

A close-up profile photograph of a woman with dark hair pulled back. She is wearing a grey blazer over a dark top. Her hand is resting on her neck, showing a ring. She is wearing a necklace and hoop earrings. The background is a blurred cityscape.

CHARLES & COLVARD®

2018

YEAR IN REVIEW

# We believe

luxury can be both beautiful and conscientious.

With innovative technology and sustainable practices, we're leading a revolution in the jewelry industry – delivering a brilliant product at an extraordinary value balanced with environmental and social responsibility.

Signature Collection by

**Charles & Colvard**

- Cluster Halo Necklace
- Marquise Three Stone Engagement Ring
- Halo Stud Earrings
- Halo Hearts & Arrows Round Statement Ring





## THE STATE OF THE MARKET

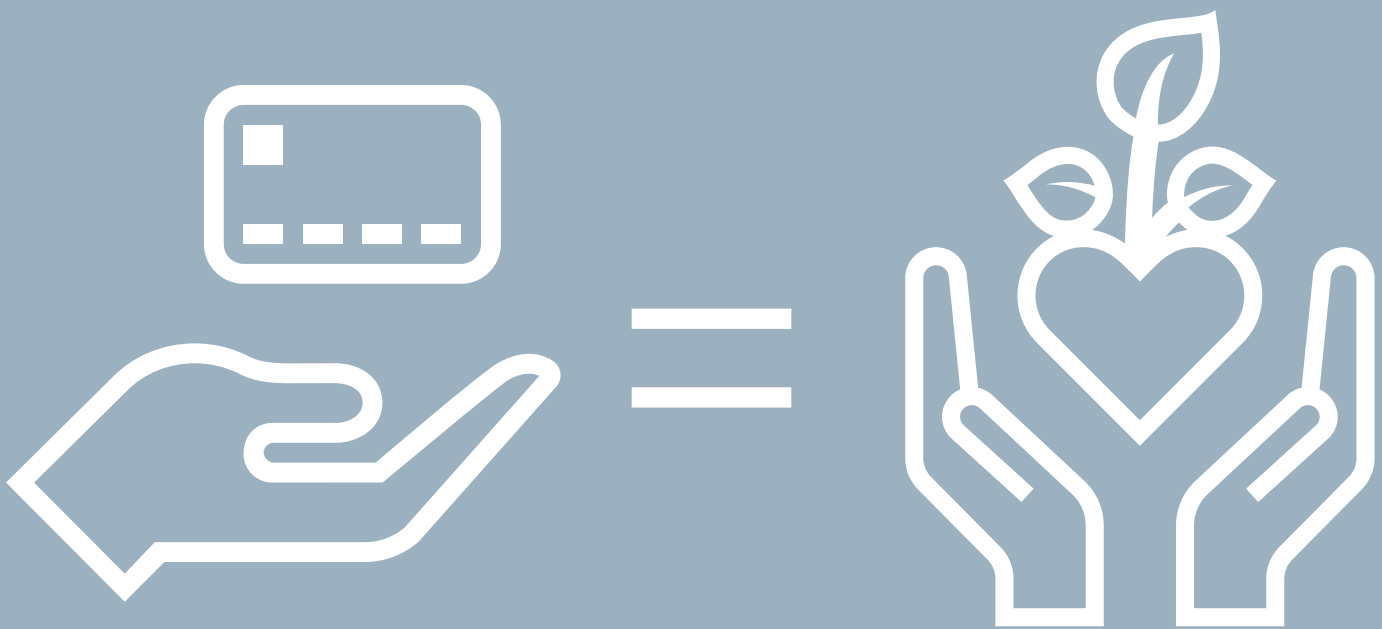
The Greek philosopher, Heraclitus, was quoted as saying “change is the only constant in life.” Except in the jewelry industry, which for decades has rigidly operated with the same marketing model and supply chain structure. Then along came the millennial consumer and their very different viewpoints, habits and purchasing requirements. Millennials’ buying behaviors are completely different than their predecessors. And for that reason, they’re disrupting the retail industry. These trends include:

