



# JEWELRY & DIAMONDS

## CURRENT TRENDS

- Consolidated retail jewelry and watch sales increased 51% year over year in 2021.
- Annual lab-grown diamond production increased from a few hundred thousand polished carats in 2017 to an estimated 2.8 million polished carats in 2021.
- Experts project lab-grown diamonds will represent 11.5%, or \$3.9 billion, of the global polished carat market by 2025, up from an estimated 7.5% in 2021.
- In the short term, the industry may be under pressure as economic uncertainty weighs on domestic and international markets.

## PROJECTED VALUES (12-MONTH OUTLOOK)



## APPROXIMATE NET RECOVERY ON COST

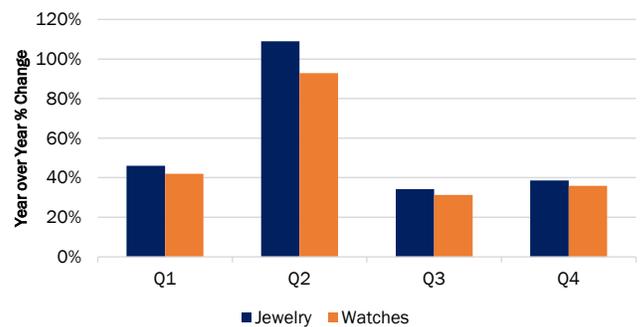
**60%-75%**

low- to mid-range jewelers

**75%-85%**

high-end & luxury jewelers

## U.S. JEWELRY & WATCHES 2021 SALES PERFORMANCE BY QUARTER



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**UNCERTAINTY FOLLOWS A STRONG YEAR FOR JEWELRY RETAIL:** Innovative customer service, digital marketing efforts and phased store re-openings drove positive retail trends in 2021. Jewelry retail benefited from pent-up demand and new disposable income consumers previously spent on travel and entertainment. Demand began to rebound in the second half of 2020, driving a 2% increase in combined jewelry and watch sales over 2019, according to Bureau of Economic Analyses (BEA) data. The jewelry market skyrocketed in early 2021 following a successful 2020 holiday season. Additionally, increased consumer confidence, low unemployment, rising wages and pent-up demand supported continued growth and positive sales trends in 2021 for retailers across every category, including discounters, department stores, mall-based brands and luxury boutiques.

Stimulus funds and surplus disposable income allowed some shoppers to increase their price points. Labor and rough material shortages limited supplies of finished diamonds, driving prices up by 15% to 30% in August 2021. High demand allowed retailers to price through without losing customers. Since jewelry inventory is largely supplied by air freight, jewelry retailers did not experience the same supply chain disruptions as retailers reliant on ocean freight. As a result, 2021 started off strong with an impressive 45% increase in combined jewelry and watch sales in the first quarter per Bureau of Economic Analysis data. By year end, sales were up 51% over 2020.

Industry giant Signet Jewelers Limited reported broad-based increases for the nine-week holiday period ended January 1, 2022. The company, which operates approximately 2,800 stores under more than a dozen banners, saw double-digit growth for all banners and merchandise categories, including a 30.4% increase in holiday sales. Same-store sales in 2021 increased 25.2% over 2020 and 35.1% over 2019. Additionally, the company indicated its January 2022 sales remained in the high single digits and expects a sequential sales increase in the fourth quarter of 2021.

Luxury conglomerate Richemont's jewelry brands, including Van Cleef & Arpels, Buccellati and Cartier, reported sales exceeding pre-pandemic levels, fueled by double-digit growth in the second half of 2021. Additionally, LVMH's Watches & Jewelry business group recorded revenue growth of 167% in 2021 compared to 2020 thanks to Tiffany & Co. which exhibited a strong performance in its first year under the LVMH ownership. Profit from recurring operations was almost six times higher than in 2020 and up 128% compared to 2019 per the group's year-end reporting. According to LVMH's 2021 year-end report, "Tiffany saw record performance in terms of revenue, profits and cash flow, and increased its global attractiveness as a result of its high impact innovations and collaborations." Total LVMH jewelry and watch revenue increased 167% over 2020 and 103% over 2019, based on annual results published by the company.

