

Nasdaq: CTHR



# CHARLES & COLVARD

*Q3 Fiscal 2019 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, 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; our ability to fulfill orders on a timely basis; intense competition in the worldwide gemstone and jewelry industry; the financial condition of our major customers and their willingness and ability to market our products; dependence on a limited number of distributor and retail partners in our Traditional segment; our ability to maintain compliance with The Nasdaq Stock Market’s continued listing requirements; dependence on our exclusive supply agreement with Cree, Inc. for the supply of our silicon carbide, or SiC, crystals; general economic and market conditions; 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 on our operations; the pricing of precious metals, which is beyond our control; the impact of significant changes in e-commerce opportunities, technology, or models; the risk of a failure of our information technology infrastructure to protect confidential information and prevent security breaches; our current customers’ potential perception of us as a competitor in the finished jewelry business; risks of conducting business internationally; the potential adverse effect of December 2017 U.S. tax legislation; our ability to protect our intellectual property; the potential adverse impact of negative or inaccurate social media commentary; 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 Securities and Exchange Commission, or the SEC, including our Transition Report on Form 10-KT for the transition period ended June 30, 2018 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

- Financial Summary
- Q3 FY2019 Highlights
- Q&A



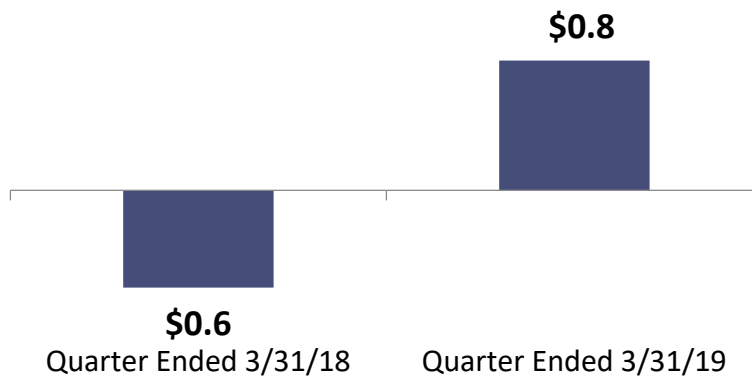
# Financial Summary

A close-up photograph of a woman's upper body. She is wearing a dark red, quilted jacket with gold-colored zippers. Her hands are clasped together in front of her chest. She is wearing a delicate silver chain necklace with a large, brilliant-cut diamond pendant. The background is a soft-focus outdoor scene with green foliage and a blue sky.

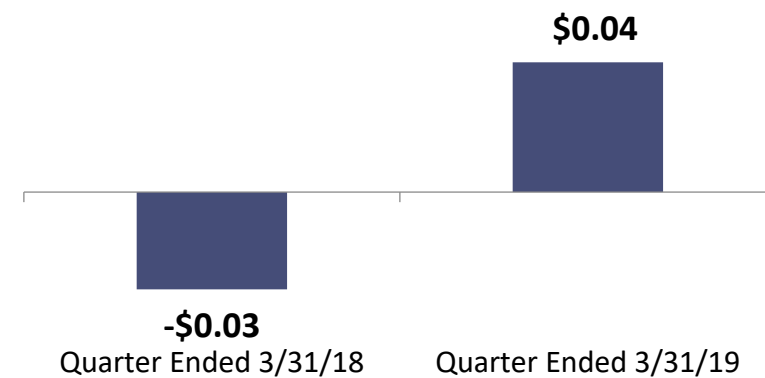


## Net Income & Earnings Per Share Q3 FY2019 & Fiscal Year to Date

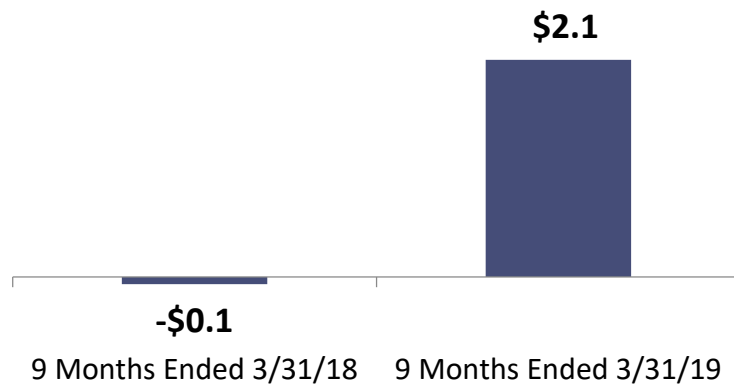
Net Income (\$mm)



