



CHARLES & COLVARD®

Q2 FY 2023 Earnings
CONFERENCE CALL PRESENTATION

Nasdaq: CTHR

Forward Looking Statements

This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements expressing expectations regarding our future and projections relating to our products, sales, revenues, and earnings are typical of such statements and are made under the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements about our plans, objectives, representations, and contentions and are not historical facts and typically are identified by use of terms such as “may,” “will,” “should,” “could,” “expect,” “intend,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “continue,” and similar words, although some forward-looking statements are expressed differently.

All forward-looking statements are subject to the risks and uncertainties inherent in predicting the future. You should be aware that although the forward-looking statements included herein represent management’s current judgment and expectations, our actual results may differ materially from those projected, stated, or implied in these forward-looking statements as a result of many factors including, but not limited to, (1) our business and our results of operations could be materially adversely affected as a result of general economic and market conditions; (2) our future financial performance depends upon increased consumer acceptance, growth of sales of our products, and operational execution of our strategic initiatives; (3) the effects of COVID-19 and other potential future public health crises, epidemics, pandemics or similar events on our business, operating results, and cash flows are uncertain; (4) we face intense competition in the worldwide gemstone and jewelry industry; (5) our information technology, or IT, infrastructure, and our network may be impacted by a cyber-attack or other security incident as a result of the rise of cybersecurity events; (6) constantly evolving privacy regulatory regimes are creating new legal compliance challenges; (7) we are subject to certain risks due to our international operations, distribution channels and vendors; (8) our business and our results of operations could be materially adversely affected as a result of our inability to fulfill orders on a timely basis; (9) we are currently dependent on a limited number of distributor and retail partners in our Traditional segment for the sale of our products; (10) we may experience quality control challenges from time to time that can result in lost revenue and harm to our brands and reputation; (11) seasonality of our business may adversely affect our net sales and operating income; (12) our operations could be disrupted by natural disasters; (13) sales of moissanite and lab grown diamond jewelry could be dependent upon the pricing of precious metals, which is beyond our control; (14) our current customers may potentially perceive us as a competitor in the finished jewelry business; (15) we depend on a single supplier for substantially all of our silicon carbide, or SiC, crystals, the raw materials we use to produce moissanite jewels; if our supply of high-quality SiC crystals is interrupted, our business may be materially harmed; (16) if the e-commerce opportunity changes dramatically or if e-commerce technology or providers change their models, our results of operations may be adversely affected; (17) governmental regulation and oversight might adversely impact our operations; (18) the execution of our business plans could significantly impact our liquidity; (19) the financial difficulties or insolvency of one or more of our major customers or their lack of willingness and ability to market our products could adversely affect results; (20) negative or inaccurate information on social media could adversely impact our brand and reputation; (21) we rely on assumptions, estimates, and data to calculate certain of our key metrics and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business; (22) we may not be able to adequately protect our intellectual property, which could harm the value of our products and brands and adversely affect our business; (23) environmental, social, and governance matters may impact our business, reputation, financial condition, and results of operations; (24) if we fail to evaluate, implement, and integrate strategic acquisition or disposition opportunities successfully, our business may suffer; (25) our failure to maintain compliance with The Nasdaq Stock Market’s continued listing requirements could result in the delisting of our common stock; (26) some anti-takeover provisions of our charter documents may delay or prevent a takeover of our Company; and (27) we cannot guarantee that our share repurchase program will be utilized to the full value approved, or that it will enhance long-term stockholder value. Repurchases we consummate could increase the volatility of the price of our common stock and could have a negative impact on our available cash balance; in addition to the other risks and uncertainties described in more detail in our filings with the U.S. Securities and Exchange Commission (the “SEC”), including our Annual Report on Form 10-K for the fiscal year ended June 30, 2022 and subsequent reports filed with the SEC. Forward-looking statements speak only as of the date they are made. We undertake no obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur except as required by the federal securities laws, and you are urged to review and consider disclosures that we make in the reports that we file with the Securities and Exchange Commission, or SEC, that discuss other factors relevant to our business.



