

COMPANY PROFILE

Zale Corporation

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COMPANY OVERVIEW

Zale Corporation (Zale or "the company") is a specialty retailer of fine jewelry and watches. The company primarily operates in the US, Canada and Puerto Rico. It is headquartered in Irving, Texas and employed about 12,600 people as of July 31, 2011.

The company recorded revenues of \$1,742.6 million during the financial year ended July 2011 (FY2011), an increase of 7.8% over FY2010. The operating loss of the company was \$27.9 million in FY2011, compared with the operating loss of \$115.4 million in FY2010. The net loss was \$112.3 million in FY2011, compared with the net loss of \$93.7 million in FY2010.

KEY FACTS

Head Office	Zale Corporation 901 W. Walnut Hill Lane Irving Texas 75038 1003 USA
Phone	1 972 580 4000
Fax	
Web Address	http://www.zalecorp.com/
Revenue / turnover (USD Mn)	1,742.6
Financial Year End	July
Employees	12,600
New York Ticker	ZLC

BUSINESS DESCRIPTION

Zale is a US based specialty retailer of fine jewelry. By the end of FY2011, the company operated 1,163 specialty retail jewelry stores and 666 kiosks located mainly in shopping malls. Zale operates in the US, Canada and Puerto Rico.

The company conducts its operations through three business segments: fine jewelry, kiosk jewelry and all other.

The fine jewelry segment specializes in fine jewelry and watches, with merchandise and marketing focused on diamond products. It comprises five brands namely Zales Jewelers, Zales Outlet, Gordon's Jewelers, Peoples Jewellers and Mappins Jewellers, and focuses on the value-oriented consumer. Zales Jewelers stores are the flagship stores and are operated in the US and target value-oriented customers. The company operates 650 Zales Jewelers stores in 50 states in the US and Puerto Rico and the average store size is 1,686 square feet. Gordon's Jewelers is a regional jeweler emphasizing on local fashion styles. Gordon's operates 168 stores in 27 states in the US and Puerto Rico with an average store size of 1,517 square feet.

Zales Outlet targets slightly higher-income women customers in outlet malls and neighborhood power centers. The company operates 132 Zales outlet stores. These stores are operated in 35 states and Puerto Rico. The average store size of a Zales Outlet is 2,360 square feet. The outlets have further evolved into three differentiated formats: power strip centers, traditional outlet malls and destination centers based on their locations.

Peoples Jewellers and Mappins Jewellers stores are operated in Canada with latter positioned as a regional jeweler similar to Gordon's in the US. Zale operated 213 stores in nine provinces in Canada in FY2011 and the average store size is 1,613 square feet.

Additionally, two online stores are operated at zales.com and gordonsjewelers.com.

The kiosk jewelry segment operates through mall-based kiosks, and targets the opening price point jewelry, young and fashion forward customer. At the price point, it offers a collection of bracelets, earrings, charms, rings, and 14 karat and 10 karat gold chains, as well as a selection of silver and diamond jewelry, all in basic styles at moderate prices. Additionally, the kiosks also offer ear-piercing services on site. The segment operates under the brand names Piercing Pagoda, Plumb Gold, and Silver and Gold Connection. These kiosks are located in high traffic areas that are easily accessible and visible within regional shopping malls with a store size of 188 square feet.

All other segment comprises the operations of Zale Indemnity Company, Zale Life Insurance Company and Jewel Re-Insurance Ltd and ZCSC, LLC. The company through the segment provides insurance and reinsurance facilities for various types of insurance coverage, which are marketed primarily to the private label credit card customers. The credit insurance, in addition to providing merchandise replacement coverage for certain perils, also provides protection to the creditor and cardholder for

losses associated with the disability, involuntary unemployment, leave of absence or death of the cardholder. Furthermore, Zale Life Insurance Company also provides group life insurance coverage for Zale's eligible employees. Zale Indemnity Company writes direct credit insurance contracts and also has certain discontinued lines of insurance that the company still services.

The company purchases the merchandise in finished form from a network of established suppliers and manufacturers located primarily in the US, India, Southeast Asia and Italy. In collaboration with Citibank, Zale also offers private label credit card to its customers in the US. The company entered into a five year Private Label Credit Card Program Agreement with TD Financing Services, a wholly-owned subsidiary of Toronto-Dominion Bank, to provide financing for its Canadian customers to purchase merchandise through private label credit cards.

HISTORY

Morris and William Zale founded Zale Corporation, then known as Zales Jewelers, with the establishment of the first store in Wichita Falls, Texas in 1924. By 1941, the company operated 12 stores in Oklahoma and Texas. Zale acquired Corrigan's of Houston in 1944, which allowed the company to migrate to fine jewelry. The acquired business was eventually launched as the Bailey Banks & Biddle brand. By 1946, the company operated 19 stores. In the same year, Zale opened a central design, display and printing operation in Dallas to support its operations.

The company went public in 1957. During the 1960s, Zale branched out into other markets, including shoes, sporting goods, drugstores, furniture, and catalog stores. The company's name was changed from "Zales Jewelers" to "Zale Corporation" during this time. In 1965, Zale purchased Texas-based Skillern drug store chain. During the 1970s, the company opened new stores and grew its operations to over 1,700 stores.

