

# US marketplace

## Introduction

Total US jewellery sales, including watches and fashion jewellery, are provisionally estimated by the US Department of Commerce to have been \$64.7 billion in calendar 2007. The US jewellery market has grown at a compound annual growth rate of 5.9% over the last 25 years. The US jewellery market accounts for just under 50% of global jewellery consumption (source: Jewelry Industry Research Institute). Management believes that the jewellery category competes with other sectors, such as electronics, clothing and furniture, as well as travel and restaurants for consumers' discretionary spending.

A jewellery sale normally requires interaction between the customer and the sales associate, during which the items are removed from the display cases, with their respective qualities explained to the customer. Consumer surveys conducted by Signet indicate that a key factor in the purchase of jewellery is the customer's confidence in the sales associate. Other important competitive points of differentiation are merchandise selection and the reputation of the retail brand name. In the speciality sector, while price is important to the customer, management believes these other three factors are of a higher priority.

## Market structure

While the US retail jewellery industry is highly fragmented, the share taken by specialty jewellers has been steady at about 48% of total jewellery sales. General retailers, such as department stores, discount outlets, television home shopping, general merchandisers, apparel retailers and accessory stores, had a 44.9% market share in calendar 2007. Internet jewellery sales, including both speciality and general retail websites accounted for 7.4% in calendar 2007. The largest jewellery retailer was Wal-Mart Stores, Inc. ("Wal-Mart"), whose merchandise mix is believed by management to be markedly different to that of Signet's US division. In calendar 2006, the latest year for which data are available, Wal-Mart had an estimated market share of 4.5% (source: National Jeweler). Signet is the second largest jewellery retailer with a market share of 4.2% in calendar 2007. See table below for details.

	Calendar 2007	Calendar 2006	Calendar 2002	Calendar 1997
Total US jewellery sales <sup>(1)</sup>	\$64.7 bn	\$62.2 bn	\$51.2 bn	\$40.9 bn
Speciality share <sup>(2)</sup>	47.7%	48.4%	48.4%	48.3%
General retailers' share	44.9%	45.2%	48.2%	49.4%
Internet share <sup>(1)</sup>	7.4%	6.4%	3.4%	2.3%
Signet share	4.2%	4.3%	3.4%	2.3%

(1) Source: US Department of Commerce

(2) Source: US Census Bureau

(3) Source: National Jeweler

## 2007/08

In calendar 2007 the US jewellery market grew by a provisional 4.0%, primarily reflecting the slower growth of discretionary disposable income and was below the 25 year average of 5.9%. The first quarter was weak, reflecting poor weather that adversely affected the important Valentine's Day period. The second and third quarters, when the jewellery market is primarily driven by bridal related purchases, was a little more buoyant, but the key fourth quarter was disappointing. The slowdown in the fourth quarter reflected the general retail marketplace, with jewellery sales being particularly affected. The speciality jewellery sector grew by 2.6% in calendar 2007, below the 25 year average of 5.1%. The middle market is

believed to have been weaker than the total speciality market, reflecting the greater pressure on discretionary expenditure experienced by median income households than those with income in the top quartile.

## Long term performance

Jewellery sales have, over the longer term, grown broadly in line with personal consumption expenditure. Jewellery sales are seasonal as the primary reasons to purchase jewellery and watches are for bridal related occasions and gift giving events such as Christmas, birthdays, Valentine's Day and Mother's Day. Jewellery is also purchased for self reward and as a fashion accessory. The rate of growth accelerates and slows broadly in line with major non-food retail categories as the majority of jewellery sales are made in the middle mass market. Jewellery sales outperformed other comparable sectors in the more buoyant late 1990's, underperformed in 2001, performed in line with selected other non-food retail categories during 2002 to 2007. Over the last ten years, Signet's total US dollar sales rose (including the acquisition of Marks & Morgan) at a compound annual growth rate of 11.1% compared to 4.7% for the jewellery sector as a whole.

Management believes that the long term outlook for jewellery sales is encouraging given the expected growth in disposable income and the increasing number of women in the work force. However, jewellery sales are subject to fluctuations in the general level of retail sales.

## Speciality jewellery sector

Signet's US division had an 8.8% market share of the speciality sector in 2007/08 (2006/07: 8.8%). Its largest direct competitor had a speciality market share of 6.4% (2006/07: 7.3%). Kay and Jared were two of the top four brands in the speciality sector. Only these four brands had a level of sales that enabled the cost effective use of national television advertising, the most efficient form of marketing in the US. Of the two other brands, only one targeted the middle market segment, which is the primary customer of Signet's US division. In calendar 2006 only three other speciality retail jewelers had sales of more than \$500 million, according to National Jeweler. Independent retail jewellery stores (including medium and smaller regional chains with sales of less than \$500 million) together accounted for over 70% of the speciality market.

In calendar 2007, the Jewelers Board of Trade estimated that there were some 23,449 speciality jewellery firms in the US, compared to 27,580 in 1997 and 25,043 in 2002, which is a compound annual decrease of 1.6% since 1997. In calendar 2007 the number of speciality firms declined by some 349, a fall of 1.5%. Since 1997 the number of stores operated by the five largest speciality jewellery retailers increased by about 950, of which some 66% is accounted for by Signet's growth. This reflects the continuing consolidation taking place in the sector, which provides a significant growth opportunity for those businesses with competitive advantages in the sector.

## Diamond jewellery sales

Diamond jewellery accounts for some 55% of total jewellery sales in the US market (source: Diamond Information Centre). About 50% of worldwide diamond jewellery sales are made in the US according to the Jewelry Industry Research Institute. During the last ten years US diamond jewellery sales have risen by 6.1% per annum compared to 4.7% for the total jewellery market. Diamond jewellery accounted for 75% of the US division's merchandise sales in 2007/08, compared to 63% in 1997/98 and 72% in 2002/03.