



CHARLES & COLVARD®

2019 YEAR
IN REVIEW



We believe

luxury can be both beautiful and conscientious. With innovative technology and sustainable practices, our goal is to lead a revolution in the jewelry industry—delivering a brilliant product at an extraordinary value balanced with environmental and social responsibility.

STATE OF THE MARKET

E-commerce

currently represents **15% of all retail.**¹

E-commerce grew 12.4% in 2018 compared to physical retail, which grew 2%.¹ With more than half the world's population now utilizing the internet and mobile commerce growing at almost 13% per year, e-commerce represents one of the most significant growth opportunities in the retail environment.²

This digital movement is running in parallel with another formidable consumer movement—brand engagement. Today's consumers are actively seeking relationships with the brands they're choosing. In fact, according to a recent Diffusion report, one third of U.S. consumers plan to do at least 40% of their shopping from direct-to-consumer companies.³

Signature Halo Hearts & Arrows Round Statement Ring
Rose Cut Seven Stone Milgrain Bands in 14k Yellow, White and Rose Gold



The Millennial Consumer—Leading the Retail Revolution

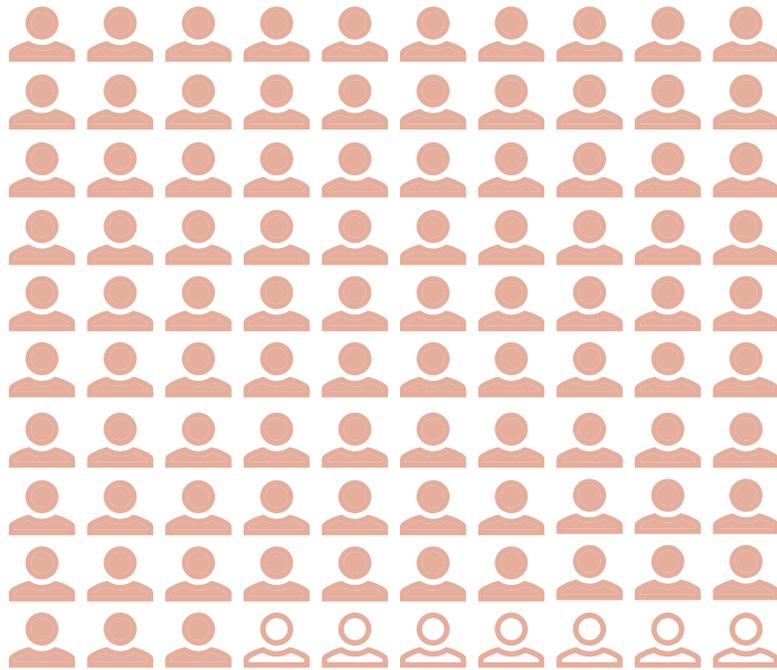
The force behind these retail trends is the shift in spending power to the millennial demographic, who are 23–38 years of age. These consumers are digital natives—readily navigating online social and retail outlets, and comfortably making online buying decisions. Coupled with the emerging Generation Z population (up to 22 years old), it is predicted that by 2025, 45% of all luxury market purchases will be made by this group of consumers.⁴

By 2025,
45%
of luxury market purchases
will be made by
millennials and Generation Z.⁶

The definition of brand loyalty for these consumers is unique. It's not about simply being associated with a company's products. It's about being associated with that brand's values and principles, and forging a bond with brands that align with their beliefs. What exactly are those common beliefs?

According to a recent survey,

93%



of all customers are more loyal to companies that engage in corporate social responsibility.⁴

