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Global Jewellery Retailing 2008

Asia Pacific switches on to brands

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Verdict's analysts and consultants work closely with retailers, suppliers, consultancies, investment banks and property companies to identify the key issues, sector and company data and strategies driving the changing retail market.

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In addition Verdict regularly appears in the international media. News sources quoting Verdict analysts and data include CNN, the International Herald Tribune, The Australian, Los Angeles Times, and New York Times.



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Sir Stuart Rose
Chief Executive of Marks & Spencer

Global Jewellery Retailing 2008

Shift to new markets and luxury brands set to fuel growth...

Despite challenging economic conditions in the largest single market, the US, global jewellery and watch expenditure is set to increase by more than a third over the next five years due to strong growth in the Asia Pacific region and the success of luxury brands in generating spending in developing countries such as China, India and Russia.

This latest report published by Verdict is a new addition to our publication schedule and brings Verdict's expertise in analysing markets, issues and trends to the jewellery and watch sector. With global data on consumer expenditure from 2003 and forecasted to 2013, plus profiles of 10 key industry operators, this unique report provides invaluable information for all participants in the jewellery sector, enabling them to understand the challenges they face and develop winning strategies with confidence.

10 Key Companies Profiled

Bulgari	Swatch Group
Finlay	Signet Group
Gitanjali Group	Tiffany & Co
LVMH	Tsutsumi
Richemont	Zale Corporation

Identify growth opportunities and understand key issues and challenges in the jewellery and watch sector with this new report...

Japan's slow growth will lead it to be demoted to the role of smallest regional market by 2013...

Source: Global Jewellery Retailing 2008

"...as it is overtaken by the Middle East and the rest of the world. Japan's generational attitude shift towards different spending patterns and priorities and a less conspicuously label-led retail culture is likely to contribute to lower rates of expansion. Japan's ageing population will also reinforce this situation by restraining overall consumer spending levels..."

- Identify growth opportunities with unique market data and forecasts.** Using regional market sizes, shares and growth rates, both historical and forecast, ascertain growth trends and potential growth markets.
- Understand market and regional dynamics in order to minimise risk and maximise potential.** Comprehensive analysis of regional, segmental and category trends provides the knowledge to make strategic plans with the confidence that risks have been minimised and opportunities have been exploited fully.
- Benchmark performance and strategies of key industry players.** Using trading records, key operating statistics, market shares and the strategic analysis of 10 leading operators, covering a wide range of propositions, to benchmark business performance.
- Use action points to influence strategic plans.** Recommendations on how mass market retailers can win back share from the luxury segment and competitors are invaluable pointers for inspiration for new business strategies.

Global Jewellery Retailing 2008

This report answers key questions including...

- What is global expenditure on both jewellery & watches since 2003?
- Which will be the largest market in 2013?
- How much will it grow by over the next 5 years and what is the share of growth?
- What are the factors behind growth in both the jewellery and watch segments?
- Which groups have the leading market shares and why?
- How are operators expanding into new markets?
- Where are the major growth opportunities for mass market retailers?

Key Market Data

10 year's data of total global expenditure on jewellery & watches 2003-13

Expenditure by region, market segment & category 2003-13

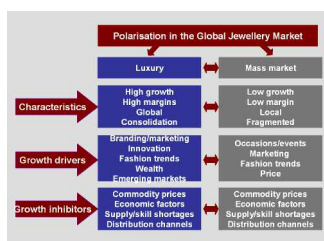
5 year trading record of 10 key operators including operating profits & margin comparisons

Global market shares of key operators

Key issues examined in this report...

Over the next 5 years the luxury segment will continue to outperform the mass market, doubling in size...

Polarisation in global jewellery retailing 2008



Source: Global Jewellery Retailing 2008

"...and increasing its share of the global jewellery market from 19.9% to 29.6%. Not only does the luxury segment enjoy high growth but also operators benefit from much higher margins than mass market retailers despite suffering from the same kind of problems of high commodity prices and limited capacity and skills in the supply chain..."

- **Branding plays a huge part.** Particularly in building aspirational status and conveying value that exceeds the actual commodity costs of similar products. Innovation and fashion is more prevalent in luxury brands and create more frequent reasons to purchase, whereas mass market jewellery is largely dependent on events such as marriages and anniversaries to drive demand.
- **Rise and rise of controlled retail.** The trend towards brands opening their own stores where previously they might have sold on a wholesale basis through other retailers has continued unabated. In an upturn, this integration of retail is an advantage, with rising turnover from stores more than compensating for the additional costs to which the company is exposed. This upside from operational gearing is most evident from the results of Richemont, which has gained 13.8% points in operating margin in the past 5 years.
- **Value chain integration.** The most successful retailers in this report are principally the ones that have the greatest level of value chain integration, often taking the product through from raw material stage (in the case of diamonds) to sale to the final consumer.

Global Jewellery Retailing 2008

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Chapter 2: Signet Group

Sales Performance

- The company announced in January 2008 that it would review its primary listing and domicile in the UK in the light of the growth of US shareholders on its register. After consulting with its shareholders, the board subsequently announced that it believed shareholders, on balance, would support a move of the primary listing to New York and a change of domicile to Bermuda. A proposal is expected to be put to shareholders during the summer of 2008.
- The year to 2 February 2008 was a more difficult one than 2006/07, with sales rising 3.2% on a comparable basis (there were 53 weeks in 2006/07) to \$3,665.3m. Group like-for-like sales fell 0.7%, the first annual decline since 1992/93, while operating profits fell 15.6% to \$351.3m.
- The US business was hit by a particularly weak fourth quarter the most important as it provides the highest share of sales in the year, around 40.0%. In Q4 2007/08 like-for-like sales were down 8.6% against a rise of 2.7% over the previous nine months.
- Total US sales were up 4.0% against the same 52-week period the year before, but fell by 1.7% like-for-like on the same basis. Operating profits fell 19.6% on a 52-week basis, to \$262.2m, with operating margins falling from 12.3% to 9.7%. A lower level of sales, promotional activity and higher raw material costs all contributed to lower operating margins.
- The UK business fared better, despite slower growth in sales at constant exchange rates and on a 52-week basis of 2.0% to \$959.6m. Operating profits were down just 1.3% on a comparable basis, to \$105.1m, while operating margin fell from 11.4% to 10.9%. Ernest Jones performed best, with like-for-like sales on a comparable basis up 2.9%. As with the US, the fourth quarter was difficult, with UK like-for-like sales down 1.7%.

Table 39: Signet Group trading record in \$ 2003-2008

Year to end January	2003	2004	2005	2006	* 2007	2008
Group Sales \$m	2,446	2,697	3,005	3,154	3,559	3,665
Y-o-Y Change %	-	10.3	11.4	5	12.8	3
Group Operating Profit \$m	297	341	395	375	416	351
Group Operating Margin %	12.1	12.7	13.2	11.9	11.7	9.6

* 53 weeks. Note: Signet is registered as a plc in the UK. The above results are translated into \$ reporting

Source: Global Jewellery Retailing 2008

Current Trading

- Results for the first quarter of 2008/09 to 3 May showed another contrast in performance between the US and the UK. Group sales rose 1.0% to \$822.5m, while operating profit fell 18.9% to \$43.8m, hit by deteriorating operating margin in the US. In the US, like-for-like sales declined by 4.7% and fell 0.2% in total to \$630.9m, despite new space and a reasonable Valentine's Day period (due to better weather than in 2007). Operating margin fell to 7.2% from 9.5%.

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