During the 1980s, Zale started selling-off its non-jewelry retail businesses. In 1980, the company sold of its Skillern Drug store business to Revco, a US based drug store chain operator. Zale sold its 37 store sporting goods chain to Oshman Sporting Goods, and Butler Shoe business to Sears. In 1984, the company unveiled 890-carat "incomparable Diamond", a large internally flawless diamond. Through a leveraged buyout, Peoples Jewelers of Canada and Swarovski International of Austria acquired Zale in 1986. Three years later, the company acquired Gordon's Jewelers, a US based jewelry retailer.

Zale filed for Chapter 11 bankruptcy protection in 1992. In the following year, it emerged from bankruptcy after restructuring its debt. In 1998, the company launched Zales Outlet division with 13 locations in premier outlet centers in the US. Zale acquired Peoples Jewelers of Canada in 1999.

The company acquired Piercing Pagoda, a gold kiosk operator, in 2000. Two years later, Zale announced a \$50 million stock repurchase program. The company entered into a multiplatform marketing partnership with The Knot, a leading lifestage media and services company, in 2005. The partnership aimed at promoting Zale's brands to over one million brides and grooms, who turn to "The Knot" for their wedding planning trends and needs. In 2006, the company terminated discussions with Signet, a specialty jewelry retailer with operations in the US and the UK, regarding potential business combination.

In 2007, Zale announced the streamlining of its corporate organization by centralizing support functions for the moderate brands, in order to increase operational efficiency. Three months later, the company sold one of its brands, Bailey Banks & Biddle, to Finlay Fine Jewelry, a US based jewelry retailer. Zale launched a program in 2008 to reduce inventory levels in order to improve merchandise presentation and inventory efficiency.

In 2009, Zale announced the second phase of its cost reduction plan which identified \$140 million in additional inventory and cost reductions.

The company announced closure of 118 stores in 2009, bringing the total stores closed during calendar year 2009 to 191 of which 160 were retail stores and 31 were kiosks. The stores were closed as they were unprofitable and were recording negative financial contribution. During the same year, Finlay Fine Jewelry Corporation, the company to which Zale sold its Bailey, Banks & Biddle, filed for Chapter 11 bankruptcy protection. The bankruptcy filing of Finlay Fine Jewelry Corporation rendered the company liable to the lease obligations of the Bailey, Banks & Biddle stores. Zale reached agreements in principle to settle contingent rent obligations to landlords of 34 of 45 retail locations of Bailey, Banks & Biddle with aggregate future base rental obligations for such locations of approximately \$29 million as of 2009.

In 2009, Zale launched The Prestige Diamond Collection exclusively at Zales.com, which offers an enormous online selection for grooms to handpick and create a custom engagement ring and wedding band. It offers more than 30,000 diamonds and 2,000 unique settings and carat sizes ranging from 0.33 to five carats.

Citi Cards Canada, subsidiary of Citibank that provided private label credit cards to Zale in Canada, terminated its agreement in 2010 and with effect from June 2010, it will no longer provide private-label credit cards for Zale. In 2010, Zale entered into an agreement with TD Financing Services, a wholly-owned subsidiary of Toronto-Dominion Bank, to provide financing for its Canadian customers to purchase merchandise through private label credit cards. In the same year, Zale reached an agreement with Golden Gate Capital on a new \$150 million, five year senior secured loan.

Towards the end of 2010, the company selected Citibank (South Dakota) to provide the private label credit card program for the retailer's Zales, Zales Outlet and Gordon's brands in the US. The agreement, for a term of five years with automatic renewals for successive two-year terms, replaces the company's agreement with Citi which was scheduled to expire in March 2011.

In August 2011, Zale announced a partnership with Vera Wang to launch a new, exclusive collection of diamond bridal jewelry and, in the same month, Zale announced entered into a new partnership with Jessica Simpson on the development of an exclusive collection of diamond fashion jewelry.

The company, in August 2011, signed an agreement with Monterey Financial Services, to provide alternative financing options to its US customers. These financing options are immediately available in all Zales, Zales Outlet and Gordon's retail stores.

KEY EMPLOYEES

Name	Job Title	Board	Compensation
Theo Killion	Chief Executive Officer	Executive Board	1716073 USD
John B. Lowe, Jr.	Chairman of the Board of Directors	Non Executive Board	147510 USD
Yuval Braverman	Director	Non Executive Board	126124 USD
Kenneth B. Gilman	Director	Non Executive Board	160188 USD
David F. Dyer	Director	Non Executive Board	62953 USD
Neale Attenborough	Director	Non Executive Board	
Joshua Olshansky	Director	Non Executive Board	
Beth M. Pritchard	Director	Non Executive Board	
Matthew W. Appel	Chief Administrative Officer	Senior Management	799472 USD
Gilbert P. Hollander	Executive Vice President, Chief Merchant and Sourcing Officer	Senior Management	800803 USD
Richard A. Lennox	Executive Vice President and Chief Marketing Officer	Senior Management	686311 USD
Jeannie Barsam	Senior Vice President, Merchandise Planning and Allocation	Senior Management	
Ken Brumfield	Senior Vice President, Financial Products	Senior Management	
Brad Furry	Senior Vice President and Chief Information Officer	Senior Management	
Thomas A. Haubenstricker	Senior Vice President and Chief Financial Officer	Senior Management	
John A. Legg	Senior Vice President, Supply Chain	Senior Management	525111 USD
Becky Mick	Senior Vice President and Chief Stores Officer	Senior Management	
Toyin Ogun	Senior Vice President, Human Resource and Customer Service	Senior Management	
Subha Ramesh	Senior Vice President, Real Estate	Senior Management	