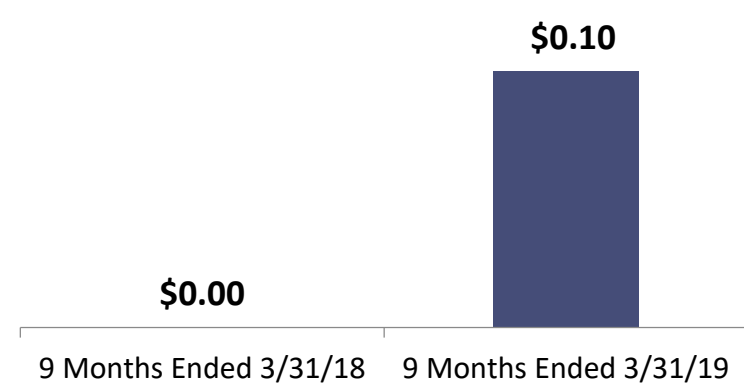
Net Income Per Diluted Share



Net Income (\$mm)



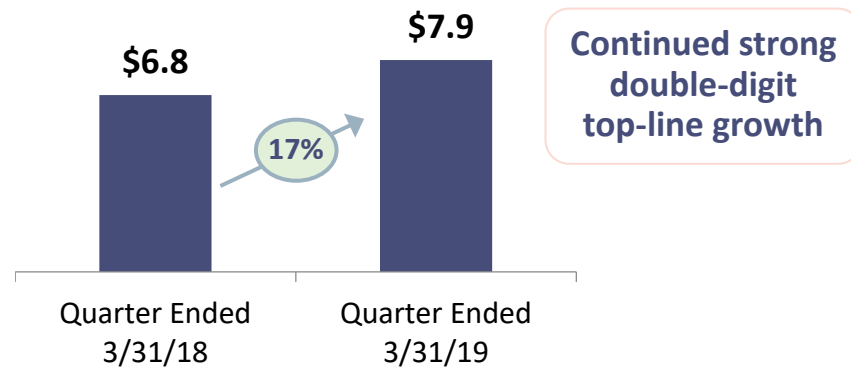
Net Income Per Diluted Share



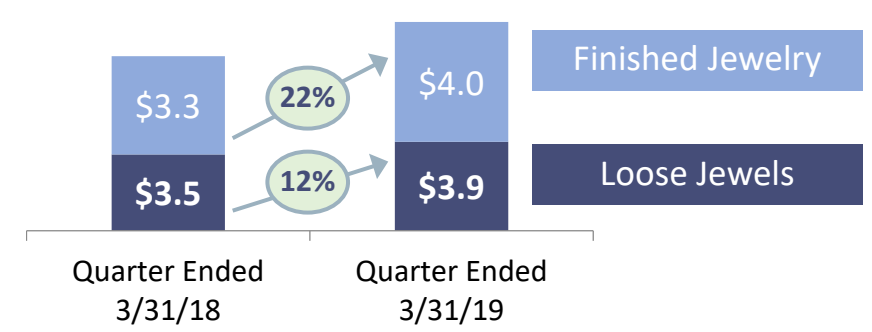


# Net Sales – Q3 FY2019

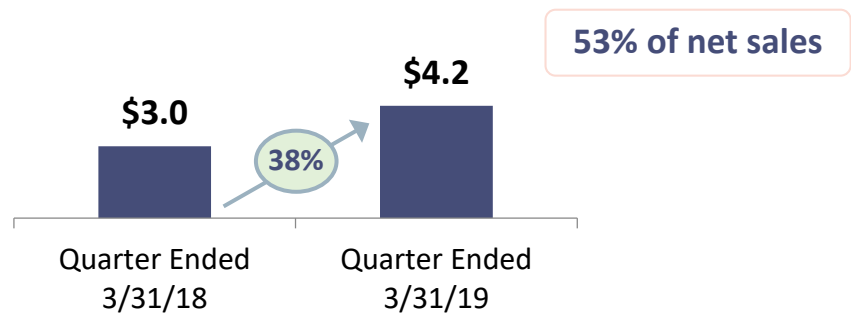
### Net Sales (\$mm)



