



# CHARLES & COLVARD<sup>®</sup>

Dear fellow shareholders,

I'm pleased to share that our past fiscal year has been an incredible journey for Charles & Colvard. Despite the ongoing global pandemic, our team worked tirelessly to capitalize on the Company's positive momentum and to deliver some record-breaking results during Fiscal 2021. We remained focused on our strategic initiatives to expand our digital presence and product offerings, to enhance our customer experience, and to grow the business. This determination allowed us to reach a new level of accomplishment as a company and as a team. We proudly ended our fiscal year with \$21.4 million in cash, which is a 47% increase from one year ago, and we believe that the more than 300% increase in our stock price during Fiscal 2021 highlights our continued commitment to drive shareholder value.

Beginning in the first quarter, we executed on our initiatives with precision to drive revenue and prepare for the 2020 holiday season. Operationally, we were well positioned to scale the business to meet the increased e-commerce demand as consumer shopping behavior shifted online. We remained laser focused on elevating the Charles & Colvard house brand along with the Forever One<sup>™</sup> moissanite product brand, which paved the way for a successful launch of a new product brand,

Caydia® lab grown diamonds. By diversifying our product offerings, we were able to give our customers a choice in premium lab grown gems set in responsibly sourced precious metals. The launch of Caydia lab grown diamonds expanded our total achievable market and allowed us to serve a new customer – one that is predisposed to diamonds.

With the launch of Caydia, we rolled out a new look and feel for the brand and improved the overall customer experience on our direct-to-consumer website, charlesandcolvard.com. We have also reengineered our packaging to reflect our brand values, utilizing biodegradable and recycled materials.

Despite retail store vulnerability, in Q1 we expanded our strategic partnership with Macy's to offer an in-store program and launched an incredible Moissanite by Charles & Colvard fine jewelry assortment in 50 Macy's stores that included flagship locations in New York, San Francisco, and Chicago.

Being well prepared, we experienced an unprecedented holiday season for the company, shipping a record number of packages in Q2. Our targeted marketing campaign, "Redefining Real," allowed us to capitalize on the larger lab grown gem movement within the jewelry industry by attracting a broader customer base seeking affordable and ethical gemstones and jewelry. This overall increased awareness translated into sales of Forever One moissanite and Caydia lab grown diamonds during the holidays.

Our increased revenue during Q2 was also the result of the hard work of our merchandising team that brought to market a broader assortment of both core and trending designs. Especially significant to our success was our patented Signature Collection, which resonated with our newly expanded audience. We believe that our award-winning Signature Collection continues to help differentiate and elevate Charles & Colvard from other jewelry brands.

Coming out of the highest quarterly revenue and income from operations in company history, we quickly shifted gears in Q3 to capitalize on our Valentine's Day promotions. We believe that our proprietary business intelligence tools were a key factor to our success and allowed us to make data driven decisions in real time during the Valentine's Day holiday.

In March, we expanded our digital presence with the launch of a second direct-to-consumer website: [moissaniteoutlet.com](http://moissaniteoutlet.com). This website continues to serve as a disposition channel for discontinued and legacy products as well as what we believe to be a meaningful growth opportunity for the company.

In Q4, we continued to scale the business in efficient ways to meet the ongoing growing demand for Charles & Colvard fine jewelry. This translated into a successful Mother's Day campaign and strong end to the fiscal year. During this time, we also defined and implemented innovative technology to support our digital streaming

and shoppable content strategies. These strategies were and will continue to be a critical component in engaging our customers in a more personalized way.

With our customers in mind, we also launched new Caydia lab grown diamond cuts, such as emerald and princess, launched new jewelry styles within Macy's stores and improved our overall Amazon online shopping experience. Most notably, we brought to market additional patented Signature Collection styles which helped increase our Signature Collection sales 242% in Q4 over the same quarter in the previous year.

Lastly, it is important to note that we were relisted on the Russell Microcap Index during the final quarter of the year. All in all, we ended the fiscal year with strong double-digit revenue growth across both segments and in both jewelry and loose gems as compared to last year.

Altogether, our strategic vision and dedication to our goals allowed us to achieve these notable accomplishments.

In summary, our results can be defined by the numbers:

- For Fiscal 2021, net sales increased 34% to \$39.2 million, compared to \$29.2 million in the year-ago period.
- Online Channels segment net sales increased 40% year over year to \$23.2 million for Fiscal 2021, compared to \$16.6 million for the year-ago period.

- Traditional segment net sales increased 28% year over year to \$16.0 million for Fiscal 2021, compared to \$12.6 million for the year-ago period.
- Finished jewelry net sales increased 45% to \$24.4 million for Fiscal 2021, compared to \$16.8 million in the year-ago period.
- Loose jewel net sales were \$14.8 million for Fiscal 2021, an increase of 20%, compared to \$12.4 million in the year-ago period.

Going forward, our strategic initiatives during Fiscal 2022 are designed to drive expansion and help us remain on a strong growth trajectory. We look to further position and articulate our brand in this evolving consumer landscape, evaluating customer touch points. We intend to meet the contemporary consumer's appetite for digital content and to create additional and innovative portals to showcase the Charles & Colvard brand and elevate awareness.

In addition to growing our brand presence online, we have broken ground on our first Charles & Colvard Signature Showroom and are exploring opportunities to open additional retail spaces in order to showcase our exclusive designs as well as a wide assortment of our created gemstones and jewelry for those consumers who want to see and feel our products in person. We've begun to expand our content production capabilities by building out what we believe to be a state-of-the-art broadcast studio at our headquarters location. This will allow us to live stream on our website and other media channels, thereby providing another sales channel for our direct-to-consumer business and allowing more personal interaction with our

online consumer base. This functionality also provides for additional promotional, celebrity and influencer engagement opportunities.

We believe successful execution on our strategic initiatives fuels our goal of helping bolster top-line growth in order to drive continued shareholder value.

On behalf of the entire Charles & Colvard, Ltd. team, I would like to thank you for your continued support, and I look forward to the year ahead.

A handwritten signature in black ink, appearing to read 'Don O'Connell', with a large, stylized initial 'D'.

Don O'Connell  
President & CEO



**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, 2021 for a discussion of such risks and uncertainties.