KEY EMPLOYEE BIOGRAPHIES

Theo Killion

Board: Executive Board
Job Title: Chief Executive Officer
Since: 2010
Age: 60

Mr. Killion has been the Chief Executive Officer at Zale Corporation since 2010. Prior to this, he served as the President at the company. Mr. Killion also served as the Executive Vice President of Human Resources, Legal and Corporate Strategy at the company during 2008. Prior to joining Zale, he was employed with the executive recruiting firm, Berglass+Associates, during 2006–08 and as the Executive Vice President of Human Resources at Tommy Hilfiger during 2004–08.

John B. Lowe, Jr.

Board: Non Executive Board
Job Title: Chairman of the Board of Directors
Since: 2007
Age: 72

Mr. Lowe has been the Chairman of the Board of Directors at Zale Corporation since 2007. He has served as a Director at the company since 2004. Mr. Lowe served as the Chairman and Chief Executive Officer at TDIndustries during 1980–2005 and continues to serve as Chairman at TDIndustries. He also serves as a Director at Drew Industries Incorporation KDC Holdings.

Yuval Braverman

Board: Non Executive Board
Job Title: Director
Since: 2008
Age: 55

Mr. Braverman has been a Director at Zale Corporation since 2008. He has been the President at J & J Zaidman since 1981.

Kenneth B. Gilman

Board: Non Executive Board
Job Title: Director
Since: 2010

Age: 65

Mr. Gilman has been a Director at Zale Corporation since 2010. He served as the Chief Executive Officer at Asbury Automotive Group, an automotive retailing and services company, from 2001 to 2007. Previously, from 1976 to 2001, Mr. Gilman was employed in a variety of capacities with Limited Brands, a specialty apparel retailer. From 1993 to 2001, he served as the Vice Chairman and Chief Administrative Officer at Limited Brands. From 1987 to 1993, Mr. Gilman was an Executive Vice President and the Chief Financial Officer at Limited Brands. He also serves as a Director at Liz Claiborne.

David F. Dyer

Board: Non Executive Board
Job Title: Director
Since: 2011
Age: 61

Mr. Dyer has been a Director at Zale Corporation since 2011. He has served as a Director at Chico's FAS since 2007 and has been its President and Chief Executive Officer since 2009. Prior to joining Chico's, Mr. Dyer served as the President and Chief Executive Officer at Tommy Hilfiger Corporation. He also served as the President and Chief Executive Officer at Lands' End from 1998 through 2002. Previously, Mr. Dyer served in various other capacities at Lands' End, Home Shopping Network, J. Crew Catalog and Burdines, a division of Federated Department Stores.

Neale Attenborough

Board: Non Executive Board
Job Title: Director
Since: 2011

Mr. Attenborough has been a Director at Zale Corporation since 2011. He is an Operating Partner at Golden Gate Capital, which he joined in 2011 and where he focuses on retail and consumer product sectors. Prior to joining Golden Gate, Mr. Attenborough was the Chairman and Chief Executive Officer at Orchard Brands. He serves on the Boards at Eddie Bauer, Romano's Macaroni Grill, On the Border Mexican Grill & Cantina, White Flower Farms and Questech Metals.

Joshua Olshansky

Board: Non Executive Board
Job Title: Director
Since: 2011

Mr. Olshansky has been a Director at Zale Corporation since 2011. He is a Managing Director at Golden Gate Capital which he joined in 2002 and where he focuses on retail, restaurant and consumer

product sectors. Prior to joining Golden Gate, Mr. Olshansky held positions at Bain Capital, Bain & Company, Ventro Corporation and Rightorder. He serves on the Boards at Express, J.Jill, Eddie Bauer, Romano's Macaroni Grill and On the Border Mexican Grill & Cantina.

Beth M. Pritchard

Board: Non Executive Board
Job Title: Director
Since: 2012

Ms. Pritchard has been a Director at Zale Corporation since March 2012. She currently serves as the North American Advisor for M. H. Alshaya Company, a global franchise company representing over 65 premium brands throughout the Middle East, Eastern Europe, Russia and Africa. Ms. Pritchard also helped found Sunrise Beauty Studio, a developer of exclusive beauty brands and products. Prior to that, she served as the Vice Chairman and Chief Executive Officer at Dean & DeLuca and as the President and Chief Executive Officer of Limited Brands' Bath & Body Works. She currently serves on the Boards at Vitamin Shoppe, and Cabela's.

Matthew W. Appel

Board: Senior Management
Job Title: Chief Administrative Officer
Since: 2011
Age: 54

Mr. Appel has been the Chief Administrative Officer at Zale Corporation since 2011. He was named Executive Vice President and Chief Financial Officer at the company in 2009. Prior to joining the company, he served as Vice President and Chief Financial Officer at ExlService Holdings during 2007–09. Previously, Mr. Appel was the Vice President, BPO Product Management during 2006–07 and the Vice President, Finance and Administration BPO during 2003–05 at Electronic Data Systems Corporation. From 2001 until 2003, Mr. Appel held the position of Senior Vice President, Finance and Accounting BPO at Affiliated Computer Services. He started his career with Arthur Andersen, where he worked for seven years in their audit practice. Mr. Appel is a certified public accountant and certified management accountant.