- Use of online channels to research, select and purchase products. U.S. e-commerce sales continued to surge with 16% growth in 2017.<sup>3</sup>
- Use of social media to socialize and crowdsource buying decisions. Consumers want to know what their peers think. In a recent global survey, social media was listed by consumers as their #1 choice to get inspiration for purchases, followed by individual retailer websites at #2.<sup>4</sup>
- Extensive evaluation of product, price and brand. Research indicates that global shoppers “channel-hop” using two or more touchpoints.<sup>5</sup>
- Growth of technology in shopping. The use of mobile phones for shopping has doubled in just six years and one in five consumers have made purchases via an automated personal assistant device.<sup>4</sup>
- Changing role of brick-and-mortar in decision making and purchasing. Many consumers, including the younger Gen Zs, expect to move seamlessly between physical and digital worlds, leveraging technology and personal connections with brands, products and retailers.<sup>6</sup>

**Clearly, the jewelry industry needs to hit the reset button in order to engage with and serve this new generation of consumers.**

# 87%

of millennials are more willing to purchase a product that has social or environmental benefit.<sup>1</sup>



“They tend to be more value conscious, more concerned with sustainability and ethical production, and often value unique and individual products versus items that are standardized and mass-produced.”<sup>2</sup>

## THE PIVOT

Charles & Colvard's historic role in the industry was as a manufacturer of lab-created moissanite gemstones that were sold to traditional distributors – who then sold those gemstones to retailers and independent jewelers – who then sold the gemstone in jewelry to consumers. Along this lengthy sales path, the moissanite story and Charles & Colvard brand were lost.

**In October 2016, our team hit the reset button – re-launching Charles & Colvard as a global jewelry brand and bringing forward a direct-to-consumer e-commerce presence. Game on.**

Along with this re-birth came fresh marketing programs, enhanced merchandise and new sales channels, including the launch of charlesandcolvard.com as an upscale jewelry website with bridal and fine jewelry options featuring the Company's premium gemstone, Forever One.™



Signature Collection by

**Charles & Colvard**

• Basket Stud Earrings

• Halo Necklace

• Cushion Three Stone Engagement Ring

## THE OUTCOMES

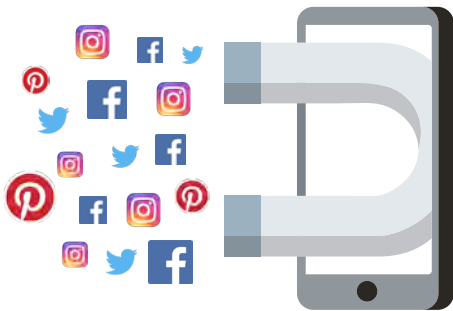
We focused on the following key strategic initiatives to support the brand re-launch, grow our business and position for long-term success. With seven quarters under our new approach in the books, we can now put a stake in the ground on our performance. From an operational perspective, we have successfully built on Charles & Colvard's position as the leading worldwide moissanite provider – increasing awareness on social media, expanding through new channels, and differentiating our product quality and service offering globally. From a financial perspective, organic revenue growth has been driven by strong online sales growth, primarily from marketplaces and charlesandcolvard.com.

