

UK operating review

Brand reviews

H.Samuel

Introduction

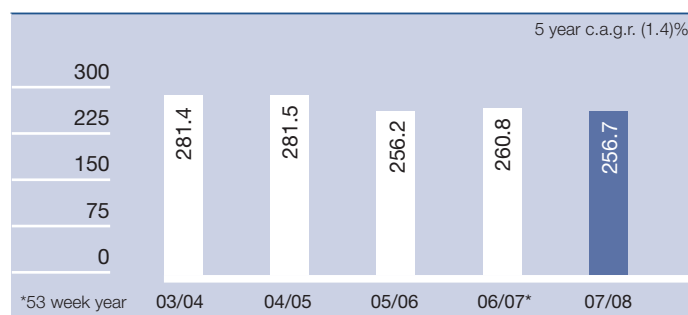
H.Samuel accounted for 14% of Group sales in 2007/08 (2006/07: 14%), and is the largest speciality retail jewellery brand in the UK with a 6.5% share of the total jewellery market. It serves the core middle market and its customers typically have a household income of between £15,000 and £40,000. The brand has nearly 150 years of jewellery heritage. It sells a broad range of gold and silver jewellery, an increasing proportion of diamond merchandise and a wide selection of watches, including Accurist, Citizen, DKNY, Fossil, Rotary, Seiko and Sekonda. It also sells an increasingly focused range of gifts and collectables such as Nao and Swarovski.

H.Samuel had 359 stores at 2 February 2008 (3 February 2007: 375) and is represented in nearly all large and most medium sized shopping centres with the focus increasingly being on larger centres. An e-commerce capability was added to hsamuel.co.uk in September 2005 and it is the most visited UK speciality jewellery website (source: Hitwise).

2007/08

H.Samuel sales were £256.7 million (2006/07: £260.8 million). The average retail price of merchandise sold in H.Samuel during 2007/08 was £44 (2006/07: £42) and the average retail price of items sold has increased at a compound annual growth rate of 6.2% over the last five years. The sales per store increased to £722,000 (2006/07: £695,000 on a 53 week basis) and have increased at a compound annual growth rate of 1.3% over the last five years.

H.Samuel 5 year sales, £m



H.Samuel store data

	2007/08	2006/07	2002/03
Number of stores:			
Opened during year	1	–	4
Closed during year	(17)	(11)	(8)
Open at end of year	359	375	418
Percentage increase in like for like sales	1.3%	0.7%	2.6%
Average sales per store in thousands (exc. VAT) ⁽¹⁾	£722	£695 ⁽²⁾	£677

(1) Including only stores operated for the full financial year.
(2) 53 week year.

UK marketplace

In calendar 2007 the size of the total UK market for fine jewellery, costume jewellery and watches was estimated by the Office for National Statistics (“ONS”) to have been £4.5 billion (\$9.0 billion) (including VAT of 17.5%), (2006: £4.5 billion). The ONS figure for market size replaces previous figures for market size which were based on management estimates and market research carried out by Key Note. While the ONS figure has been adopted, its reliability is uncertain. The jewellery market grew at an estimated compound rate of 4.7% per annum from 1997 to 2004. It declined by 4.0% in 2005, when the retail sector as a whole experienced the sharpest deterioration in trading conditions since 1991, with the jewellery sector being particularly affected. In 2006 the UK jewellery market returned to growth while 2007 was unchanged. Per capita spend on jewellery in the UK remains at approximately half of the level of the US. The market includes speciality retail jewellers and non-speciality jewellery retailers, such as mail order catalogues, catalogue showrooms and jewellery departments in department stores.

The UK retail jewellery market is very fragmented and competitive, with a substantial number of independent speciality jewellery retailers. Management believes there are just over 7,000 speciality retail jewellery stores in the UK.

Based on surveys, management believes that customers are attracted to H.Samuel because of its strong brand appeal as a speciality jeweller, that is differentiated by its customer service standards and staff knowledge. Ernest Jones attracts customers as a result of its diamond and watch expertise, exclusive and up to date merchandise and knowledgeable staff.

Market structure

In the middle market H.Samuel competes with a large number of independent jewellers, with only one having more than 100 stores. Some competition at the lower end of the H.Samuel product range also comes from a catalogue showroom operator, and discount jewellery retailers and supermarkets.

In the upper middle market Ernest Jones competes with independent speciality retailers and a limited number of other upper middle market jewellery brands, the largest three of which had 187, 62 and 31 stores respectively at 2 February 2008.