Gilbert P. Hollander

Board: Senior Management
Job Title: Executive Vice President, Chief Merchant and Sourcing Officer
Since: 2010
Age: 57

Mr. Hollander has been an Executive Vice President and the Chief Merchant and Sourcing Officer at Zale Corporation since 2010. Previously, he served as the President, Corporate Sourcing/Piercing

Pagoda during 2006. Mr. Hollander served in various management positions within Piercing Pagoda including as President during 2005–06, Vice President of Divisional Merchandise as well as Senior Vice President of Merchandising.

Richard A. Lennox

Board: Senior Management
Job Title: Executive Vice President and Chief Marketing Officer
Since: 2009
Age: 45

Mr. Lennox has been an Executive Vice President and the Chief Marketing Officer at Zale Corporation since 2009. Prior to joining the company, he served as Executive Vice President, Marketing Director at J. Walter Thompson. Mr. Lennox joined J. Walter Thompson in 1989 and held various senior level marketing positions. He began his career in 1987 with AGB.

Jeannie Barsam

Board: Senior Management
Job Title: Senior Vice President, Merchandise Planning and Allocation
Since: 2011
Age: 50

Ms. Barsam has been the Senior Vice President, Merchandise Planning and Allocation at Zale Corporation since 2011. Prior to joining the company, she served as the Senior Vice President, Planning and Allocation at Charlotte Russe from 2009 to 2011. Ms. Barsam held various senior management positions at The Gap from 2000 to 2007.

Ken Brumfield

Board: Senior Management
Job Title: Senior Vice President, Financial Products
Since: 2012

Mr. Brumfield has been the Senior Vice President, Financial Products at Zale Corporation since February 2012. He has over 25 years of financial services' experience in all aspects of the consumer payments industry, including card operations, risk underwriting, receivables financing, credit marketing, product innovation and development, and business development. Prior to rejoining Zale in 2010, he served as the Director of Sales at Alliance Data Systems, and as the Senior Vice President of Credit Services at Stage Stores.

Brad Furry

Board: Senior Management
Job Title: Senior Vice President and Chief Information Officer
Since: 2011

Mr. Furry has been a Senior Vice President and the Chief Information Officer at Zale Corporation since 2011. Prior to joining Zale Corporation, Mr. Furry spent 21 years at The Neiman Marcus Group, most recently as the Vice President of Enterprise Services with responsibility for applications development and maintenance, vendor management, project portfolio management, strategy and innovation, and helped direct ecommerce strategy. Prior to that, he managed applications development at Pier 1 Imports.

Thomas A. Haubenstricker

Board: Senior Management
Job Title: Senior Vice President and Chief Financial Officer
Since: 2011

Mr. Haubenstricker has been a Senior Vice President and the Chief Financial Officer at Zale Corporation since 2011. Prior to joining the company, he served as the Managing Director at Turnberry Advisors from 2010 to October 2011. Prior to that, Mr. Haubenstricker spent 24 years at Electronic Data Systems (EDS, later acquired by Hewlett-Packard) in various finance and strategy leadership roles including Co-Chief Financial Officer, Vice President and Chief Financial Officer, EMEA Region, and Vice President, Finance for the combined Hewlett-Packard and EDS Business Services Group.

John A. Legg

Board: Senior Management
Job Title: Senior Vice President, Supply Chain
Since: 2010
Age: 49

Mr. Legg has been the Senior Vice President, Supply Chain at Zale Corporation since 2010. Prior to joining the company, he served as a Managing Director at Management Services International, LLC from 2008 to 2010. From 2007 to 2008, Mr. Legg was the Senior Vice President, Global Distribution and Logistics at The Warnaco Group. Prior to The Warnaco Group, he was the Vice President, International Distribution at Liz Claiborne, from 1999 to 2007.

Becky Mick

Board: Senior Management
Job Title: Senior Vice President and Chief Stores Officer
Since: 2010

Ms. Mick was appointed a Senior Vice President and the Chief Stores Officer at Zale Corporation since 2010. Prior to that, she served as the Vice President, Zale North America from 2008 to 2010. Prior to joining the company, Ms. Mick served as a Vice President and the Director of Stores and Operations at The Disney Store from 2006 to 2008. Ms. Mick served as a Vice President at The Children's Place from 2005 to 2006. From 1997 to 2005, Ms. Mick held various management positions with Old Navy.

Toyin Ogun

Board: Senior Management
Job Title: Senior Vice President, Human Resource and Customer Service
Since: 2011
Age: 51

Mr. Ogun has been the Senior Vice President, Human Resources and Customer Service at Zale Corporation since 2011. Prior to joining the company, he served as the Vice President, Human Resource at L.L. Bean from 2009 to 2010.

Subha Ramesh

Board: Senior Management
Job Title: Senior Vice President, Real Estate
Since: 2011

Ms. Ramesh has been the Senior Vice President, Real Estate at Zale Corporation since 2011. Prior to joining the company, she served as a Senior Vice President at Hilco Real Estate from 2010 to 2011. Prior to that, Ms. Ramesh spent eight years at Limited Brands as the Senior Vice President of Real Estate and as the Vice President of Real Estate for Intimate Brands.

