

Nasdaq: CTHR



CHARLES & COLVARD®

*Q3 Fiscal 2020 Earnings  
Conference Call Presentation*



# Forward Looking Statements

This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements expressing expectations regarding our future and projections relating to our products, sales, revenues, and earnings are typical of such statements and are made under the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements about our plans, objectives, representations, and contentions and are not historical facts and typically are identified by use of terms such as “may,” “will,” “should,” “could,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “continue,” and similar words, although some forward-looking statements are expressed differently.

All forward-looking statements are subject to the risks and uncertainties inherent in predicting the future. You should be aware that although the forward-looking statements included herein represent management’s current judgment and expectations, our actual results may differ materially from those projected, stated, or implied in these forward-looking statements as a result of many factors including, but not limited to, the impact of the COVID-19 pandemic and related global economic condition on our business, financial condition and results of operations; our dependence on increased consumer acceptance, growth of sales of our products, and operational execution of our strategic initiatives; the impact of the execution of our business plans on our liquidity; general economic and market conditions, including the current economic environment; intense competition in the worldwide gemstone and jewelry industry; the financial difficulties or insolvency of one or more of our major customers and their willingness and ability to market our products; certain risks due to our international operations, distribution channels and vendors; our ability to fulfill orders on a timely basis; dependence on a limited number of distributor and retail partners in our Traditional segment; dependence on our exclusive supply agreement with Cree, Inc. for the supply of our silicon carbide crystals for the foreseeable future; inaccuracies in assumptions, estimates and data we use to calculate certain of our key operating metrics; our ability to maintain compliance with The Nasdaq Stock Market’s continued listing requirements; quality control challenges from time to time that can result in lost revenue and harm to our brands and reputation; the potential impact of seasonality on our business; the impact of natural disasters and other events beyond our control on our operations; our anticipated PPP Loan, pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, may not be forgiven or may be subject to challenges and investigations regarding qualification for the loan; the pricing of precious metals, which is beyond our control; our current customers’ potential perception of us as a competitor in the finished jewelry business; the impact of significant changes in e-commerce opportunities, technology, or models; the risk of a failure of our information technology infrastructure or a failure to protect confidential information against security breaches; our ability to protect our intellectual property; the potential adverse impact of negative or inaccurate information on social media; the failure to evaluate, implement, and integrate strategic opportunities; possible adverse effects of governmental regulation and oversight; and the impact of anti-takeover provisions included in our charter documents, in addition to the other risks and uncertainties described in our filings with the SEC, including our Annual Report on Form 10-K for the fiscal year ended June 30, 2019 and subsequent reports filed with the SEC. Forward-looking statements speak only as of the date they are made. We undertake no obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur except as required by the federal securities laws, and you are urged to review and consider disclosures that we make in the reports that we file with the SEC that discuss other factors relevant to our business.

# Agenda

- CTHR Response to COVID-19 Pandemic
- Q3 FY 2020 Financial Summary
- Key Attributes for Long-Term Plans
- Phased Approach to Ramp Up
- Q&A