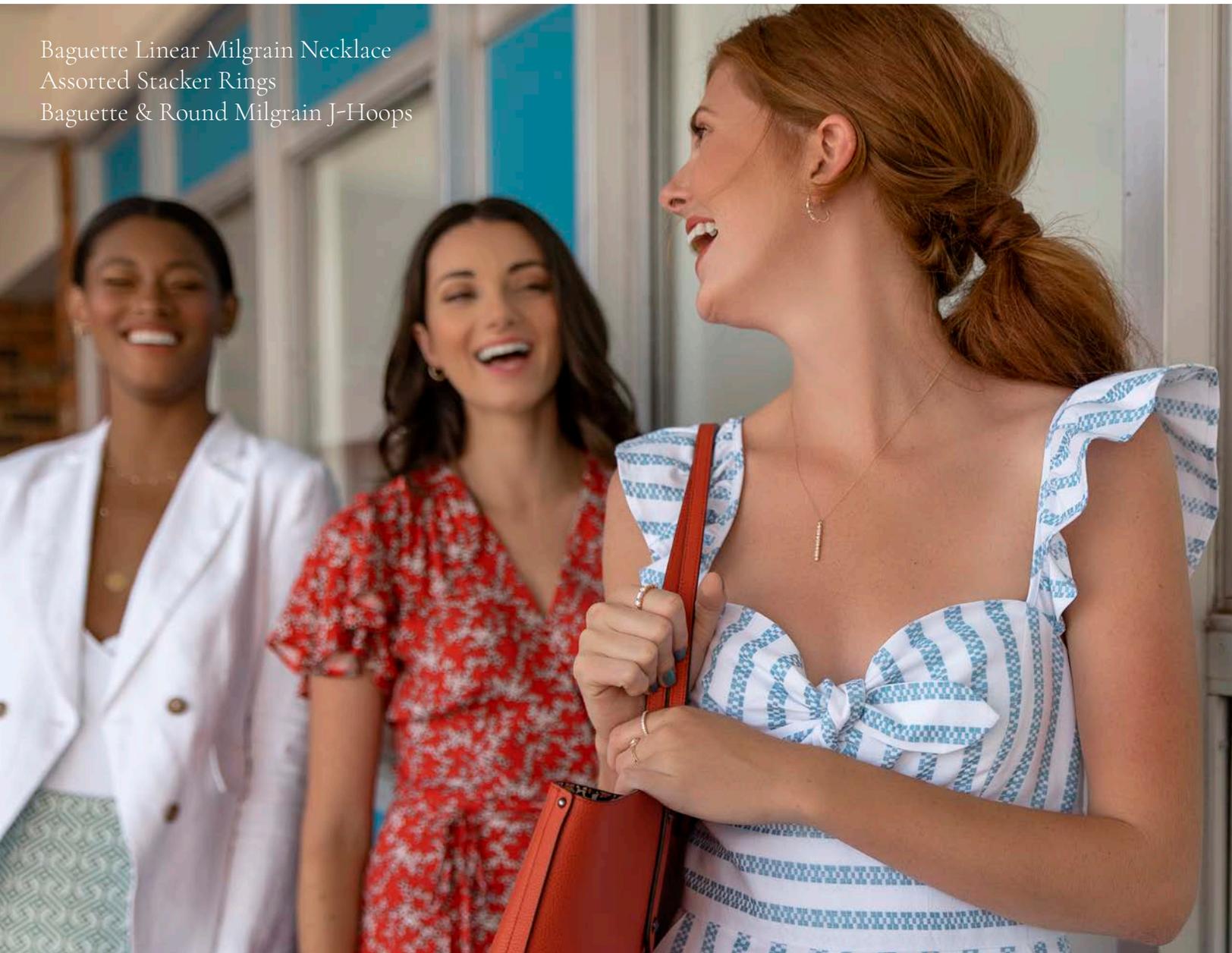
66% of customers are willing to pay more
for products and services from companies
dedicated to social and environmental change.⁵

Commitment to Sustainable Businesses

This conscientious consumerism is being reflected in the rising acceptance of and demand for lab-created gemstones. In 2010, less than half of consumers had heard of lab-created diamonds.⁶

Recent efforts by the diamond industry to draw attention to lab-created diamond have created a groundswell of consumer engagement across social forums—driving significant adoption and acceptance of lab-created gems, and in turn, new pathways to Charles & Colvard. Given our ethically-created gemstones and our focus on recycled metals, Charles & Colvard's products and business practices are resonating with this audience. We believe we are squarely in the right place at the right time with the right product.

Baguette Linear Milgrain Necklace
Assorted Stacker Rings
Baguette & Round Milgrain J-Hoops



ACCOMPLISHMENTS

Digital Transformation and Online Channels Growth

For the past three years we have trained our sights on direct-to-consumer engagement. To facilitate this conversation, we deployed significant digital marketing tactics—from paid digital advertising to social media engagement and influencer marketing programs. In the course of these activities, we've paid particularly close attention to our analytics. We measured everything from clicks to likes, product reviews, advertising channel performance, campaign efficacy, organic traffic and so much more.

While the positive outcomes of these investments are reflected across our entire business, the most significant impacts have been brand awareness and the subsequent traffic driven to our Online Channels segment. Online Channels represented more than half of all revenue in fiscal 2019. And our own transactional website—charlesandcolvard.com, where we garner the most intimate engagement with our consumer—has grown to represent more than 50% of all online sales. With our website offering the purest representation of our brand and commanding the highest margin rates across all sales outlets, we are thrilled with the growth and strength of this channel.