MAJOR PRODUCTS AND SERVICES

Zale is a specialty retailer of fine jewelry and watches. The company's key products and services include the following:

Products

Jewelry including bridal jewelry
Watches

Services

Insurance
Private label credit card

Brands

Zales
Zales Outlet
Gordon's Jewelers
Peoples Jewellers
Mappins Jewellers
Piercing Pagoda
Silver and Gold Connection

REVENUE ANALYSIS

Zale Corporation

The company recorded revenues of \$1,742.6 million during the financial year ended July 2011 (FY2011), an increase of 7.8% over FY2010. For FY2011, the US, Canada and Puerto Rico, the company's only geographic market, accounted for 100% of the total revenues.

Zale generates revenues through three business segments: fine jewelry (85.5% of the total revenues during FY2011), kiosk (13.7%) and all other (0.7%).

Revenues by Segment

In FY2011, the fine jewelry segment recorded revenues of \$1,490.6 million, an increase of 8.1% over FY2010.

The kiosk segment recorded revenues of \$239.2 million in FY2011, an increase of 5.8% over FY2010.

The all other segment recorded revenues of \$12.7 million in FY2011, an increase of 9.2% over FY2010.

Revenues by Geography

The US, Canada and Puerto Rico accounted for 100% of the total revenues in FY2011. Revenues from the US, Canada and Puerto Rico reached \$1,742.6 million in FY2011, an increase of 7.8% over FY2010.

SWOT ANALYSIS

Zale Corporation (Zale or "the company") is a specialty retailer of fine jewelry and watches. The company, in line with the changing consumer preferences, has launched several value oriented products to drive top-line growth. However, in the extremely competitive and fragmented retail jewelry business, the company has a market share of 3% in the combined US and Canada markets. Intense competition in the market may erode market share of the company and could result in reduced profitability.

Strengths	Weaknesses
Products catering to the value oriented customers Various brands and product categories catering to varied customers will increase potential customer base Private label credit card and additional services	Declining operating margins
Opportunities	Threats
Strong growth of online retail facilitates will increase revenues from the channel Shift of customer preference to 10 and 14 Karat jewelry provides increased potential customer base for the kiosk segment Positive outlook for jewelry and watches market	Highly fragmented and competitive jewelry industry Increase in gold prices will dampen demand for jewelry

Strengths

Products catering to the value oriented customers

Zale offers fine jewelry through five brands that focus on the value oriented consumer. Apart from the Zales, Gordon's, Peoples and Mappins jewelers offer products at different price points. The company also operates Zale Outlet stores. These stores offer products in every major jewelry category including branded watches, gemstones, gold merchandise, and diamond fashion and solitaire products at 20–70% off traditional retail prices. Zale has been focusing on growing this outlet concept and over the past ten years has grown from four stores to 132 stores. Zales Outlet stores are located in outlet malls that target the value conscious customer base. Additionally, the company also operates kiosks at opening price points and sells fashion jewelry at entry prices. The US has witnessed an

increase in price sensitive consumers due to the depressed consumer spending and adverse macro economic conditions. An increasing number of customers prefer products and choices at lower price points. Zale is well positioned to cater to this customer base which will drive sales amid uncertain economic conditions.

Various brands and product categories catering to varied customers will increase potential customer base

Zale targets varied customers through the product categories and brands it offers. The company's product offering comprises three core product categories that cater to each consumer segment with varying intensity. The bridal category, a primary differentiator for fine jeweler, provides consistent, stable demand and establishes long customer relationships. The fashion segment inspires gift giving and self purchases and also enables Zale to participate in the peak holiday periods when consumer spending is at the highest. The watch business offers watches of very popular brands like Diesel, Armani, Fossil and DKNY and provides additional brand appeal, enhancing the company's ability to further drive traffic.

Additionally, each of Zale's brands offer products for varied customers. Gordon Jewelers and Mappins Jewelers of Canada target regional customers and imbibe localized fashion styles in the product offerings. The Piercing Pagoda brand targets a young, fashion forward customer. Offering a variety of brands which target varied customers, increase the potential customer base for Zale without diluting the brand image.

Private label credit card and additional services

Zale, apart from the private label credit card, which has been contributing considerably to overall sales, also offers several additional insurance products. Sales through the company's private label cards comprised 32% of US sales (excluding Piercing Pagoda) and 21% of Canadian sales in FY2011. Zale offers several financing options such as same-as-cash, revolving and interest free programs, to increase appeal for credit cards. In addition, Zale also offers credit insurance primarily to the private label credit card holders. Apart from providing merchandise replacement coverage for certain perils, credit insurance coverage provides protection to the creditor and cardholder for losses associated with the disability, involuntary unemployment, leave of absence or death of the cardholder. The company's credit card will encourage purchases to increase the average spend of the customers and additional credit insurance enhances customer loyalty.

Weaknesses

Declining operating margins

Operating margin is representative of the efficiency of the company's operations. Decline in operating margin indicates reducing operating efficiency of the company. The operating margin of Zale has been declining over a period of time. From close to 4% in FY2007, Zale's operating margin declined

to 0.3% in FY2008. It further registered negative operating margins for FY2009, FY2010 and FY2011. Any further reduction in the margins of the company could severely affect its financial position.