## Amplifying our global marketing efforts

### OUR INCREASES IN SOCIAL MEDIA FOLLOWERS

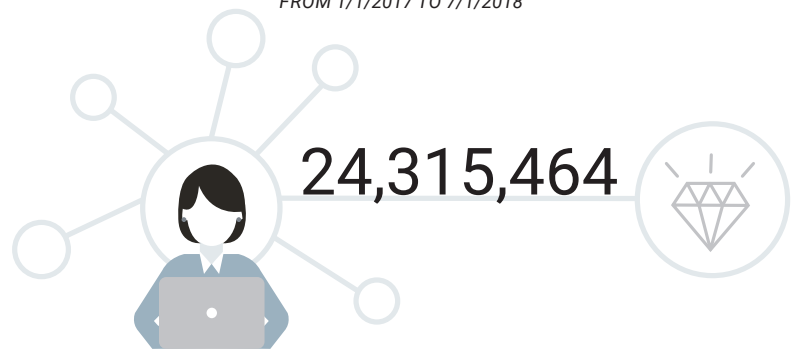
FROM 10/1/2016 TO 7/1/2018

Facebook: 239.28%  
Instagram: 360.32%  
Twitter: 36.08%  
Pinterest: 57.38%



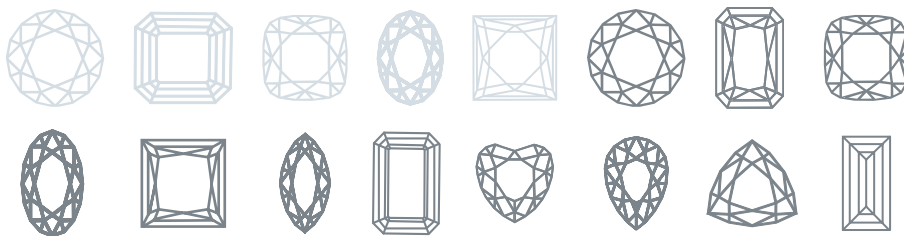
### IMPRESSIONS FROM INFLUENCERS

FROM 1/1/2017 TO 7/1/2018



## Enhancing our product line

WE HAVE GROWN FROM **5 GEMSTONE SHAPES** IN 2016 TO **16 SHAPES**



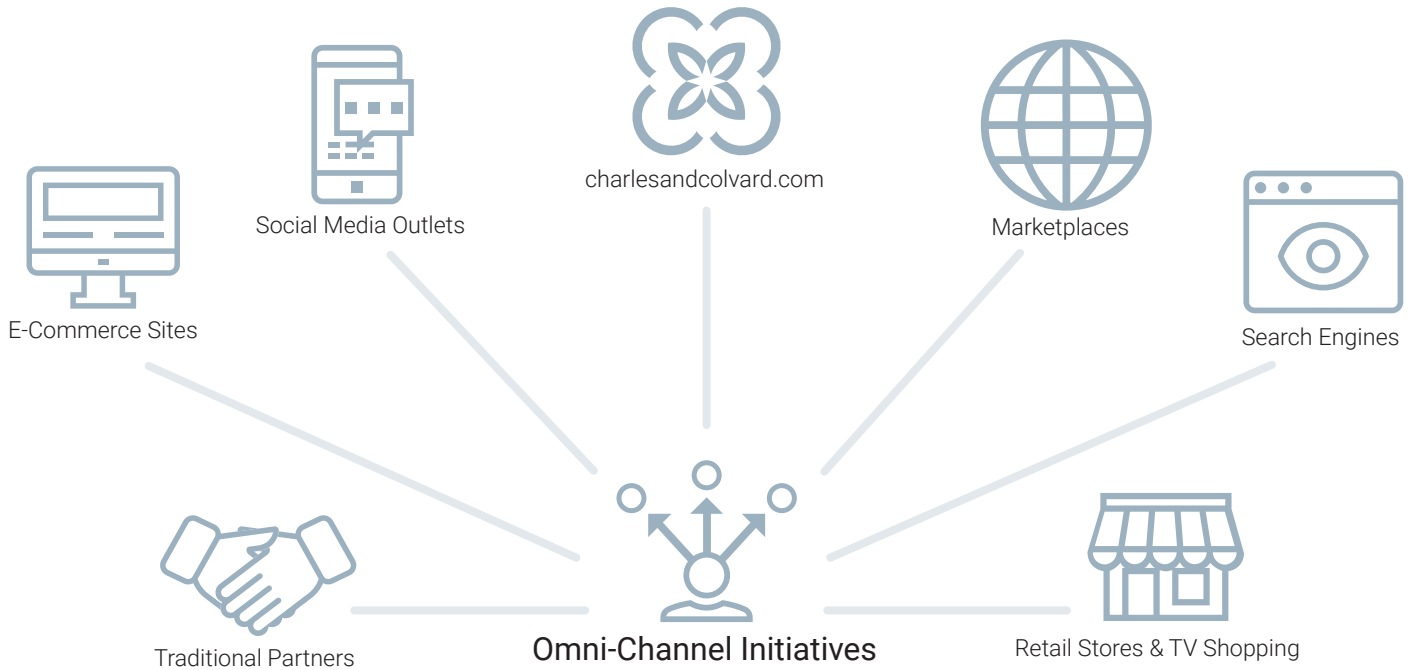
WE HAVE INCREASED FROM **~7,000 PRODUCTS** IN 2016 TO MORE THAN **24,000**

7,000 PRODUCTS

24,000 PRODUCTS

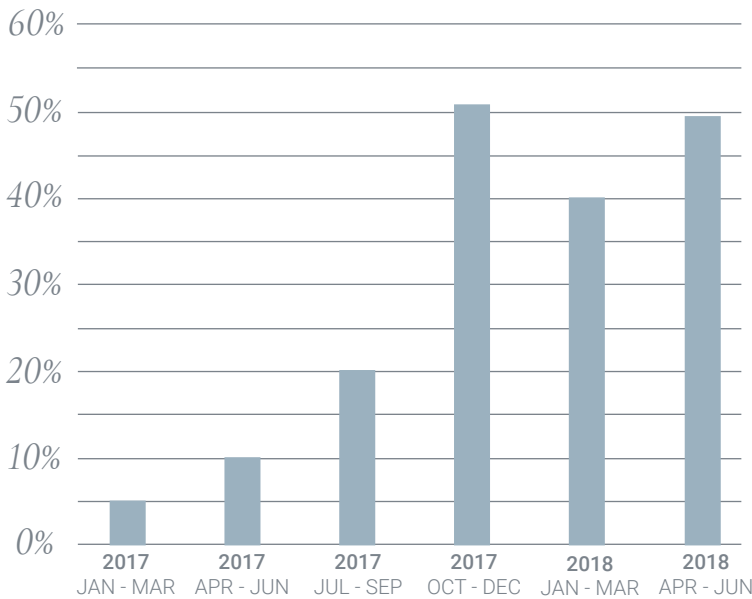


# Intensifying our omni-channel sales effort

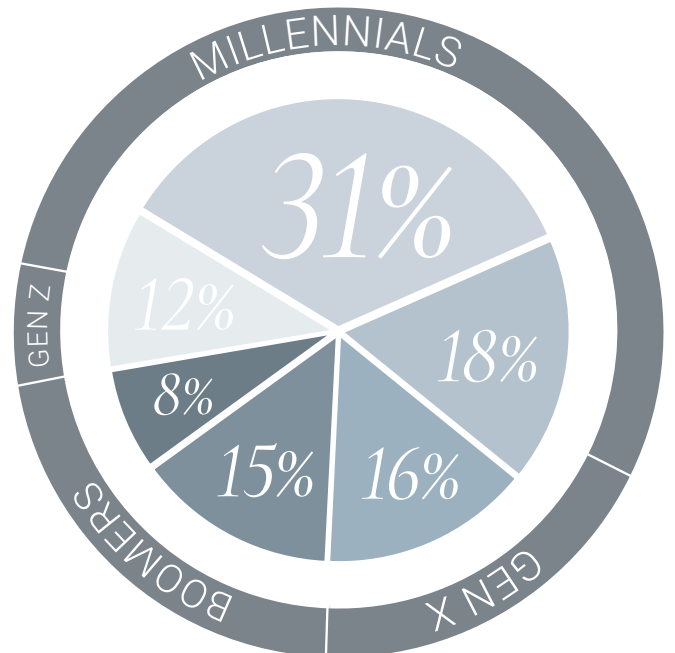


## Expanding our e-commerce channels

PERCENTAGE REVENUE INCREASE OVER PRIOR YEAR QUARTER



## Evolving our customer



PERCENTAGE OF .COM PURCHASES BY AGE



Signature Collection by  
**Charles & Colvard**  
• Cluster Halo Drop Earrings



## THE NEXT STEPS

With the groundwork laid, our Fiscal Year 2019 will be focused on execution. And we believe the time for moissanite couldn't be better. The jewelry industry is buzzing with the recent entry of a prominent mined diamond manufacturer into fashion jewelry using lab-grown diamonds. We feel this is great validation of the growing market demand for lab-created gemstones. We're proud of our well-established position – offering conflict free and eco-friendly jewelry made with the world's most brilliant gem.