**VALUATION OUTLOOK** Retailers worked to offset 2020's pandemic-related losses with innovative and agile operating strategies related to inventory and purchasing, store hours and staffing, and expanded omni-channel and virtual customer service offerings. These measures helped reduce expenses in 2021 but will need to be reevaluated in 2022 given last year's unsustainable growth. Lenders with jewelry assets in their portfolios will

need to monitor inventory levels, gross margins and average discounts as companies comp against historically high sales numbers.

In the short term, the industry may be under pressure as economic uncertainty weighs on domestic and international markets. While high-end luxury markets are typically more recession-proof than non-luxury markets, rising fuel and food prices resulting from ongoing inflation will affect consumers of every demographic.

Assets appraised in 2021 should be reappraised in 2022 as sales and four-wall expenses normalize. Lenders should remain cognizant of retailers' control and leverage over variable and fixed expenses amid ongoing challenges like labor shortages and employee retention. Physical store or virtual platform expansion plans should be carefully considered and monitored.

**LAB-GROWN DIAMOND MARKETS CONTINUE EXPANSION:** In 2018, the De Beers Group shifted to a business-to-consumer model, entering the retail space with its Lightbox brand and transforming the lab-grown diamond market. The De Beers Group, which controlled about 23% of global diamond production in 2020, has produced lab-grown diamonds for industrial use for decades through its subsidiary Element Six. The corporation recently moved into the retail space, which increased awareness of the synthetic diamond, and other manufacturers and brands began offering their own lab-grown diamonds.

Lab-grown diamonds largely appeal to younger, environmental- and price-conscious consumers. Annual production for use in jewelry has increased from a few hundred thousand polished carats in 2017 to an estimated 2.8 million polished carats in 2021, according to data published by industry expert Paul Zimnisky. Perceived value plays a key role in consumers' decisions to purchase mined or lab-grown diamond jewelry. Brands like Pandora, Swarovski, Macy's, JCPenney and Signet now offer lab-grown diamond jewelry, and experts expect continued growth appeal. In 2021, lab-grown diamonds had a retail worth of almost \$2 billion in polished diamond value.

Lab-grown diamond sales have grown exponentially since 2016, but only represented about 7.5% of the total global polished diamond market in 2021. Zimnisky's October 2021 analysis suggests lab-grown diamond value will increase to 11.5%, or \$3.9 billion, of the global polished market by 2025. A significantly lower price per carat will likely continue to general interest and market penetration for diamonds grown in labs as opposed to those that are mined.

**JEWELRY SELL-THROUGH ASSUMPTIONS AFFECT GROSS RECOVERY VALUE:**

Gordon Brothers assumes a percentage of retail inventory in jewelry liquidations will be sold through wholesale channels in a going-out-of-business scenario for jewelry appraisals, we assume a portion of the inventory will be sold to consumers in retail stores and the balance would be sold through wholesale channels concurrent with the retail sale term. Separate gross recoveries and sell-through percentages are assigned to each category of inventory, with a blended recovery value representing a consolidation of both the wholesale and retail portions calculated on a departmental level.

Typically, the portion assumed to be sold through wholesale channels would not exceed 10% of the total retail inventory. This percentage can be higher if sales capacity is constrained by high inventory levels, especially in non-peak periods. The percentage of jewelry inventory sold through wholesale channels can also be affected if lower-recovering categories, including those assumed to be "melt" or "scrap," make up a larger portion of the total inventory. For traditional jewelry retailers, lower-demand categories that could be expected to sell through wholesale channels include semi-mounts, loose melee diamonds, loose colored stones, wedding bands, remounts and watch straps and supplies.

**The Expert: Becky Goldfarb**



Bringing over 20 years of experience in the disposition and valuation of retail and consumer products inventory, Becky Goldfarb oversees all aspects of retail asset valuations at Gordon Brothers. Read her full bio [here](#).



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