Opportunities

Strong growth of online retail facilitates will increase revenues from the channel

The online retail market in the US is growing at a fast pace and the trend is expected to continue. Consumers prefer the channel due to the convenience and lower prices offered. According to the US Department of Commerce, the e-commerce sales in the US in 2011 totaled \$194.3 billion, an increase of 16.1% from 2010. E-commerce sales in 2011 increased to 4.6% of total retail sales from 4.3% in 2010.

Online sales in the jewelry segment are estimated to grow faster and are expected to significantly outpace the growth of store-based retail sales. Diamond jewelry makes up for majority of online sales in the US. Zale has made a strategic decision to expand the business for the Zales and Gordon's brands through the e-commerce sites zales.com and gordonsjewelers.com. The company extended its presence online in 2010 by adding the pagoda.com webstore. Zale further added a peoplesjewellers.com store in 2011. Online retail also has several counter recessionary characteristics in terms of reduced operational costs for the company. The robust e-commerce market in the US provides potential for Zale to increase revenues and also cater to increased customer base which prefers internet retail.

Shift of customer preference to 10 and 14 Karat jewelry provides increased potential customer base for the kiosk segment

Customers increasingly prefer 10 and 14 karat jewelry owing to the increasing gold prices and low discretionary income. Demand for more expensive 18-karat gold jewelry is estimated to have seen a steep decline, according to industry experts. Customers are buying gold jewelry but the demand for 10 Karat gold jewelry has been growing rapidly due to high gold prices. More and more customers are choosing 14 karat and 10 karat gold as this jewelry can be offered at lower price points despite the rising costs. Few years ago, customers would shy away from 10 karat gold jewelry, but the shift in the customer preference has made it more acceptable. Zale's kiosk Jewelry segment specializes in gold and silver products, including entry level diamond merchandise, and can capitalize on the latest fashion trends. The segment offers an extensive collection of bracelets, earrings, charms, rings, and 14 karat and 10 karat gold chains, as well as a selection of silver and diamond jewelry, all in basic styles at moderate prices. The shift in the consumer's preference and an increased acceptance of 10 karat and 14 karat jewelry will enable Zale to increase revenues from the segment which will contribute to the top line growth.

Positive outlook for jewelry and watches market

The jewelry and watches sector is expected to see a revival in its sales in 2012 aided by the 7.3% growth in 2011. According to Datamonitor, the global jewelry and watches market grew by 7.3% in 2011 accounting for \$235,435.7 million. It is estimated to reach \$336,918.9 million in 2016, an increase of 43.1%. In the US, the jewelry and watches market grew by 6.3% in 2011 to reach a value of \$61,616.4 million. The Canadian jewelry and watches market grew by 1% in 2011 to reach a value of \$2,683.3 million. The jewelry and watches market is estimated to increase by 15.7% and 10.2% in the US and Canada respectively by 2016. The company is a strong player in these markets in jewelry business. Zale also offers luxury watches to customers and sells several brands like DKNY, Fossil, Armani and Diesel. Thus, the optimistic outlook for sales in jewelry and watches segment presents a good opportunity for Zale to augment revenues from this segment.

Threats

Highly fragmented and competitive jewelry industry

The retail jewelry business is extremely competitive and fragmented. The company competes with national jewelry chains, independent regional and local jewelry retailers and other types of retailers who sell jewelry and gift items, such as department stores and mass merchandisers. The company has a market share of 3% in the combined US and Canada markets. The largest jeweler in the region is Wal-Mart. Other significant segments of the fine jewelry industry include national chain department stores (such as J.C. Penney Company), mass merchant discount stores (such as Wal-Mart Stores), other general merchandise stores, specialty retail jewelers (such as Signet Jewelers) and apparel and accessory stores. In addition, Zale does not have patents, licenses, franchises or concessions. Intense competition in the market may erode market share of the company and could result in reduced profitability.

Increase in gold prices will dampen demand for jewelry

Gold prices are estimated to increase and reach high levels in US dollars during 2012. Between March and December of 2009, gold prices rose 34.8%. From its recent low under \$1,090 an ounce on March 24th, 2010 gold has recovered some lost ground, trading above \$1,120 in early April. Gold has risen roughly 30% from its price of \$870 an ounce in April 2010 and reached an all-time high of \$1,227 in early December 2009. As on March 6, 2012, the gold price in the spot market moved to \$1,673.60 per ounce. The gold price is estimated to average nearly \$1,900 in 2012 by industry sources. The rising prices of gold have been impacting jewelers adversely due to depressed discretionary spending. The increase in prices and low disposable incomes are likely to dampen the demand for jewelry and Zale being a specialty retail jeweler could be adversely affected.

TOP COMPETITORS

The following companies are the major competitors of Zale Corporation

Signet Group plc
Tiffany & Co.
Wal-Mart Stores, Inc.
Helzberg Diamonds
Sterling Jewelers Inc.

COMPANY VIEW

A statement by Theo Killion, the Chief Executive Officer at Zale Corporation is given below. The statement has been taken from the company's Annual Report for FY2011.

In fiscal 2011, our team was focused on executing the first year of our multi-year turnaround plan designed to return the Company to profitability. Our financial performance exemplifies the consistent progress we have made in stabilizing the business. In fiscal 2011, we:

- Achieved growth in comparable store sales of 8.1% and revenue growth of 7.8% to \$1.74 billion;
- Posted ten consecutive months (October 2010 through July 2011) of positive comparable store sales and three consecutive quarters of positive comparable store sales for all brands;
- Achieved gross margin on sales of 50.5% after absorbing last-in, first-out (LIFO) inventory charges, related to significant increases in commodity costs, of \$17 million; and
- Improved Operating Margin by \$87 million over fiscal 2010.

