



PLATINUM JEWELLERY BUSINESS REVIEW

Q4 2017

Market Environment

Despite weakening investment growth in **China**, consumer consumption has provided enough fuel to the economy to let GDP growth exceed expectations for 2017 at 6.9% YoY. Growth however is not uniform across regions and is mainly driven by lower tier cities. As income rises in these regions, consumer preferences are expected to benefit retailers selling higher-end goods, including luxury and jewellery.

Continuous new legislation in **India** to fight grey and black cash transactions has dampened overall GDP growth to 6.1% YoY in Q4. While the increasing pressure on cash businesses is hurting the unorganized jewellery sector, the organized trade (PGI's strategic partners) is benefitting from strong growth and making platinum an integral part of future growth of the jewellery market.

Japan's economy continues to recover and is expanding to the longest uninterrupted stretch of quarterly growth since the late 1980s. This recovery benefits jewellery, in particular the top and bottom ends of the market.

Continued strong GDP growth of 2.6% YoY in Q4 in the **US**, further fuels consumer confidence and is currently at historically high levels. Despite a deep political divide throughout the country, the new income tax structure that will mostly benefit business, has resulted in a very positive sentiment in jewellery and strong business performance.

Platinum Jewellery Retail Business Highlights

	2017 E	Q4 PGI Partners ¹	Q4 Total Market	Market Highlights
CHINA	-4% to -7%	+3.5%	-5.6%	While market remains subdued, decline has softened and is in line with forecasts. Gap between winners and losers has widened, further fueled by increased competition from K gold - winners at retail see substantial growth in platinum.
INDIA	+24% to +30%	+46%	N/A	Q4 growth outperformed expectations at 46% among PGI partners. While total market data is currently being surveyed, PGI expects Q4 and 2017 to be well within forecasted positive growth corridor.
JAPAN	+1% to +3%	N/A	-0.8%	YTD demand was in line with forecast of overall slight growth in 2017. Innovation programs 'Legacy' and Import/Export' gained traction with trade.
US	+5% to +7%	+10%	+7%	Platinum on track for continued growth in the US. Successful marketing for diamond settings and imported necklaces from Japan further fuel positive outlook.

¹) The Platinum Jewellery Business Review measures growth in consumer demand for platinum jewellery at retail, i.e. jewellery sold to consumers

CHINA

- Jewellery category has recovered and turned into moderate growth
- High-end jewellery and gold jewellery were biggest winners
- Diamond sales remain stable
- The pressure on mass-market players in jewellery is increasing

Jewellery

The decline in Chinese jewellery demand has been reverted and turned into moderate growth. High-end jewellery was among the biggest winners with notable growth in the APAC region (Greater China in particular), e.g.:

- Jewellery Maisons (Cartier, etc): +11% sales in 2017 Q4
- Tiffany: +16% sales during Nov – Dec

With cost of marketing continuing to rise at stellar rates, China remains the hardest fought-for consumer marketing opportunity on the planet, in which jewellery brands are competing with each other and adjacent categories for consumer attention.

Gold & Diamonds

The World Gold Council data show that China gold jewellery grew at 6% YoY in Q4 2017, while bars and coins declined by 44%.

Growth predominantly originated from 18k gold jewellery, 24k 3D 'hard-gold' and piece-priced premium products.

China gold demand (Tonnes)	2017 Volume			2017 Growth		
	H1	Q3	Q4	H1	Q3	Q4
Jewellery	313.2	158.5	175.2	-3.6%	12.8%	6.2%
Bars & coins	168.5	69.3	68.6	38.8%	68.9%	-43.8%
Total	481.7	227.8	243.8	7.9%	25.4%	-15.1%

Source: Metals Focus; GFMS, Thomson Reuters; ICE Benchmark Administration; World Gold Council

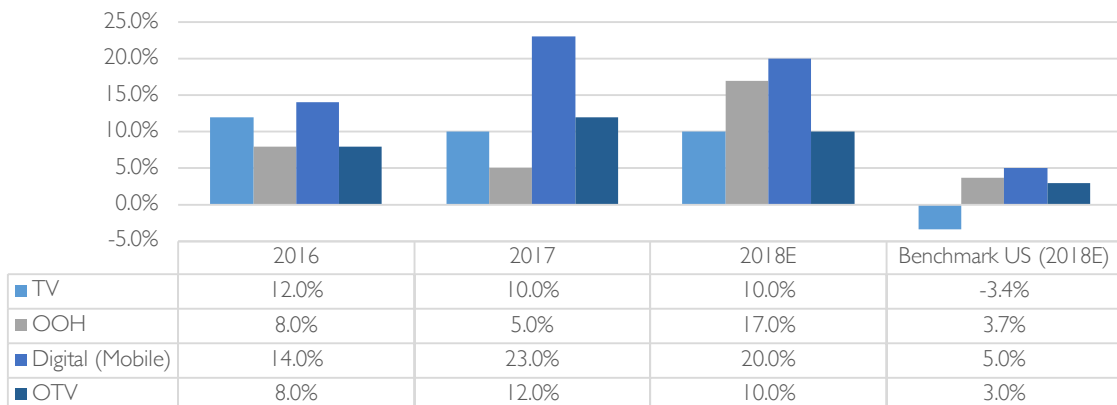
Diamond demand maintained its momentum of long-term stable growth.