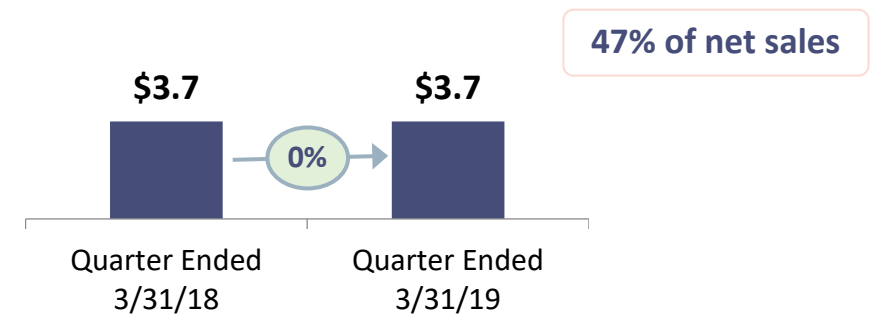
### Loose Jewel & Finished Jewelry Net Sales (\$mm)



### Net Sales from Online Channels Segment (\$mm)

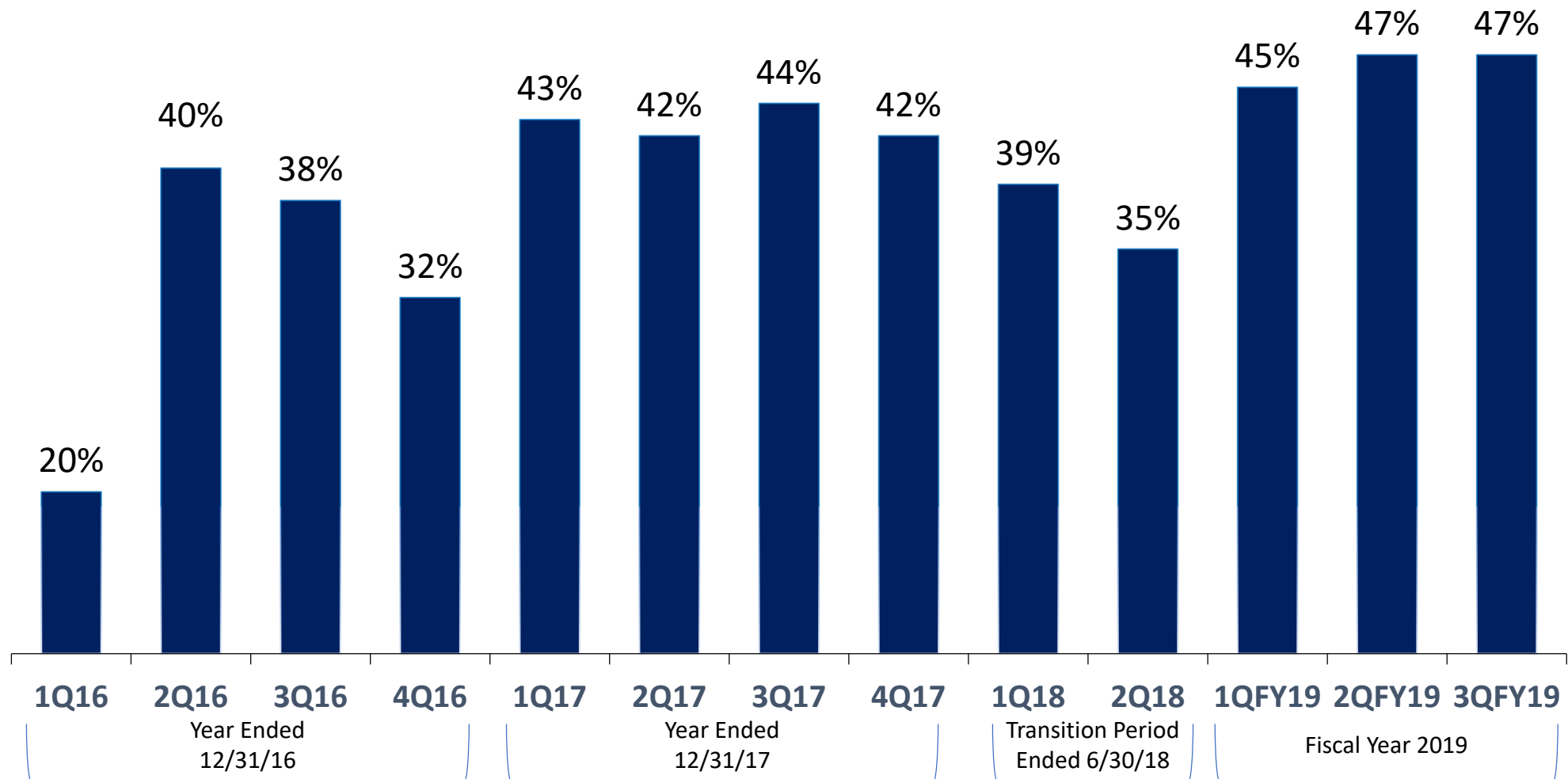


### Net Sales from Traditional Segment (\$mm)