## CTHR Response to COVID-19 Pandemic

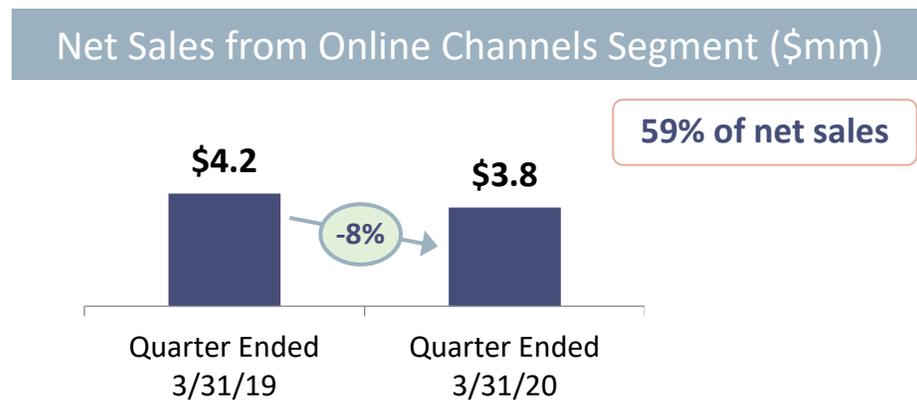
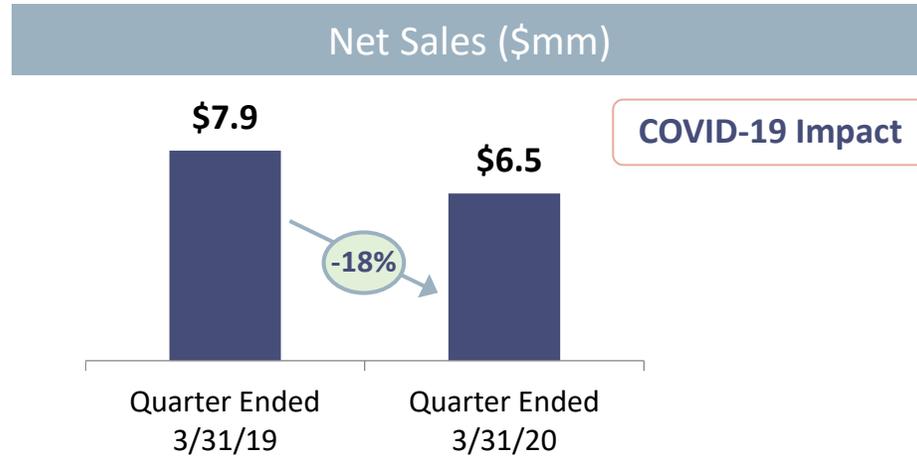
- Deployed work-from-home policy for all but critical employees due to mandated stay-at-home order by the State of North Carolina and local government authorities;
- Furloughed ~ 50% of employees – primarily operations and manufacturing departments;
- Implemented temporary salary reductions for all employees, including 25% for CEO, 15% for CFO & COO and graduated pay cuts for all others;
- Instituted 50% reduction in fees paid to Board Directors;
- Implemented significant reductions in non-payroll expenses, including reduction in digital marketing spend, product development costs, and travel investments; and
- Worked with advisors to maximize participation in government programs for businesses or employees impacted by the COVID-19 pandemic.

A close-up, profile view of a woman with dark hair, wearing a diamond stud earring and a ring, smelling a bouquet of pink roses. She is wearing a light-colored, patterned top. The background is softly blurred, showing more flowers in shades of pink and red.