Through calculated digital marketing spend, creative use of video and user-generated content, and careful analysis of the performance of every campaign, we've developed a digital advertising formula that can be leveraged across sales channels and geographies as we pursue our fiscal 2020 expansion plans.

Signature Round Halo Engagement Ring
Round Petal Engagement Ring



Online Channels Revenue

Year	Net Sales	Percentage of Total Sales
2017	\$9.2M	39%
2018	\$13.1M	47%
2019	\$16.3M	51%

Our transactional website now represents **more than half** of Online Channels Sales.

2017 and 2018 results are unaudited and recasted to reflect change in fiscal year end.



Signature Collection Halo Statement Ring



Finished Jewelry Revenue

Year	Net Sales	Percentage of Total Sales
2017	\$8.0M	34%
2018	\$13.0M	46%
2019	\$15.5M	48%

2017 and 2018 results are unaudited and recasted to reflect change in fiscal year end.

Product Evolution

Evolving our gemstone and jewelry selections has been at the center of our transformation. Throughout fiscal 2019, we introduced new gemstone shapes and jewelry options to meet the expanding preferences of our consumer. We now offer moissanite gemstones in 27 cuts that range in size from melee accent stones as small as .002 carats to our largest Exotic gem that tips the scale at 15.55 carats diamond equivalent weight, or DEW.

We're also seeing meaningful adoption of our Moissanite by Charles & Colvard value line of gemstones. We introduced this product in May 2018 as a response to competitive moissanite coming to market. This product, which carries the Charles & Colvard name and is subject to our grading standards and laser engravings, is being met with enthusiasm across our drop-ship, marketplace and distributor channels—delivering 7% of total net sales in the fourth quarter of fiscal 2019. We'll continue to expand this gemstone across our sales channels as we phase out our legacy products.

In Q1 fiscal 2019, we introduced Signature Collection—our first proprietary collection for which we have a patent pending. Every piece of Charles & Colvard Signature jewelry features our floret—the company logo—which means our story gets told with every piece of Signature jewelry we sell. This collection is gaining significant traction, and our Signature Halo Hearts & Arrows Round Statement Ring recently won the JCK Jewelers' Choice Award in the Lab-Grown Gemstone category.

Signature Collection

represented **11% of our finished jewelry net sales** in Q4 and **7%** in fiscal 2019 on our transactional website.



patent: charlesandcolvard.com/patents

We're thrilled with this performance, as we believe it confirms for us that the customer is specifically seeking our brand.

Finished jewelry represented nearly half of our sales in fiscal 2019, growing 19% in the twelve months ended June 30, 2018. This increase is indicative of our direct-to-consumer reach, and a testament to the breadth and strength of our omni-channel sales reach. As we learn more from consumer interactions you can expect further changes to our product mix as our millennial and Generation Z audiences' tastes and preferences mature.