The improvements in our business were the result of successfully executing the initiatives in our multi-year turnaround plans, including:

Rebuilding the Core merchandise assortment.

In fiscal 2011, we made significant progress in rebuilding our Core merchandise assortment, which had declined to 60% of our total inventory in January 2010. Core merchandise is product that has more predictable margin and turn characteristics in line with, or above, category averages. By the end of fiscal 2011, we accomplished our goal of returning our Core assortment to 80%, while maintaining merchandise margin performance. The changes made in our Core assortment have been fundamental to our improved business performance in fiscal 2011.

Returning to The Diamond Store.

During the year, we reintroduced Zales and Peoples as The Diamond Store. The re-establishment of our diamond authority is vital, as product categories that contain diamonds represent 75% of our business. From a merchandising standpoint, we focused first on the wedding businesses. During fiscal 2011, bridal, anniversary bands, diamond earrings and pendants had positive comp performance all 12 months, and solitaires had 10 months of positive comp results. We introduced two successful bridal events during the year that were supported by catalogs, in-store marketing and strong online campaigns. During Holiday, our television and online marketing were anchored by messaging that proclaimed Zales and Peoples as The Diamond Store. Finally, we made a significant investment in training our Store teams in the highly technical skills needed to sell diamonds. We partnered with

the Diamond Council of America to provide 45 hours of training to our jewelry consultants in order to have them DCA certified as authorities on diamonds. We began fiscal 2011 with 15% of our full-time consultants certified and ended the year with approximately 50% certified. Returning to The Diamond Store and all that the claim implies will take time, but the financial results we have seen in the wedding categories and the positive responses that we have received in focus groups and surveys indicate that we are making significant progress.

As we worked to achieve our objective of 80% Core, Gil Hollander, our Chief Merchant and Sourcing Officer, and his team were working to develop proprietary brands that would help elevate the emotional connection our guests have with the Zale family of brands. Our three branded merchandise introductions this fall, Vera Wang LOVE, Jessica Simpson's Diamonds are a Girl's Best Friend and the expansion of our Persona bead collection in the United States, do just that.

Vera Wang is an instantly recognizable, world-class brand that is synonymous with ritual. She used her highly developed design aesthetic to create a line of engagement rings, wedding bands and solitaire bridal jewelry exclusively for Zale. The Vera Wang LOVE collection is beautiful jewelry that will add an emotional halo to our wedding business.

Jessica Simpson has worked with our team to create the Diamonds are a Girl's Best Friend collection. Jessica has successfully designed more than 22 product categories including handbags, sportswear and shoes. The collection at Zales, Zales Outlet and Peoples will feature pendants, earrings and bracelets using butterfly, heart and cross designs. With prices ranging from \$79 to \$1,099, Ms. Simpson's collection will be the highlight of our diamond fashion business for fiscal 2012.

By having exclusive partnerships with powerful brands like Vera Wang and Jessica Simpson, we will provide our guests with beautiful merchandise created by renowned designers that they can only get at Zale brands.

Finally, we have expanded our successful Persona collection to more than 800 Zales, Zales Outlet and Gordon's stores in the United States from our initial test of 200 stores. This bead collection will allow guests to design an affordable gift that is as individual as their feelings for their loved ones.

Our eCommerce business, led by Richard Lennox, Chief Marketing Officer, continues to grow and now includes five web stores. During the year, we effectively used the eCommerce platform to grow our diamond business through our Design Your Own ring option and through an expanded 365 day per year bridal campaign. We recently added functionality to enhance multi-channel integration by adding a ship-to-store function and by offering in-store ordering in select stores. During the fiscal year, we launched a mobile platform allowing our customers to quickly and easily interact with our brands. No matter which channel our consumers choose-in store, online or via mobile-we want to provide the best guest experience possible.

Re-establish the price/value proposition.

In fiscal 2011, we experienced significant cost increases in our key commodities of gold, silver and diamonds. While we implemented price increases at several points during our spring season, the

most significant increases took place in early July. The volatility in these commodity markets is an issue we will closely monitor during 2012. In recognition of the economic pressures many of our guests are facing, we have been careful to offer opening price points in every merchandise category to keep our brands accessible. The Jessica Simpson collection, with price points beginning at \$79, and the Persona bead collection, with beads as low as \$25, are just two examples of this work.

Making strategic investments in people to enhance capabilities.

We are committed to making deliberate, thoughtful investments in people to support and accelerate our strategy of returning to profitability. Investing in the Zale team included strategic hiring in the field as well as our Store Support Center. In August 2010, John Legg joined Zale as Senior Vice President, Supply Chain. John is responsible for warehousing, logistics, quality, manufacturing and indirect sourcing at the Company. John's 25 years of retail supply chain experience has been instrumental in improving functions under his management. In March 2011, Jeannie Barsam, a retail leader with more than 20 years of experience, joined Zale as Senior Vice President, Merchandise Planning and Allocation. Since joining, Jeannie has built a team focused on driving inventory efficiency in order to improve sales and grow profitability. Also in March 2011, Toyin Ogun joined Zale as Senior Vice President, Human Resources and Customer Service. Toyin brings more than 25 years of diverse human resources experience to his assignment and brings in-depth knowledge in the areas of recruitment, performance management and organizational development. In July 2011, Toyin became a board member of the Diamond Council of America, reinforcing our commitment to the education and development of our Store teams. In September 2011, Brad Furry joined Zale as Senior Vice President, Chief Information Officer. Brad brings more than 28 years of information technology and applications development experience to Zale. These appointments exemplify the strategic investments we have made in organizational capability to drive our turnaround initiatives.