Agenda

- **CEO Q2 FY 2023 – Overview**
- **Financial Summary – Q2 FY 2023**
- **Wrap Up**
- **Q&A**

Capitalizing on Growing Movement

- Consumers shopping for high-end jewelry are “increasingly favoring brands that act responsibly, value diversity, and have a compelling brand presence both online and offline.”*
- Younger consumers typically won’t consider a brand that doesn’t prioritize sustainability.
- Non-traditional distribution in jewelry has exploded.
- Projected that by 2025, sustainability-influenced purchases will account for 20 to 30% of all fine-jewelry sales.
- Lab-grown jewelry market is forecasted to exceed \$10 billion in 2023.
- Company is positioned with “Made, not Mined™” strategy to benefit from backdrop of purchase movement and the “sustainability surge.”



<https://www.charlesandcolvard.com/patents>

*Source: <https://www.mckinsey.com/industries/retail/our-insights/in-fine-jewelry-and-watches-sustainability-shines-through>



Execution Against Strategic Initiatives

- Focusing on finished jewelry products
- Increase utilization in the production and faceting of loose gemstones to now include lab grown diamonds
- Diversifying product offering beyond moissanite to include lab grown diamonds and colored gemstones
- Expanding our direct-to-consumer footprint
- Building branded distribution assets to control own destiny and allow leverage of infrastructure in the future



Execution Against Strategic Initiatives

- **Focusing on finished jewelry products**
 - 81% of Q2 23 revenue was attributable to finished jewelry vs 62% in FY 2021
 - Year to date, finished jewelry revenues are up 11% compared to fiscal 2021
- **Capture greater share of lab grown diamonds**
 - 63% increase in number of engagement rings sold with a lab grown diamond (March 2021-March 2022), while rings with mined diamond declined by 25% in same period.
 - Caydia fastest growing category for company
 - Q2 23 revenue up 19% versus Q2 22
 - YTD 23 revenue up 603% versus YTD 21
- **Expanding our direct-to-consumer footprint**
 - Younger individuals primarily purchasing jewelry online
 - Continue to expand online capabilities to enhance customer experience
 - Online sales represent 76% of Q2 23 versus 66% in Q1 23, and 62% for FY 22
- **Building branded distribution assets to control own destiny and allow leverage of infrastructure in the future**
 - Charlesandcolvard.com, Moissaniteoutlet.com, Flagship Store



Progress Made Against Difficult Economic Backdrop

- Domestic and global inflation, and rising interest rates, coupled with ongoing fears of recession, continue to erode consumer confidence and present major challenges for the global retail and jewelry industry.
- Not unique to Charles & Colvard, as Company faces the same near-term challenges as other retailers and those in the jewelry space.
- Challenges are providing us the opportunity to continue reevaluating technologies and strategies to better position us in the future.



Proactive Inventory Management & Cash Position

- Cash position increased during the quarter despite the net loss.
 - \$17.0 million in Q2 23 versus \$16.6 million in Q1 23.
 - Cash flows from operations were positive in Q2 23.
- Inventory decreased to \$35.0 million in Q2 23 versus \$36.6 in Q1 23.
- Taken decisive actions to align go forward growth and profitability strategies with the near-term economic backdrop to maintain a strong balance sheet.
- Tremendous value in company with just cash and inventory positions.



Summary

- Despite the challenges in the industry, delivered \$10.4 million in revenue, a level that has only been reached a handful of times in the company's history.
- Positive cash flows from operations.
- Transitioning business to focus on areas that create long-term value and allows the Company to capitalize on key consumer trends towards responsibly and ethically-sourced.
- Building value in Company-owned brands and distribution capabilities to better control own destiny.
- Strong balance sheet offers company ability to invest for future growth opportunities.