Diamond transactions via the Shanghai Diamond Exchange grew 59% YoY in carats and 20% YoY in value in 2017.

Spotlight marketing in China:

Growth comes at the cost of constantly rising prices for advertising spend

China Media Inflation in Key Advertising Channels



Source: R3 2018 China Media Inflation Trend Report; Havas Media Inflation Outlook 2H 2017/1H 2018

Platinum Jewellery

Imports

Platinum jewellery volume on Shanghai Gold Exchange (SGE) increased by 3% YoY, reaching 544k oz, while total platinum transactions dropped by 18% YoY, caused by a significant decline of industrial volume by 53% YoY to 149k oz.

China net platinum import declined by 12% YoY to 1,992k oz in 2017 after adjustment by the customs. HK net import volume of platinum, an indication of unofficial imports for jewellery use, declined by 9% YoY in 2017, reaching 465k oz.

Manufacturing

Plain platinum jewellery fabrication increased in Q4 by 3% YoY, while gem-set fabrication lagged (-4%) due to increasing competition from karat gold.

For plain platinum, large scale manufacturers serving mainly large chain stores generally outperformed; whilst middle to small manufacturers mainly selling to wholesalers suffered.

For manufacturers in general, the structure of their customers makes a big difference: those who focus on large retailers enjoy better manufacturing charges and relatively stable orders. Whilst wholesalers and small retailers more likely to adjust their order volumes quicker in either direction.

Retail

While the speed of decline has softened, Q4 saw platinum jewellery face -5.6% in retail volume. The holiday season in the last quarter helped drive store traffic (National Day Golden Week, the Single's Day, December 12, Christmas and New Year). However, due to low prices during the season and delayed stocking from retailers for the late Chinese New Year, sales remained challenging in Q4.

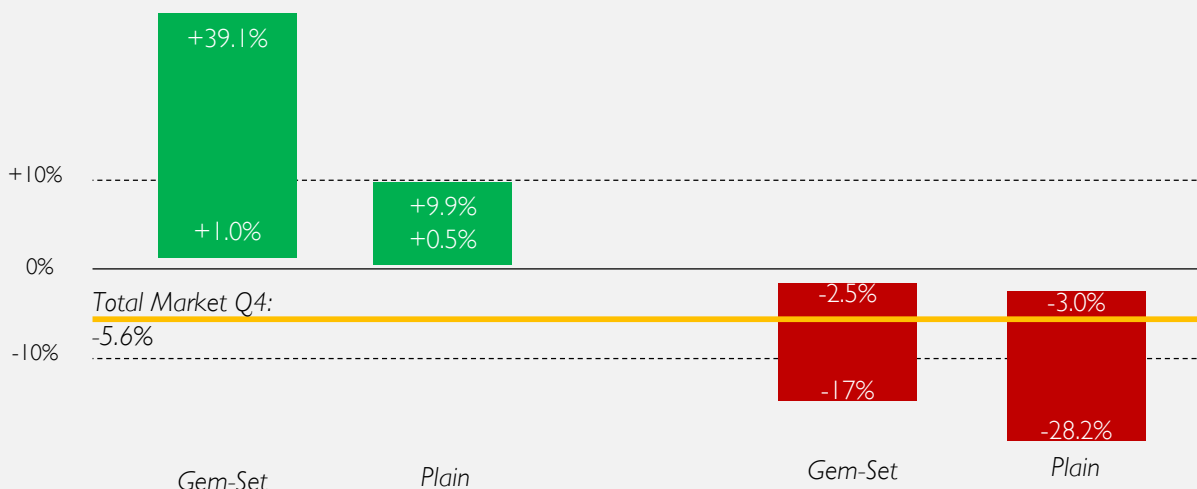
The performance gap between winning and losing retailers continues to be significant and is most likely to widen further in the future:

- All HK retail chains as a group outperformed the market in Q4 due to their product adjustment and promotion efforts.
- To a large extent, national chains also outperformed the market in Q4, through strategic seasonal order placing and enhanced platinum sales training.
- Regional chains as a group saw high single-digit decline in Q4. While most of PGI's strategic partners outperformed the market, some were faced with a decline of more than 25%, mainly due to store closures or reduced platinum counter space.
- Platinum sales at individual retailers has worsened as they switch to high margin products – e.g. 18k gold gem-set.

Winning winners vs. losing losers in platinum jewellery (Q4 2017)

Winning retailers experience growth even in low-performing segments such as plain-metal platinum jewellery...