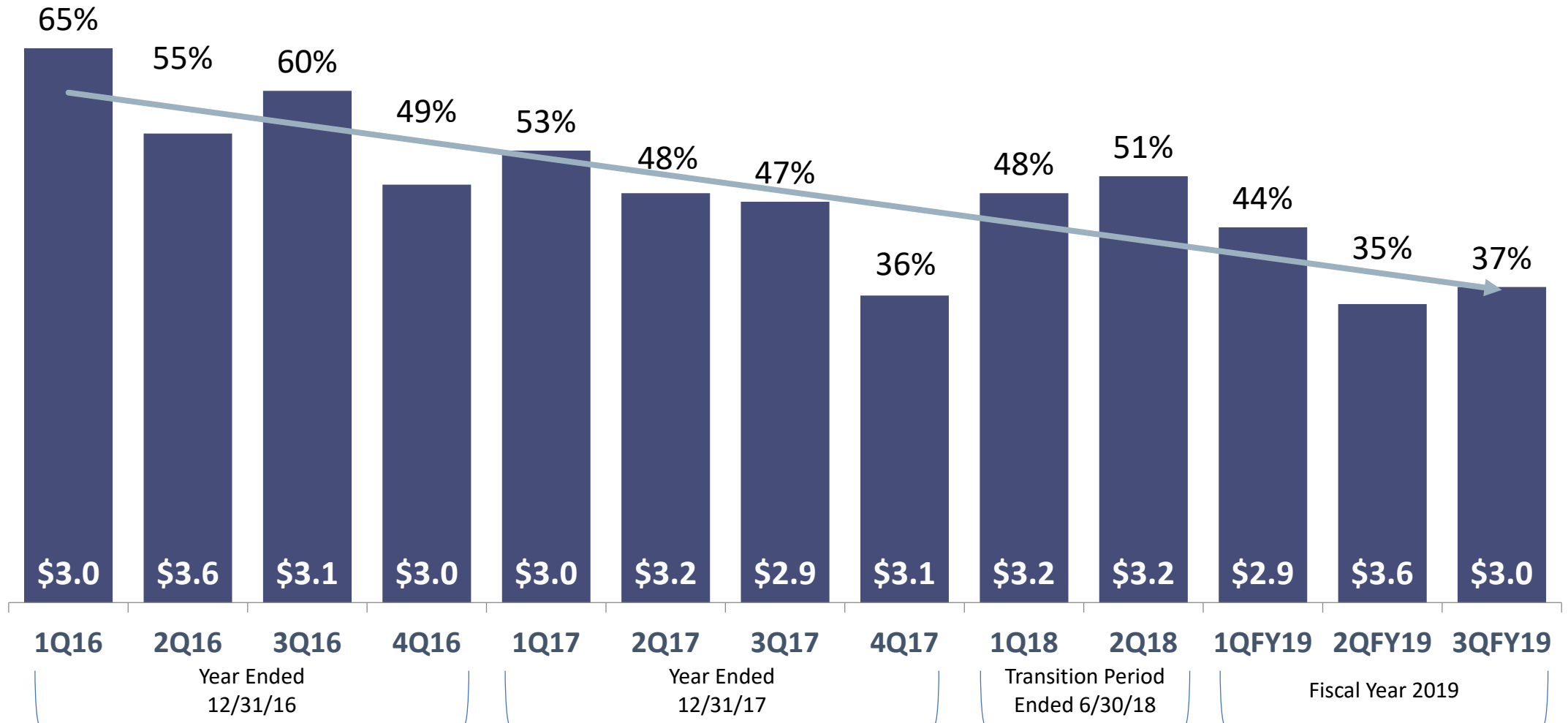
## Gross Margin





# Rationalized & Scalable Expense Structure (\$mm)

Total Operating Expense as % of Net Sales







## Balance Sheet Summary Snapshot

(millions, except per share)