Q2 2023 Financial Summary

Clint Pete, CFO

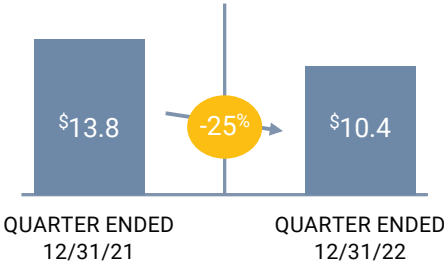
Net Sales Analysis

Q2 FY 2023 vs. Q2 FY 2022

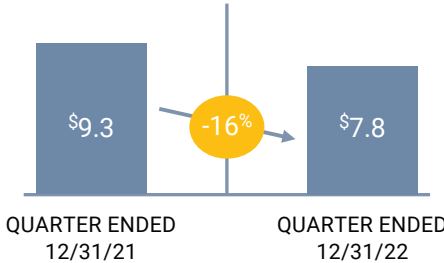


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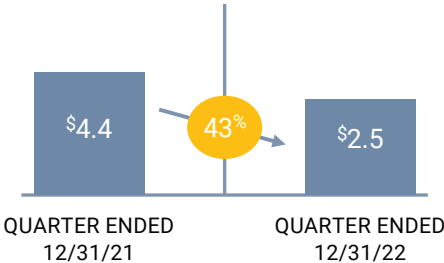
Net Sales (\$M)



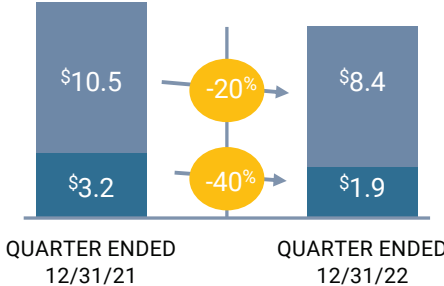
Net Sales from Online Channels Segment (\$M)



Net Sales from Traditional Segment (\$M)

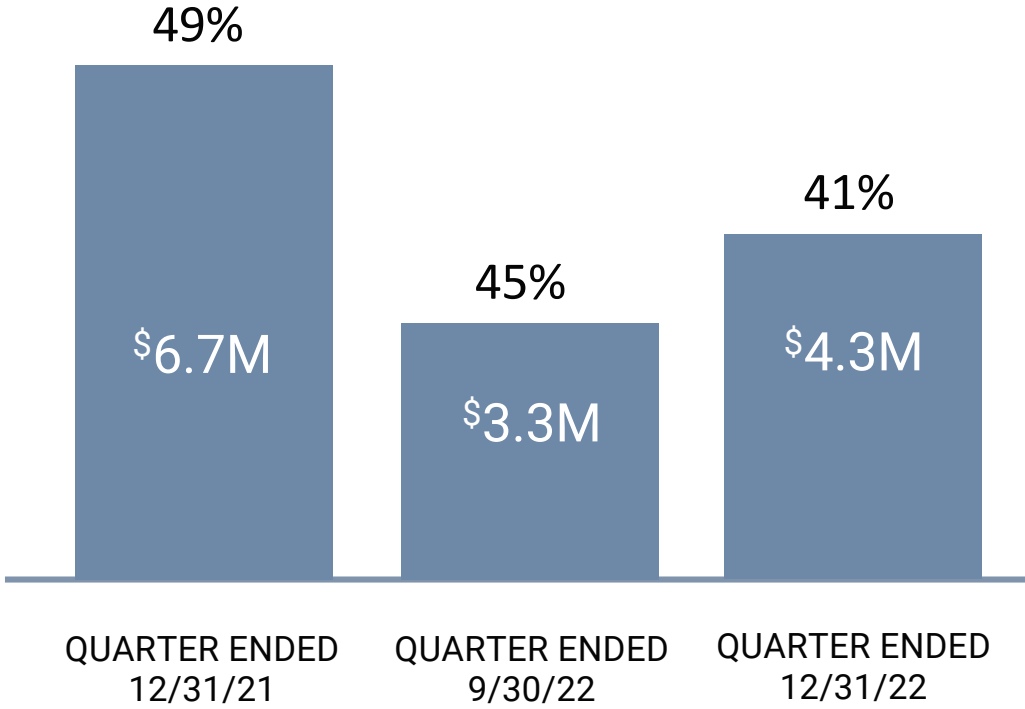


Finished Jewelry & Loose Jewel Net Sales (\$M)





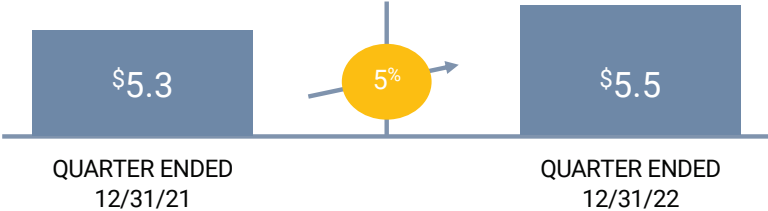
Gross Margin % and Gross Profit (\$ in Millions)