# Financial Summary



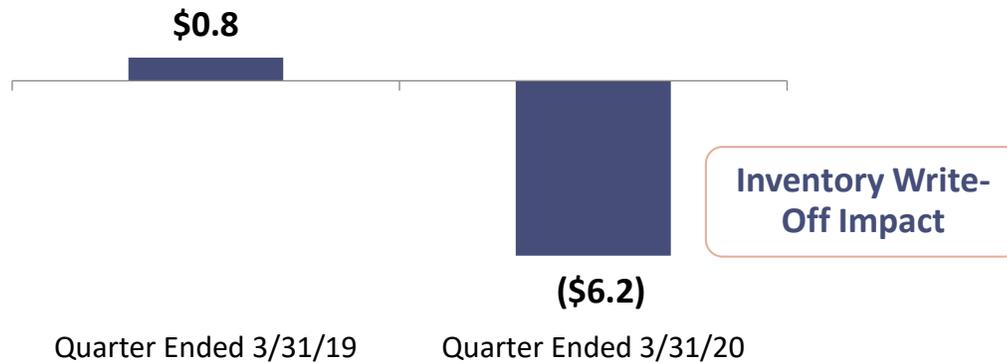
# Net Sales – Q3 FY2020



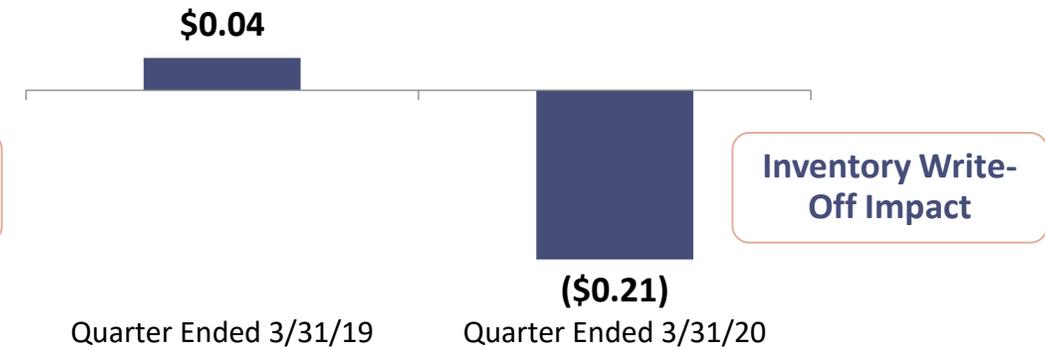


# Net Income & Earnings Per Share Q3 FY2020 & Fiscal Year to Date<sup>1</sup>

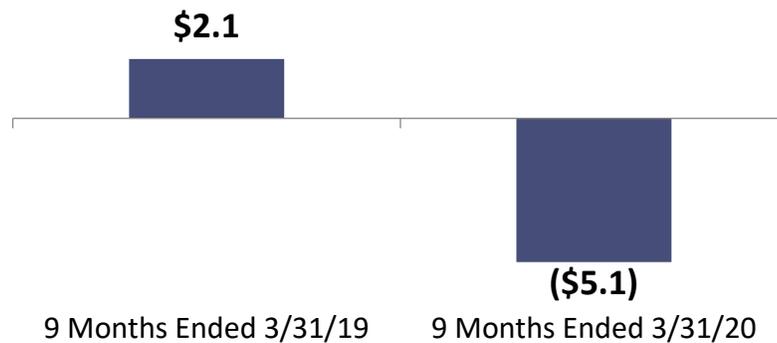
## Net Income (Loss) \$mm



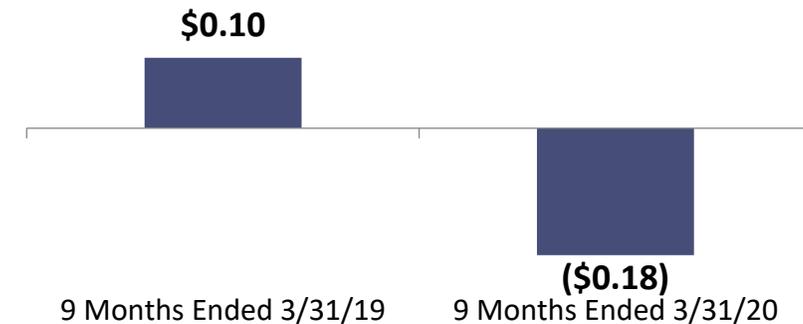
## Net Income (Loss) Per Diluted Share



## Net Income (Loss) \$mm



## Net Income (Loss) Per Diluted Share



<sup>1</sup> Net loss for the Quarter and 9 Months Ended 3/31/20 included the impact of \$5.3 mm write-off of legacy material inventory.



# Gross Margin Summary

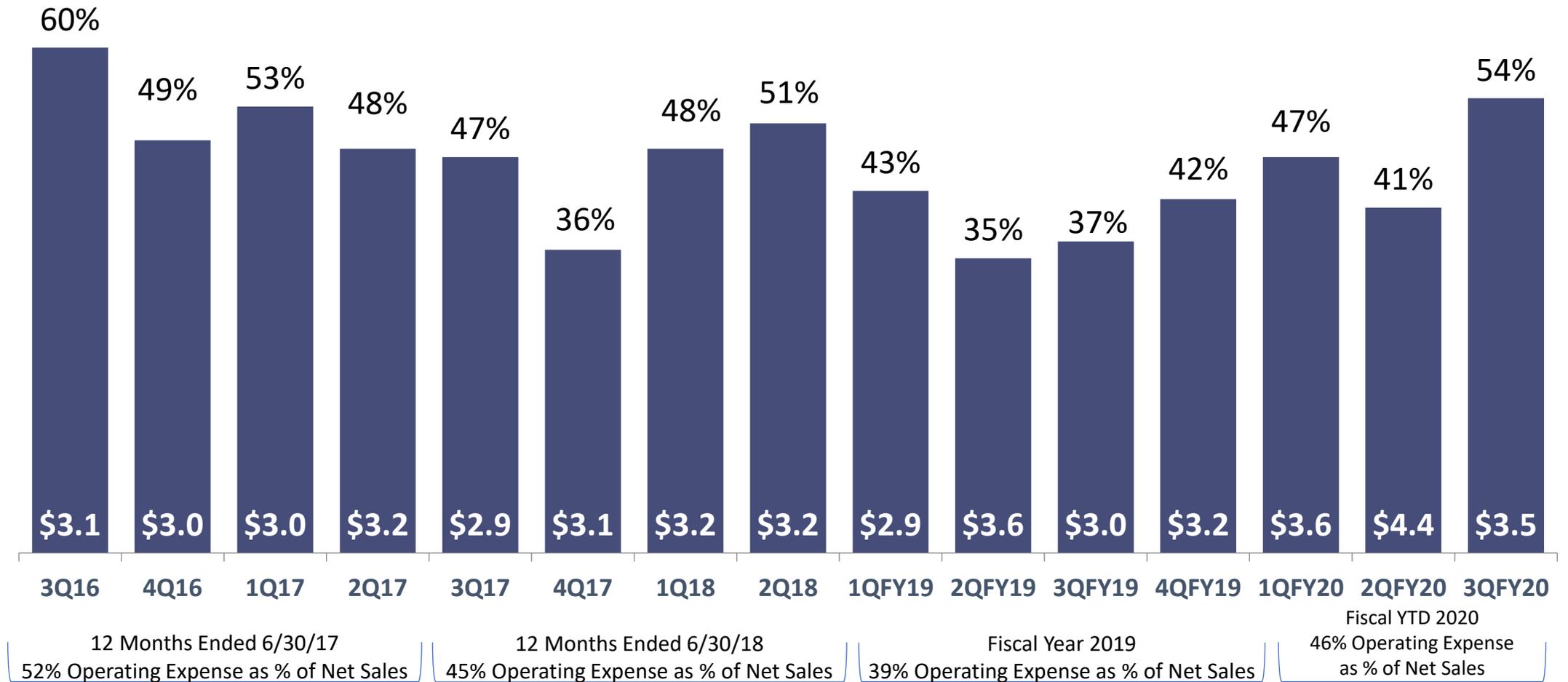
(millions, except gross margin)

