

Jewelry

INDUSTRY OVERVIEW

Rapaport reports that jewelry industry sales reached \$69.2 billion in 2014, which is a slight decline compared to the prior year. However, many major retailers have reported sales increases.



TREND TRACKER

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

NOLVs: NOLVs have been consistent.

Sales Trends: Sales have been relatively positive throughout the industry, with some companies experiencing somewhat weaker holiday sales.

Gross Margin: Gross margin has been relatively consistent, with some companies increasing due to the positive impact of lower commodity prices, as well as the popularity of higher-margin fashion jewelry.

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	\$1,212	(10.6%)
Silver	\$16.43	(23.5%)
Platinum	\$1,191	(17.8%)

Note(s): Prices are as of March 3, 2015.

KEY INDUSTRY DRIVERS

- **Mid-tier versus high-end:** Mid-tier jewelry stores such as Zale, Kay, and Jared continue to outperform higher-end stores. Tiffany & Co., which experienced a successful first half driven by the strength of its new Tiffany “T” line, reported a 1% decrease in comparable store sales in the Americas for November/December. Signet’s Sterling division, which includes Kay and Jared, reported a comparable store sales increase of 2.5% for the eight weeks ended December 27, 2014, with comparable store sales for the newly integrated Zale division up 3.5%. Zale had reported sales declines just after the acquisition, but recent investments in merchandising, advertising, and in-store initiatives have paid off.
- **Pricing:** After surging to record highs during the recession, the price of gold reached a four-year low in October 2014 and is currently hovering at \$1,200 per ounce. Diamond prices are also down, falling 6.9% in the fourth quarter of 2014. This is partially due to the closure of Antwerp Diamond Bank, which was a major financier to diamond traders and resulted in liquidity issues. Although acquisition costs have fallen, retailers have maintained their current prices in order to boost margin. Those retailers with faster-moving inventory stand to benefit; however, as some jewelry retailers have an average inventory turnover rate of once per year, they are not as well-poised to benefit from the declining acquisition costs right away.
- **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 fashion jewelry. While sales of men’s luxury watches and women’s fashion watches have fared relatively well, future sales of watches could be threatened by “smart” watches.

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
Sterling	6.8%	6.7%	3.2%	4.0%
Zale US	(0.7%)	(1.3%)	N/A	N/A
Tiffany & Co.	(1.0%)	11%	8.0%	8.0%
Blue Nile	7.9%	6.9%	(1.3%)	6.8%

Note(s): The most recent quarter for Sterling and Zale ended November 1, 2014. Sterling and Zale are both part of Signet Jewelers, which acquired Zale in May 2014. Zale excludes Piercing Pagoda; Tiffany & Co. most recent quarter represents holiday sales from November and December 2014; Blue Nile ended January 4, 2015 and represents net sales.

OUTLOOK

The jewelry industry is expected to perform well over the next several months as the economy improves and declining gas prices result in higher disposable income. Falling commodity costs should also translate to higher margin.

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:

Target Canada	Cache	Office Depot/Max	Circuit City
Macy's	Fashion Bug	Mervyns	Tower Records
Fortunoff	Frederick's of Hollywood	Eddie Bauer	RadioShack
Linens 'N Things	Naartjie	Whitehall Jewelers	Borders
Jo-Ann Fabrics	Boot Town	A&P	Movie Gallery

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 74 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

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