	6/30/18	3/31/19
Total Cash	\$3.4	\$4.6
Inventory	\$31.8	\$33.7
Total Assets	\$39.5	\$42.3
Total Debt	\$0.0	\$0.0
Total Liabilities	\$5.7	\$6.0
Shareholders' Equity	\$33.8	\$36.3
Shares Outstanding	21.7	21.7
Book Value Per Share	\$1.56	\$1.67





# Inventory Summary

## Standard Inventory Classification

\$mm	12/31/16	%	12/31/17	%	3/31/18	%	6/30/18	%	9/30/18	%	12/31/18	%	3/31/19	%
Short Term	\$9.7	35%	\$11.2	36%	\$10.9	35%	\$11.0	35%	\$10.8	33%	\$11.3	34%	\$11.4	34%
Long Term	\$18.4	65%	\$19.8	64%	\$20.0	65%	\$20.8	65%	\$22.0	67%	\$21.5	66%	\$22.3	66%
Total	\$28.1	100%	\$31.0	100%	\$30.9	100%	\$31.8	100%	\$32.8	100%	\$32.8	100%	\$33.7	100%

## Inventory Detail by Product Category

Category	12/31/16	12/31/17	3/31/18	6/30/18	9/30/18	12/31/18	3/31/19
New Inventory <sup>1</sup>	49%	64%	68%	70%	71%	74%	77%
Legacy Inventory <sup>2</sup>	51%	36%	32%	30%	29%	26%	23%
Total	100%	100%	100%	100%	100%	100%	100%

A close-up photograph of a woman's hand and shoulder. She is wearing a large, round, brilliant-cut diamond ring on her ring finger and a necklace with a matching diamond pendant. The background is filled with greenery and red flowers, creating a romantic and elegant atmosphere.

