



PLATINUM JEWELLERY BUSINESS REVIEW

Q3 2017

Market Environment

China's economy sustained a stable rate of development and is expected to comfortably achieve its whole-year target of around 6.5 percent:

The government will step up financial support around its "Made in China 2025" strategy, a blueprint for upgrading the country's manufacturing sector. Total funding is likely to exceed 1.5 billion USD. PGI expects that the initiative will encourage the Chinese jewellery industry to upgrade its technology and productivity, and is stepping up technical assistance to facilitate this.

The Indian government announced GST on jewellery sales at 3%, resulting in positive trade sentiment. This was then dampened by the requirement of submission of identity proof against jewellery purchases over Rs.50,000, as the Prevention of Money Laundering Act.

Japan is sustaining its wide-ranging economic recovery, including small/medium sized businesses. Business sentiment index is at a decade-high, not seen since 1991

In the US, the economy is exhibiting strong growth and unemployment remains at an historically low level. Coupled with the current metal prices, the outlook for the platinum business in the US remains strong.

Platinum Jewellery Retail Business Highlights

	2017 E	Q3 2017 ¹	Market Dynamics	Platinum Jewellery
CHINA	-4% to -7%	-5.1%	Overall slow-down in jewellery forces the trade to enhance their bottom-line through margins in piece-priced jewellery.	The gap between winners and losers at retail becomes even more apparent: strategic partners grow while the overall market, especially in plain metal sales, continues to decline, albeit at a slower rate.
INDIA	+24% to +30%	+24%	New legislation derailed jewellery sales starting in August, impacting consumer footfalls into stores. The PMLA rule has then been put on hold in October, which let retailers improve business just in time for Diwali sales	Though Q3 growth was dampened by new legislation, platinum jewellery continues to outperform the category.
JAPAN	+1% to +3%	+0.1%	Continued slight positive growth, a comeback of yellow gold jewellery, white gold in decline.	Platinum jewellery grows in line with expectations prior to Q4, historically platinum's strongest quarter.
US	+5% to +7%	+12%	Gold grows slightly, diamonds report mixed results.	Platinum continues to outperform the market and might outperform 2017 growth forecast

CHINA

- The luxury category is recovering, benefiting from lower-tier growth
- Gold jewellery demand down 4%
- Diamond sales remain strong
- Plain platinum fabrication increased in Q3, while gem-set fabrication lagged due to increasing competition from k gold.
- Retail performance highly polarized

Jewellery

Chinese jewellery demand further weakened, but the pace of slowdown has moderated this year.

The jewellery industry is focused on driving margins and is shifting from pure 24k gold to low-carat gold to be able to offer consumers a larger variety of higher-designed products at favorable price points to extract higher margins.

As an example, some retailers have launched 22k collections, with cutting edge designs, targeted at younger consumers, priced on a per piece basis as opposed to a weight-based priced that is still common for pure metal jewellery.

As the industry effectively targets key consumer segments, the market is expected to start to bottom out following the steady decline from its 2013 peak.

Gold & Diamonds

While total China Gold demand grew by 8.2%, jewellery fell by 4% - while bars and coins rose 39% in H1 2017

China gold demand (Tonnes)	2017 Volume			2017 Growth		
	Q1	Q2	H1	Q1	Q2	H1
Jewellery	175.6	137.6	314.2	-2%	-5%	-4%
Bars and coins	105.9	62.6	168.5	30%	-56%	39%
Total	282.4	200.3	482.7	8.4%	7.8%	8.2%

Source: World Gold Council

Diamond sales showed strong momentum; diamond trade value via SDE in 2017 H1 increased 28.4% YOY.

This is further fueled by the industry's attempt to extract higher margins as manufacturers and retailers are turning to gem-set jewellery which can be sold on a price per piece.

Key trends in the China jewellery market

1. Margin Drive



In a slowing market, jewellers are desperate for margin...

2. Branded Collections



...focus on branded collections at lower price points...