...whole losing retailers do not even manage to gain in growth categories such as gem-set.



Source: PGI

INDIA

- GST overall beneficial to the trade, especially for the organized trade
- Decline in gold jewellery among non-compliant retailers, organized retail grows at 12%
- 22% growth in diamond jewellery sales
- Platinum jewellery outperforms the market (+46% among PGI strategic partners)

Jewellery

The impact of GST & PAN card legislation on a large part of jewellery sales (<USD 3,000) stabilized as more retailers complied. However, high value jewellery (>USD 7,700) continues to be impacted as these are predominantly cash sales.

Jewellery sales have revived for chain stores in 2017. Some national chain stores like Kalyan Jewellers, Joyalukkas, Malabar Gold, Senco have announced aggressive expansion plans for 2018, and plan to launch their IPOs to be listed companies.

New legislation is making the Indian jewellery industry undergo a transition. With increasing pressure on cash businesses, the large unorganized sector is facing pressure, and is likely to shrink in the long term.

The organized trade is ready for the compliance and will lead category growth, as evident in PGI's 2017 strategy to partner with organized trade. This will ensure that platinum is strategically poised to be an integral part of future growth of the jewellery market.

With cash businesses under pressure, retailers are looking at high margin categories to drive profitability. PGI continues to aggressively drive the high margin opportunity that platinum presents, notably encouraging retailers to upsell within the gold section.

Gold & Diamonds

Large independent stores had unprecedented sales in November 2016 due to demonetization where consumers bought gold to park unaccounted cash. As a result Q4 2017 saw a decline in sales for those retailers.

Organized retail & chain stores that were compliant to legislation however, saw a growth in Q4 2017:

- 12% growth in gold jewellery sales
- 22% growth in diamond jewellery sales

Platinum Jewellery

Retail sales among PGI's strategic partners (54% of total market) saw significant growth in Q4 at +46%.

PGI's core marketing programs and product offerings remain the market-making driver of growth, as they represent the majority of retail sales and are aimed at India's organized trade, the retail segment of the market that is expected to benefit the most of the government's drive to fight illegitimate jewellery sales.

- Evara, PGI's strategic offering in bridal jewellery, increased its footprint by 108 to 179 stores, with sales growing by 57% in November and December 2017.
- Platinum Days of Love, PGI's flagship brand, increased its footprint by 90 to 1,074 stores.
- Campaigns at key wedding and festive season for Platinum Evara and Platinum Days of Love further generated consumer demand for the brands and the category.

Benefitting from above marketing activities, retail sales from strategic partners is expected to see a 35% increase in Q1 2018.

JAPAN

- Continued growth in jewellery across the market
- Trade sentiment is upbeat, especially for platinum jewellery

Jewellery

Trade survey shows that Japan jewellery retail sales in value increased by 0.6% YoY in Q4. Existing store sales in Japan's 10 major cities, with the highest concentration of wealthy customers and overseas visitors, grew at 1.2% YoY.

Steadily rising stock prices support consumer confidence to spend more on luxury items, and department store sales of high-end jewellery above \$10,000 grew at 5% YoY in Q4.

Platinum Jewellery

Q4 total platinum performance on a unit sales basis was down 0.8% YoY.

However increase of unit sales was seen in department stores and discount store channels.

Plain jewellery sales such as Kihei chains remained robust in Q4.

Platinum continued to retain its cachet as a premium metal, while becoming more affordable, in increased variety of price points. Given the continued negative price gap against gold, more manufacturers are focusing on platinum.

Platinum demand is estimated to reach 1 to 2% growth at retail for 2017.

UNITED STATES

- Gold jewellery grows at 3%
- Diamond jewellery up
- Platinum on track for 5-7% growth in the US

Jewellery

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

Holiday jewellery sales in the US grew at 6% YoY in 2017, according to a consumer analysis by Mastercard.

Tiffany & Co. reported that total same-store sales rose 5% over the two-month holiday season globally. Sales in the Americas region grew to \$516 million, with comparable store sales rising 6% YoY.

According to a company statement, there were "varying degrees of growth" across the US.

Gold & Diamonds

According to the World Gold Council, gold jewellery demand was up 3% to 46 tonnes in Q4, leading to the total demand of 122 tonnes in 2017, a figure that firmly maintains the position of the US as the 3rd largest gold jewellery market globally.

De Beers saw a large jump in sales of Forevermark diamonds this holiday season resulting from increased marketing. Jewellers sold 38% YoY more Forevermark stones during the 2017 holiday season, with sales for the whole year rising 25% YoY.

Platinum Jewellery

Q4 saw robust holiday retail sales for the jewellery business overall.

Strong platinum sales are supported by annual results from key market makers, as well as positive sentiment on business in general and platinum business in particular among PGI's manufacturer partners.

The current metal price scenario continues to have a positive impact on platinum jewellery sales performance in the US.

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.

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