### **Charles & Colvard**

- Round Solitaire with Side Accents Ring
- Round Hoop Earrings



Over the next year, as we continue our transformation to an e-commerce-driven business, we'll be focused on the following strategic initiatives:



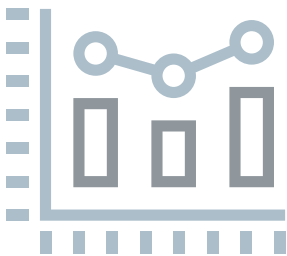
Driving organic revenue growth in the U.S. and maintaining attractive margins



Expanding our gemstone and jewelry offerings to serve a broad range of customers



Targeting the global market opportunity through continued brand building, focused channel expansion and world-class customer service



Balancing growth-oriented investments to generate sustainable earnings improvement



Charles & Colvard  
• Emerald Solitaire with Side Accents  
Engagement Ring

## THE OPPORTUNITY

Our team's ability to execute on these strategic initiatives is related to shareholder value. We believe there are five key investment themes that best capture the tremendous opportunity our Company can leverage.

### 1. Large and Expanding Market for Lab-Created Gemstones –

The global online fine and fashion jewelry market is expected to be in the range of \$75 billion by 2020<sup>7</sup>, with an annual global market for lab-created gemstones of \$8 billion<sup>8</sup>.

### 2. High Quality & Sustainable Product –

As the original pioneer of lab-created moissanite, Charles & Colvard provides an ethically sourced product with exceptional quality at a revolutionary value, leveraging exclusive access to a patented production process for unparalleled clarity in our gemstones.

### 3. Strong Appeal to Millennials –

Our products appeal to socially-conscious millennials who represent roughly half of our current customers on charlesandcolvard.com and are reaching prime jewelry buying age, as well as a growing Gen Z audience.

### 4. Scalable Online Channel Growth –

We have been delivering double-digit revenue growth of 40%+ through our online channels, including charlesandcolvard.com and a range of marketplaces, such as Amazon.

### 5. Untapped Global Expansion –

We believe we can execute a global growth strategy that is flexible, scalable and requires minimal capital investment by driving cross-border sales on our website and accessing online international marketplaces.

## THE REVOLUTION

We have the experience, passion and commitment to deliver on this opportunity. Our goal is to lead a revolution in the jewelry industry by delivering a brilliant product at an extraordinary value, balanced with environmental and social responsibility. We believe Charles & Colvard is well-positioned to be a disruptor and leader of change in our industry. With a growing target market of more than \$75 billion, an experienced and motivated team, and operational expertise and infrastructure positioned to scale, we look forward to turning our opportunity into a revolution.

*Suzanne Miglucci*

Suzanne Miglucci

President & Chief Executive Officer



**Charles & Colvard**

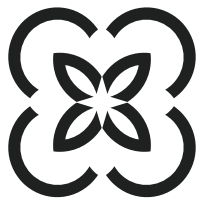
- Baguette & Round Horizontal Bar Necklace
- Multi Stone Three Prong Wedding Band
- Stackable Rings



## Footnotes

1. Cone Communications Millennial CSR Study (September 2015)
2. CNBC article quotation by Bank of America Merrill Lynch analyst, Ashley Wallace (June 2016)
3. Department of Commerce Quarterly Retail E-Commerce Sales 4th Quarter 2017 Report (February 2018)
4. PwC Global Consumer Insights Survey 2018
5. CommerceHub Top 6 Multichannel Retail Trends for 2016 (January 2016)
6. IBM Institute of Business Value and the National Retail Federation Global Study "Uniquely Gen Z" (January 2017)
7. Forbes "As Fine Jewelry Moves Online the Market Sparkles" (April 2016); McKinsey & Company Insights "A Multifaceted Future: The Jewelry Industry in 2020" (February 2014)
8. Wall Street Journal "DeBeers Tries to Counter a Growing Threat: Man-Made Diamonds" (November 2016); Morgan Stanley "Game of Stones: Disrupting the Diamond Trade" (August 2016)





# CHARLES & COLVARD®

**Jenny Kobin** | *Partner*

Investor Relations Advisory Solutions

919-423-4799 | [jenny.kobin@IRAdvisory.com](mailto:jenny.kobin@IRAdvisory.com)

[www.IRAdvisory.com](http://www.IRAdvisory.com)

170 Southport Drive, Morrisville, NC 27560

p: 919.468.0399 | f: 919.468.0486 | [charlesandcolvard.com](http://charlesandcolvard.com)

**Cautionary Note:**

This document contains forward-looking statements relating to the company's business. Our business is subject to numerous risks and uncertainties, which could cause actual results to differ materially from those expressed or implied by these forward-looking statements.

We refer you to our Transition Report on Form 10-KT for a discussion of such risks and uncertainties.