# Strategic and Operating Highlights

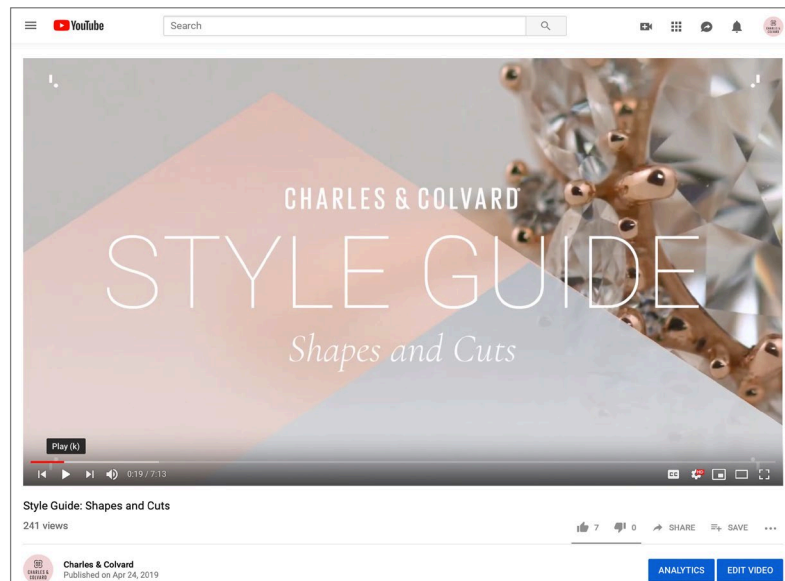


## Q3 FY2019 Highlights\*

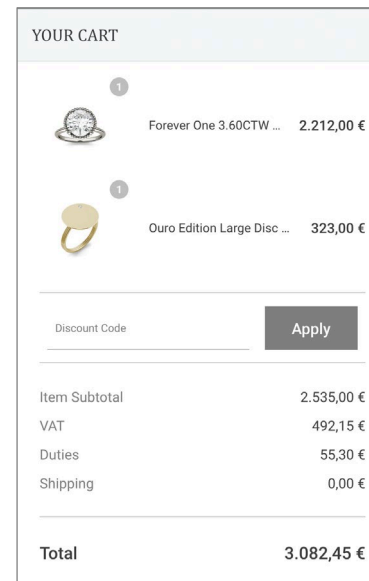
- Continued attractive double-digit revenue growth of 17% led by Online Channels
- Robust sales from Valentine’s Day promotion increased 61% over last year
- International sales increased 107% driven by global distributors and cross border trade sales
- Strong gross margin of 47% fueled by e-commerce and Forever One™ jewelry sales
- Finished jewelry sales increased 22% to 50% of total sales
- Legacy inventory reduced to 23% of total inventory
- Growing uptake of Moissanite by Charles & Colvard®
- Three consecutive quarters of profitability with positive cash flow from operations
- Net income of \$0.04 per diluted share in Q3 FY2019 and \$0.10 per diluted share in YTD FY2019



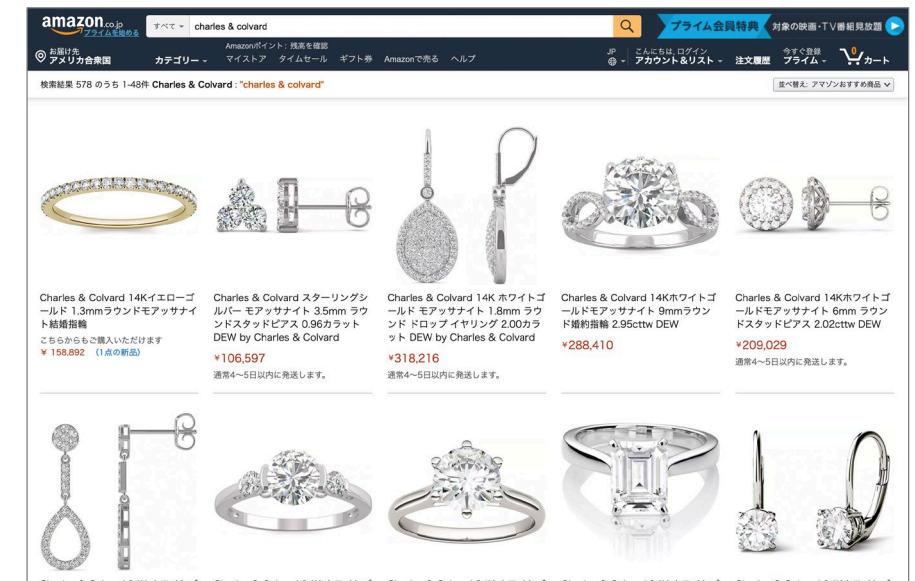
# Continued Innovation in E-commerce Marketing Drives Online Channels Sales Growth