3. Gem-set Jewellery



...and gem-set jewellery to capture more value from piece-based pricing

Platinum Jewellery

Imports

Platinum jewellery trading at SGE increased slightly in the first three quarters of 2017, while unofficial imports from HK indicated a double digit decline.

The data disparity makes a correct read on the actual dynamics difficult. As a proxy, PGI closely monitors manufacturer fabrication which started to increase for plain platinum, which suggests more platinum stock-taking for the year-end peak season

Manufacturing

Plain platinum fabrication increased in Q3, while gem-set fabrication lagged due to increasing competition from k gold.

- Fabrication increased by 3% in Q3 countering a decline of 10% in H1 and netting out to a drop of 6% in the first three quarters. The increase in Q3 was mainly driven by September jewellery fairs and order-placing for the wedding season.
- The decline of platinum gem-set fabrication eased to 4% in Q3, which softened the decline YTD to 8%.

Retail

As outlined in the PJBR Q2 update, China's jewellery retailers are divided between clear winners and losers.

Winners are able to develop and sell platinum jewellery that:

- offers new, contemporary designs
- is anchored in a compelling brand or collection proposition
- Uses increasing consumer demand for gem-set jewellery as a strategic advantage

By doing so they are by and large able to capture value through product margin.

Losing retailers are failing to address market needs and continue to sell jewellery that:

- is largely generic in design
- does not contain a strong, emotionally compelling consumer proposition
- use gem-set as an tactical product ingredient only

While PGI is working with 60+ retailers throughout China, the top retailers in platinum jewellery are considered core strategic partners and enjoy a higher level of support to specifically address the market and consumer needs mentioned above through dedicated programs.

Their Q3 business performance compared to the total market is a good example of platinum's value to the trade when applied strategically.

Platinum Jewellery Product Category Growth Q3 2017

▲ >+2%
 ▶ -2% to +2%
 ▼ <-2%

China Platinum Jewellery Retailers

	Total	Plain	Gem-Set
HK-based	▲	N/A	N/A
Mainland (national)	▼	▼	▼
Mainland (Regional)	▼	▼	▲
Mainland (Individuals)	▼	▼	▶
Total	▼	N/A	N/A

PGI Core Strategic Partners

	Total	Plain	Gem-Set
HK A	▼	N/A	N/A
HK B	▲	▲	▼
HK C	▲	▲	▼
Mainland A	▶	▶	▲
Mainland B	▲	▲	▲
Mainland C	▼	▼	▲
Mainland D	▲	▲	▲

INDIA

- GST overall beneficial to the trade, while important specifics are still in the making
- 4% growth in gold jewellery sales
- 11% growth in diamond jewellery sales
- Platinum jewellery continues to outgrow the market at +24%

Jewellery

In July 2017, India's complex taxation system was replaced with a simpler, nationwide Goods & Services Tax (GST). The government announced GST on jewellery sales at 3% after much lobbying by industry representatives resulting in a lifting of trade sentiment.

However, this was short-lived as the Government announced the requirement of submission of identity proof against jewellery purchases over Rs.50,000, as per PMLA (Prevention of Money Laundering Act) which resulted in slowdown of sales starting from 23rd August

While the trade has been positive with 3% GST, there was confusion about the process of GST with multiple forms and higher frequency of filing tax, which took up time in building processes and systems. With the requirement of filing GST taxes on a monthly basis, the trade also faced liquidity pressure.

The requirement of identity proof to be submitted for jewellery purchases above Rs.50,000/- completely derailed jewellery sales starting from 23rd August, as consumer footfalls into stores were impacted. Retailers saw a drop of over 25-30% in their overall sales in September

After various representations from the jewellery industry, the government decided to put the PMLA regulation on hold on 6th October, until further notice.

With the PMLA rule being put on hold by the government, retailers saw a revival in business just in time for Diwali sales.

Gold & diamonds

Gold jewellery sales have seen slower growth at 4%, while diamond jewellery sales were up 20%. The slowdown in growth is largely caused by the PMLA ruling.

