

# Jewelry



## Trend Tracker



|                   |            |
|-------------------|------------|
| Three month NOLVs | Increasing |
| Sales Trends      | Increasing |
| Gross Margin      | Increasing |
| Discounting       | Consistent |

- **NOLVs:** NOLVs have been increasing up to 1.0 percentage point.
- **Sales Trends:** Sales have been up throughout the industry, with mid-tier retailers posting the largest increases.
- **Gross Margin:** Gross margin has increased for many retailers as commodity pricing pressure has eased. Moreover, many have worked to improve sourcing.
- **Discounting:** After declining compared to the recession years, discounting levels have stabilized.



## European Trends



Signet, which operates the H. Samuel and Ernest Jones chains in the UK, has reported low single-digit declines in like for like sales over the past three quarters. Like for like sales during the critical holiday season were down 2.6%. The retailer has reported lower traffic at its stores, coupled with lower transaction values as shoppers gravitate toward lower-priced promotional items. Conversely, the European luxury sector has performed better, with affluent shoppers viewing jewelry as an investment and more luxury fashion houses expanding their jewelry lines.

## Industry Overview

It appears that the worst is over for the jewelry industry. Following a downturn during the recession, the industry has rebounded, with many retailers reporting their best results in several years. Most have seen an increase in the number of transactions, as well as transaction value. Commodity prices have also declined.

## Key Industry Drivers

- **Mid-tier vs. high-end:** Mid-tier jewelry stores such as Zale, Kay, and Jared continue to post successive quarters of comparable store sales increases. Zale in particular recently reported its highest net income in six years. High end jeweler Tiffany has also reported improved comparable store sales, though these increases have been lower than those seen in the mid-tier sector. Tiffany benefitted earlier in the year from sales of its exclusive line inspired by the film *The Great Gatsby*; however, this boost was short-lived, and the retailer reported flat sales for its most recent quarter.
- **Pricing:** During 2011 and 2012, jewelers faced pricing and margin pressure from rising commodity costs, namely gold. Although pricing has since eased, retailers have maintained the price hikes implemented last year, which has translated to improvements in gross margin.
- **Product trends:** Retailers continue to focus on their proprietary and exclusive brands as a way to differentiate themselves. Zale, Signet, and Birks & Mayors all reported strong sales of their proprietary product. Other growth areas include colored diamonds, bridal, watches, pearls, and charm bracelets, as well as alternative metals such as rose gold and rubedo. Yellow gold also appears to be making a comeback, particularly in more high-end stores.
- **Online competition:** The leading online retailer of jewelry, Blue Nile, recently reported its 5th consecutive quarter of double-digit growth, illustrating the growing importance of e-commerce in the industry. While it is difficult for smaller mom and pop stores to compete online, the major retailers have made investments in their websites by improving e-commerce selection and functionality, working to create an omni-channel experience, and bolstering social media presence, all of which have led to increased online sales.

## 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.      | 5.6%                | 1.4%          | 2.8%             | 3.9%               |
| Signet/Sterling | 4.9%                | 8.1%          | 4.9%             | 1.2%               |
| Tiffany & Co.   | 0.0%                | 3.0%          | (2.0%)           | 1.0%               |
| Blue Nile       | 18.7%               | 16.9%         | 21.2%            | 19.8%              |

Note(s): The most recent quarter for Zale and Tiffany & Co. ended July 31, 2013; Signet/Sterling ended August 3, 2013; Blue Nile ended June 30, 2013 and represents net sales.

## Outlook

In the coming months, most retailers plan to focus on their merchandise assortment and improve the customer experience, while also seeking ways to improve margin. It is expected that these initiatives, coupled with an improved economy, will translate to a bright 2013 holiday season.

# 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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## 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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