Increased Use Of Video

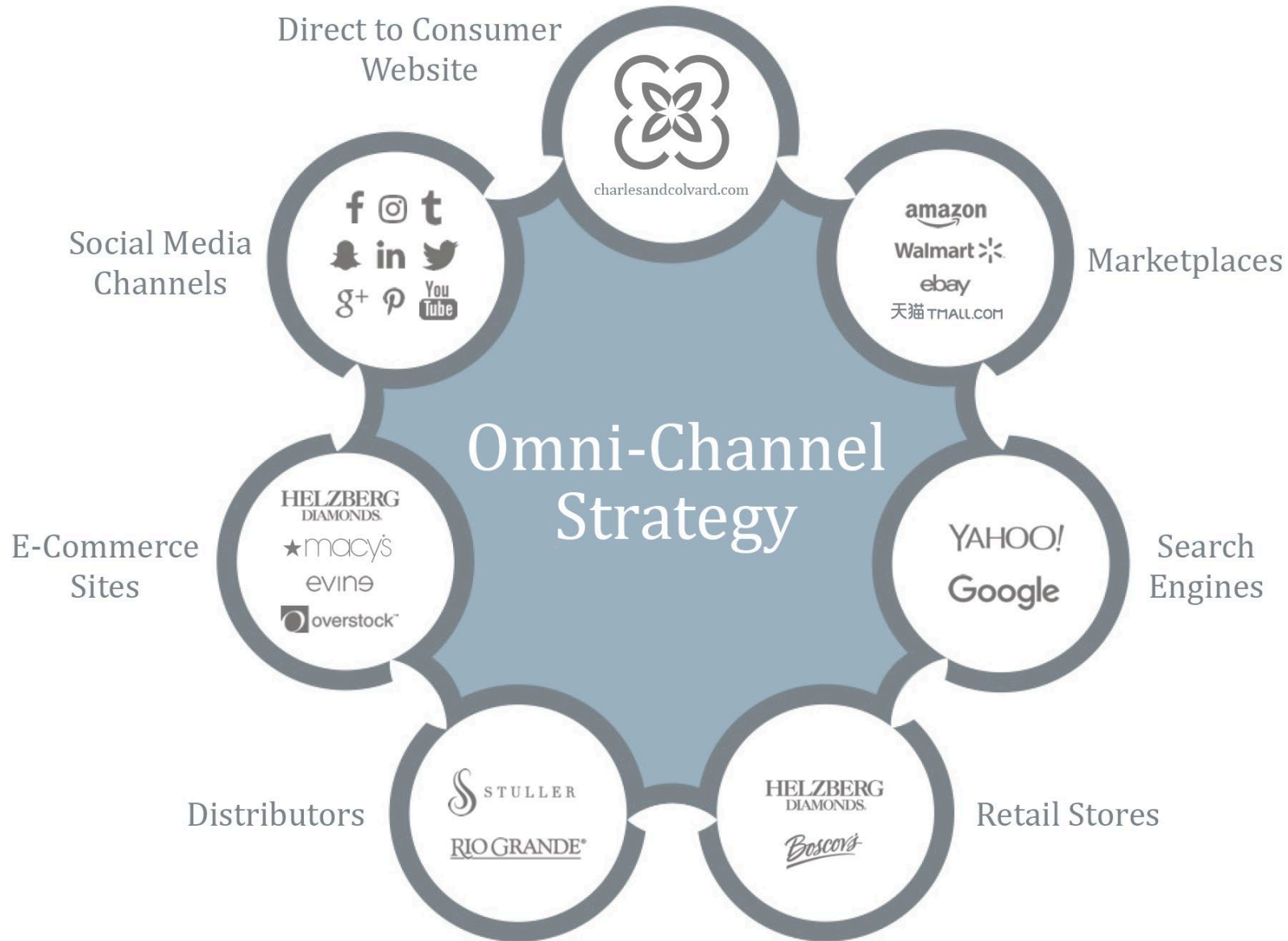


Improved  
Cross-Border Trade  
Experience



Expanded International Marketplaces

## 38% increase in Online Channels net sales in Q3 FY2019





# Innovative and Award Winning Products





## Fiscal Year 2019 Strategic Initiatives

1. Drive organic revenue growth in the U.S. and maintain attractive margins
2. Expand our gemstone and jewelry offerings to serve a broad range of customers
3. Target the global market opportunity through continued brand building, focused channel expansion and world-class customer service
4. Balance growth-oriented investments to generate sustainable earnings improvement

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### Our Floret Story

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STAR

There's a flash of brilliance at the heart of every Signature Collection setting, putting our unbeatable sparkle and luster at the center of each design.



PETALS

Four petal-shaped elements represent our commitment to sustainability and ethical craft, which is woven into everything we do and every piece of jewelry we create at Charles & Colvard.



CLARITY

Through revolutionary technology and continual innovation, we've been able to create exceptional gemstones. The clarity of Charles & Colvard Created Moissanite® is unmatched.



CUT

Moissanite is a unique gemstone, featuring proprietary cuts that amplify its fire and brilliance. All 15 of our Revolutionary Cut™ gems are polished to perfection to deliver superior sparkle.



COLOR

The Signature Collection exclusively features our Forever One™ gemstones—the pinnacle of quality in moissanite gems. It's the outcome of over 20 years of continued innovation and is available in two color grades: colorless and near-colorless.



CONSCIENCE

Moissanite is grown in a lab—and that's a good thing. We don't mine, destroy ecosystems, pollute land or engage in violent trade practices. This is jewelry for the savvy woman. It's jewelry you can feel good about wearing.



Q&A