Platinum Jewellery

Retail sales growth of 46 strategic partners with 384 stores (who represent 54% of the market) reported growth of +24% in Q3.

While growth was slower than in the previous quarter, platinum jewellery was still outperforming the market and PGI's program's were able to generate additional value to the trade through various initiatives:

- A new campaign for PGI's flagship brand 'Platinum Days of Love' resulted in increase in consumer enquiries for platinum instore
- 8 strategic retailers that implemented an auto replenishment model developed by PGI, saw a growth of 36% in sales in the product segment

With the PMLA rule on hold, the Diwali and wedding season is expected to bring consumers back in store for jewellery shopping.

In addition to its second big marketing campaign for Evara that is expected to drive consumers to stores for platinum, PGI initiatives in the gold section are expected to boost platinum sales during the season by converting consumers from gold to platinum.

JAPAN

- Yellow gold growth at 1.8% while white gold declines at -1.9%
- Loose diamond sales still challenging
- Platinum growth at 0.1% prior to peak season in Q4

Jewellery

Contemporary chains are seeing recovery in their bridal sales, as well as lighter jewelry, leading to an overall increase in unit sales

Gold & diamonds

Yellow gold is currently considered fashionable and continues to grow at +1.8%. All other metals are in the negative, with white gold at -1.9% YoY.

Domestic loose diamond sales continue to be challenging, with falling prices due to over supply. There is a negative spiral effect of continual decrease in retail sales leading to discount sales, and lower sales/profit.

Platinum Jewellery

Q3 unit sales show platinum moving into slight growth at +0.1% YoY.

63.7% of retailers report growth or neutral performance of platinum jewelry unit sales for Q3, on a YoY basis.

This is the second highest after yellow gold (72.9%), and is significantly higher performance compared to white gold (40.7%).

Market snapshot Japan



World's number 1 platinum jewellery market per capita



World's Number 2 platinum jewellery market in volume with 90% of demand in new metal



World's Number 3 jewellery market at 9.4bn USD

UNITED STATES

- Gold grows at 4%
- Diamond jewellery reports mixed results
- Platinum jewellery growth outperforms market and exceeds expectations at +12%

Jewellery

Overall economic climate is still positive in the US, benefitting jewellery as a category.

As e-commerce business grows, especially in light of the fact that Tiffany's e-commerce business is growing and Signet has acquired Jamesallen.com, there will be increased pressure from brick and mortar stores to change the tax laws in order to even the playing field when it comes to pricing.

Gold & diamonds

The US gold market continues to creep up. Demand in the first half of 2017 has been lifted by improving consumer sentiment, resulting in H1 demand growing 4% - the highest first half total since H1 2009.

According to Rappaport Magazine, diamond sales activity reports are "mixed" with larger companies doing well and smaller dealers struggling to meet last year's volumes. Outlook is optimistic for the holiday season, especially for companies with improved omni-channel offerings.

Platinum Jewellery

Platinum jewellery grows at +12% in Q3 making the balance of 2017 very positive.

The combination of advantageous pricing and trade/consumer communications scheduled for Q4, PGI anticipates continued growth in platinum jewelry sales in this market that might outperform the 2017 estimate of +5 to +7%

About PGI

Platinum Guild International is a worldwide marketing organization dedicated to creating, expanding and strengthening consumer and trade markets for platinum jewellery.

Through various programs in collaboration with jewellery retailers and manufacturers, PGI creates consumer ounce demand by identifying and fulfilling platinum jewellery opportunities for its partners.

Jewellery development has a strong track record in delivering results. On average, PGI programs create consumer demand for platinum at a price of 56 USD per ounce.

PGI is headquartered in Hong Kong and has offices in China, India, Japan and the US.

Platinum Guild International
Suite 2901-2902, Global Trade Square
No. 21 Wong Chuk Hang Road

For more information, please reach out to

Tim Schlick
Chief Strategy Officer
+852 3953 1599
tschlick@pgiglobal.com