International Reach

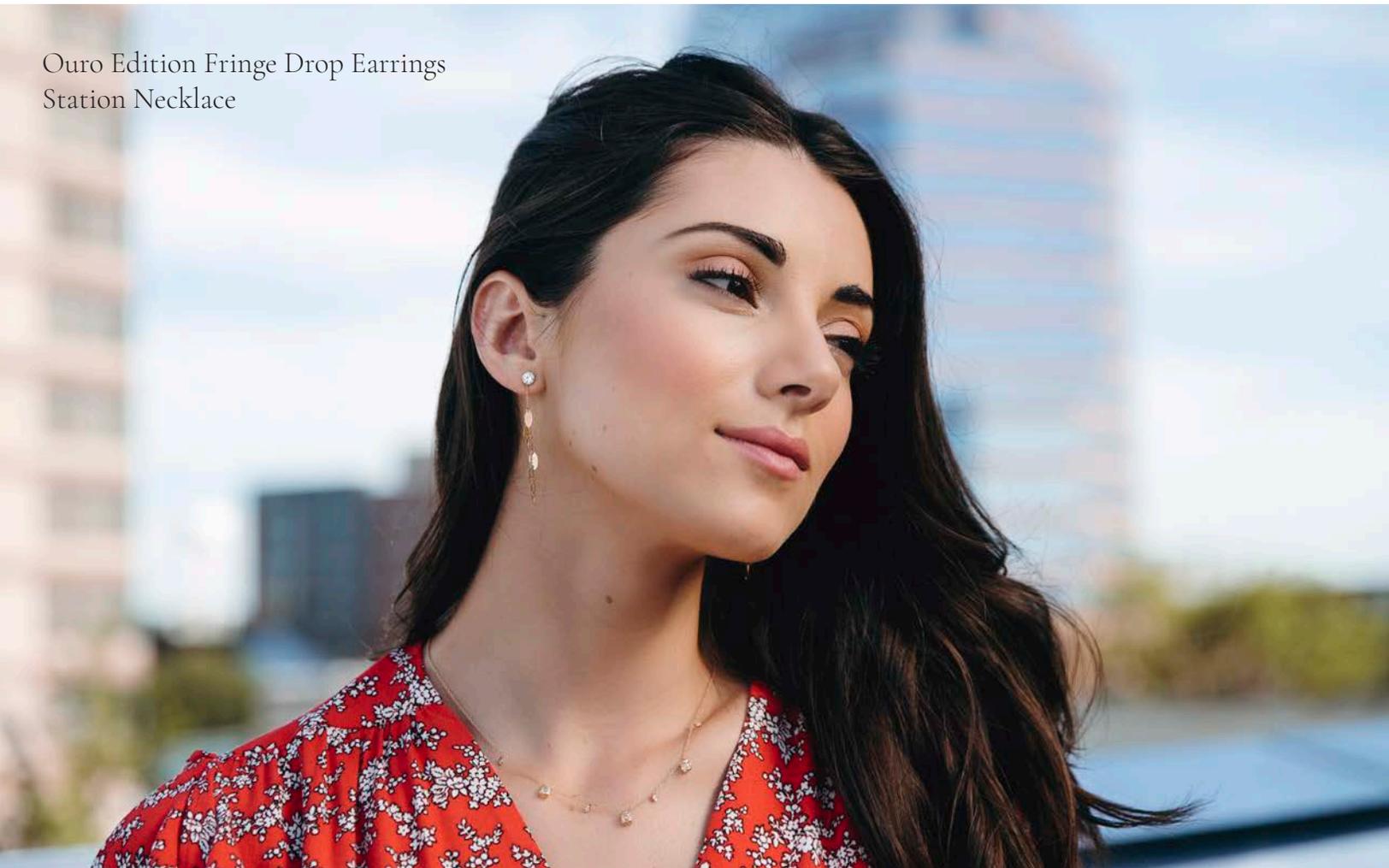
International sales were 13% of our total revenue for fiscal 2019—a 106% increase in net sales over the prior twelve-month period. This growth was generated through international distributors, cross-border trade and international marketplaces.

Cross-border trade takes place when customers outside of the U.S. transact on our domestic website, and we ship our goods to their global locations.

In Q4 fiscal 2019, we saw a 128% increase in cross-border trade revenue over the year-ago quarter.

In addition to this boost in revenue, we also gain meaningful insights into the customers in those countries that are our potential targets. There's a tipping point when a groundswell of new consumers shopping from a foreign country becomes a trend—and that's when international marketplaces bring value.

Ouro Edition Fringe Drop Earrings
Station Necklace



We think of marketplaces as an agile way to enter new international markets. If we see meaningful cross border traffic on our U.S. website, we then consider a marketplace test to measure in-country brand adoption. Last year we went live on various marketplaces in Italy, France, Spain, Germany, Australia and Japan. We rely on these marketplaces to draw consumers to their site as we measure the level of interest in our product based on sell-through. If and when we identify a potentially meaningful opportunity, we turn our attention to product curation and digital advertising to draw additional attention to our local presence. Going forward, our rate of growth and overall local footprint will dictate additional expansion efforts.

In addition to these online international sales channels, we've also been partnering with select international distributors to help us expand our regional presence. This has been a profitable endeavor for us—as indicated by an 81% increase in international distributors in Q4 fiscal 2019 over the same period last year. It would be a significant investment and expense to have our own localized on-the-ground presence in new countries. In keeping, we plan to continue this work with targeted regional resources that know their local markets and understand how to assist us with growing our brand presence.

International Sales Reach



Focus on Technology

As an e-commerce driven company, it's critical that we stay ahead of the latest trends—creating new and compelling ways for the consumer to engage with our brand. Throughout fiscal 2019 we deployed enhanced technologies that supported our significant growth. These included our new cross-border trade platform, website enhancements, video to support the consumer's understanding of our product, new social media and loyalty program functionalities, e-commerce integrations and behind-the-scenes efficiencies that reduce costs and increase efficiencies. In short, technology is a key underpinning of our business transformation.