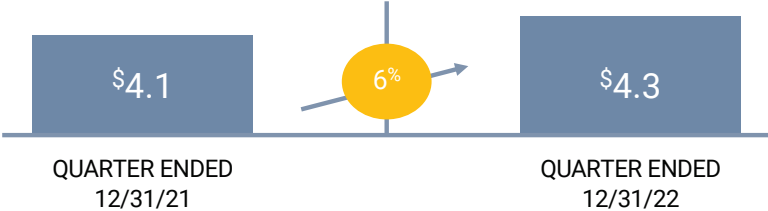


Operating Expenses

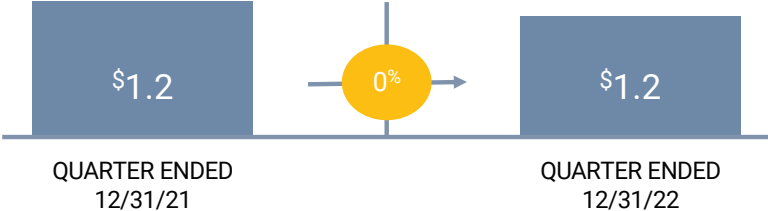
Total Operating Expenses (\$M)



Sales & Marketing Expenses (\$M)



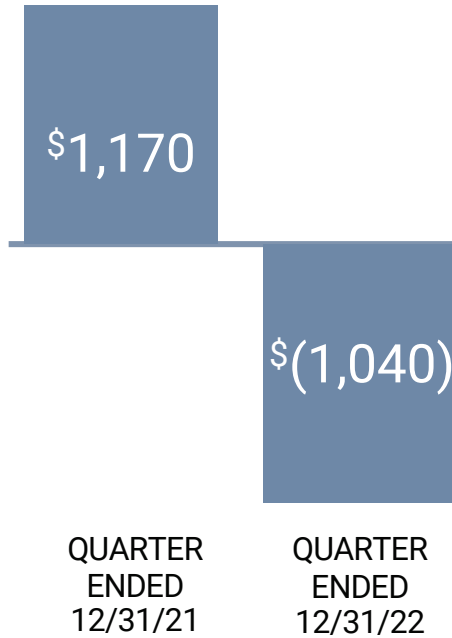
General & Administrative Expenses (\$M)



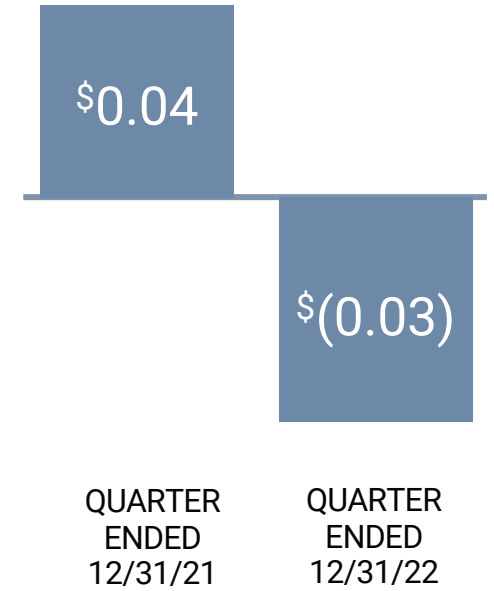


Net Income (Loss) and Earnings (Loss) Per Share

Net Income (Loss)
(\$thousands)



Net Earnings (Loss)
Per Diluted Share



Note: Income tax benefit of \$132,000 for the quarter ended 12/31/22 vs income tax expense of \$283,000 for the quarter ended 12/31/21



Balance Sheet Summary

Q2 FY 2023

	9/30/22	12/31/22
TOTAL CASH ¹	\$16.6	\$17.0
INVENTORY	\$36.6	\$35.0
TOTAL ASSETS	\$67.7	\$66.9
DEBT	\$0	\$0
TOTAL LIABILITIES	\$9.4	\$9.6
SHAREHOLDERS' EQUITY	\$58.3	\$57.3
SHARES OUTSTANDING	30.3	30.5
BOOK VALUE PER SHARE	\$1.92	\$1.87

¹Cash, cash equivalents and restricted cash

(in millions, except per share)



Q&A