and a variety of other equipment for outdoor enthusiasts.

In addition to our internal personnel, GA maintains contacts within the retail industry that we utilize for insight and perspective on recovery values.

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About Great American Group

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. GA also offers the *UK Retail Monitor* via its subsidiary, GA Europe Valuations Limited.

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