Baguette Multi Stone Prong Set Band
Moissanite Prong Set Band with Carved Detail
Curved Semi Circle Moissanite Wedding Band
Royal Pear Moissanite Ring



THE YEAR AHEAD

Expansion of Brand Awareness

As we head into fiscal 2020, we are laser focused on increasing the reach of our brand—both domestically and internationally. We will expand our digital marketing initiatives on a global scale.

Over the past two years, we have been applying our digital ad spend to convert consumers already familiar with our brand. At a time when we were capital constrained, it was a logical investment to place our ad spend where we could readily convert customers that were pre-disposed to the Charles & Colvard brand or were searching for the term moissanite. But this is a short-sighted strategy, as we were only reaching consumers familiar with our brand and value proposition.

In order to garner the attention of consumers not familiar with our brand but interested in the ethical appeal of lab-created gemstones or a value-priced bridal option that competes with mined diamond, we need to invest more resources and pay more attention to the new but soon-to-be-converted Charles & Colvard customer. That work is done through awareness strategies such as mobile social ads, influencer marketing programs and strategic paid media placements. As we head into fiscal 2020 and imminently into the holiday season, we believe our timing is critical to drive awareness and proliferate our brand.

With the support of our recent capital raise, we believe we'll now have the ability to expand our domestic footprint while building a digital presence in emerging international regions. This will be a primary application of our proceeds in the coming year.

International Sales Reach

It's very early days for Charles & Colvard internationally. We'll be working on our omni-channel presence—through both digital advertising spend and sales channel presence—to ensure there are plenty of places for the consumer to learn about and transact with our brand.

Product Evolution

We will continue to listen intently to our audience in order to deliver products that evolve our solutions by region and channel to meet customer demand.

Enhanced Customer Experience

The consumer's experience with our brand can make or break their likelihood of being a life-long customer. Therefore, we need to ensure that every interaction is engaging, rewarding and beyond their expectations. We'll be focused on several aspects of the customer journey including digital and customer service experiences, and a loyalty program designed to encourage repeat, lifelong customer engagement.

Five Stone Stackable Ring
Emerald Triple Accent Stackable Ring
Accented Baguette Stackable Ring
Round Beaded Stackable Ring



Duet Rose Triple Tier Halo Drop Earrings
Sation Necklace
Oval & Trillion Three Stone Engagement Ring

69%

of shoppers say that they're more likely to try a brand if it has a loyalty program.⁵



90% of Generation Z consumers
believe companies have a responsibility to address
environmental and social issues.⁷

Corporate Social Responsibility

While our moissanite product has always been made, not mined—the Company wasn't historically focused on the positive environmental impact we can have. But we feel it's time to make that a core tenet of our business practices going forward. Our brilliant moissanite gemstone is born from lab-created practices, so we're not moving tons of earth to mine a single carat gemstone. But there's much more to focus on than just our gem. Over the past year, 95% of the metals we sourced were recycled, and going forward we're working toward utilizing only recycled precious metals in our production lines. We also plan to measure and improve the overall environmental footprint of our business operations. We want to positively impact the places where we work and live—so we'll be supporting those communities through philanthropic programs. And lastly, we plan to create a higher level of transparency regarding these practices so our stakeholders will be able to track these efforts and hold us accountable.

Summary

Over this past year we've seen the compelling results from our omni-channel distribution strategy, the promise of measured digital marketing efforts, and the impact of market-driven products. We look forward to taking these learnings and our investment capital, and applying both to a year of expanding brand awareness, top-line growth and increased shareholder value. We appreciate your interest and investment in Charles & Colvard and look forward to updating you on our continued progress.

Suzanne Miglucci

Suzanne Miglucci

President & Chief Executive Officer

Cluster Halo Stud Earrings
Halo Round Engagement Ring





Footnotes

1 Internet Trends 2019, Mary Meeker (June 2019)

2 Key Figures in E-Commerce, Statista 2019

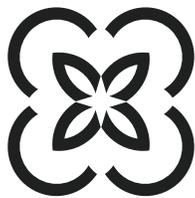
3 Diffusion's 2018 Direct-to-consumer Purchase Intent Index

4 The Next Generation of Luxury, Pace Perspectives

5 Customer Retention in 2019: Driving Emotion with Technology, Annex Cloud

6 MVI Marketing Consumer Research Study Fall 2018

7 State of Fashion 2019, Bof and McKinsey&Company



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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 Annual Report on Form 10-K for the fiscal year ended June 30, 2019 for a discussion of such risks and uncertainties.