	<b>Quarter Ended March 31, 2020</b>			
	<b>Online Channels</b>	<b>Traditional</b>	<b>Inventory Write-Off &amp; Other<sup>1</sup></b>	<b>Consolidated Total</b>
Net Sales	\$3.838	\$2.653	--	\$6.491
Product Line Cost of Goods Sold	\$1.682	\$1.419	\$6.071	\$9.172
Product Line Gross Profit	\$2.156	\$1.234	-\$6.071	-\$2.681
Product Line Gross Margin	56%	47%	--	-41%



# Operating Expense Summary (\$mm)

Total Operating Expense as % of Net Sales





## Balance Sheet Summary

(millions, except per share)



	6/30/19	3/31/20
Total Cash <sup>1</sup>	\$13.0	\$11.9
Inventory	\$33.7	\$31.7
Total Assets	\$51.1	\$48.4
Total Debt	\$0.0	\$0.0
Total Liabilities	\$4.9	\$6.2
Shareholders' Equity	\$46.2	\$42.2
Shares Outstanding	28.0	29.0
Book Value Per Share	\$1.67	\$1.45



<sup>1</sup> Cash, cash equivalents and restricted cash



# Inventory Summary

## Standard Inventory Classification

\$mm	12/31/16	%	12/31/17	%	6/30/18	%	12/31/18	%	6/30/19	%	12/31/19	%	3/31/20	%
Short Term	\$9.7	35%	\$11.2	36%	\$11.0	35%	\$11.3	34%	\$11.9	35%	\$10.7	30%	\$5.3	17%
Long Term	\$18.4	65%	\$19.8	64%	\$20.8	65%	\$21.5	66%	\$21.8	65%	\$25.1	70%	\$26.4	83%
Total	\$28.1	100%	\$31.0	100%	\$31.8	100%	\$32.8	100%	\$33.7	100%	\$35.8	100%	\$31.7	100%

## Inventory Detail by Product Category

Category	12/31/16	12/31/17	6/30/18	12/31/18	6/30/19	12/31/19	3/31/20 <sup>3</sup>
New Inventory <sup>1</sup>	49%	64%	70%	74%	79%	82%	100%
Legacy Inventory <sup>2</sup>	51%	36%	30%	26%	21%	18%	0%
Total	100%	100%	100%	100%	100%	100%	100%



## Ongoing Proactive Financial Actions

- Renegotiating contracts with vendors and suppliers;
- Working with vendors and suppliers to reduce cost of goods and/or services;
- Negotiating extension of payment terms with select partners; and
- Aligning variable expenses to match current sales trends.



# Key Attributes and Phased Approach to Ramp Up





## Key Attributes of Charles & Colvard

1. As a direct-to-consumer facing brand, we are focused intently on market trends, consumer demand and buying trends.
2. As an e-commerce-driven business, remaining ahead of technology and distribution trends is a cornerstone of our strategy.
3. Our efficient omni-channel distribution network, including a DTC e-commerce website and strong presence on global marketplaces and partner websites, empowers us to be nimble and opportunistic.
4. We have an agile supply chain and partnering model that is built on redundancy and diversification.
5. We are built to serve a digitally-native consumer who is accustomed to shopping online.



*We believe luxury can be both beautiful and conscientious. With innovative technology and sustainable practices, our goal is to lead a revolution in the jewelry industry – delivering a brilliant product at extraordinary value balanced with environmental and social responsibility.*

**CHARLES & COLVARD**