In the Stores area, we completed a rigorous talent review of our leadership team at the District Manager level before the last Holiday season. This year, we completed a similar review of talent at the Store Manager level. Delivering a great guest experience begins with strong leadership. Becky Mick, our Chief Stores Officer, has successfully raised the bar on talent, financial accountability and driving results.

Improving our financial foundation.

Having secured the liquidity necessary to execute our turn-around program in fiscal 2010, our focus in 2011 was on improving this foundation. In April, we extended the maturity of \$120 million of our asset-backed credit facility, which was scheduled to mature in August 2011. With this extension, all commitments under our credit facility now mature on April 30, 2014, under the same terms.

In September 2010, the Company entered into an agreement with Citibank to provide the private label credit card program for the Zales, Zales Outlet and Gordon's brands in the United States. In August 2011, we announced the launch of a new credit program that provides our customers with financing options that are additive to our current credit program. Select customers, whose credit applications have been declined by Citibank, will be offered credit under this program providing them with an affordable option to finance merchandise. Monterey Financial Services, a nationally recognized

consumer finance company servicing the retail community, is our first partner. This new offering is available in Zales, Zales Outlet and Gordon's stores in the United States.

Strengthening retail expertise on our Board of Directors.

During 2011, we added considerable retail breadth and experience to our Board of Directors. In September 2010, Ken Gilman joined our Board. Mr. Gilman brings deep retail experience with 25 years at Limited Brands, serving in numerous capacities including Chief Financial Officer and Chief Administrative Officer. In February 2011, David Dyer joined our Board. Mr. Dyer is President and Chief Executive Officer of Chico's. He has 37 years of experience and visionary leadership in retail, including Tommy Hilfiger, Lands' End, Home Shopping Network and J. Crew Catalog. These new Board members have already added significant value to our Company. Finally, in May 2011 Matt Appel assumed the additional role of Chief Administrative Officer. In this role, Matt is responsible for real estate, merchandise planning and allocation, information technology, financial products, supply chain and logistics, as well as ongoing management of the Company's finance and control functions. Matt's leadership over the past two years has been instrumental in creating the financial foundation to execute the business turnaround. We look forward to his continued contributions in his new role.

In summary, we have made significant progress across the Company that positions us for improved performance. As we move forward, we will continue to be methodical and deliberate in the execution of our plans. We intend to strike the appropriate balance between sales and margin to allow us to continue to deliver gross margins above 50% to fuel the recovery of the business.

On behalf of your Board of Directors, officers and the more than 12,600 employees at Zale Corporation, we are grateful for your continuing support of our efforts to grow our business and increase profitability.

LOCATIONS AND SUBSIDIARIES

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Other Locations and Subsidiaries

Zales — Colonial Pinnacle Tutwile 5012 Pinnacle Square Ste Birmingham Alabama 35235 USA	Zales — Mall St Vincent 1133 St Vincent Ave Shreveport Louisiana 71104 USA
Zales Ohio Valley Mall 67800 Mall Road St Clairsville Ohio 43950 0000 USA	Zales Anchorage Fifth Ave 320 W 5th Ave Anchorage Alaska 99501 USA
Zales Bangor Mall 663 Stillwater Ave Bangor Maine 04401 0000 USA	Zales Shawnee Mall 4901 N Kickapoo Ave Shawnee Oklahoma 74801 0000 USA
Zales Chandler Fashion Center 3111 W Chandler Blvd 20 Chandler Arizona 85226 5063 USA	Zales Annapolis Mall 1440 Annapolis Mall Annapolis Maryland 21401 USA
Zales Salem Center Mall 480 Salem Center Street N Salem Oregon 97301 USA	Zales Northwest Arkansas Mall 4201 Hwy 71 N Fayetteville Arkansas 72703 USA

<p>Zales Auburn Mall 385 Southbridge St Auburn Massachusetts 01501 0000 USA</p>	<p>Zales Neshaminy Mall 608 Nesaminy Mall Bensalem Pennsylvania 19020 USA</p>
<p>Zales County East Mall 2550 Somersville Rd Sui Antioch California 94509 0000 USA</p>	<p>Zales Genesee Valley Center 3269 South Linden Road Flint Michigan 48507 0000 USA</p>
<p>Zales Plaza Del Sol 725 W Main Bayamon Puerto Rico 00961 USA</p>	<p>Zales Town Center Aurora 14200 E Alameda Avenue Aurora Colorado 80012 USA</p>
<p>Zales Northtown Mall 182 Northtown Drive Blaine Minnesota 55434 USA</p>	<p>Zales Warwick Mall 400 Bald Hill Rd Ste 168 Warwick Rhode Island 02886 0000 USA</p>
<p>Zales Danbury Fair 7 Backus Ave Danbury Connecticut 06810 0000 USA</p>	<p>Zales Edgewater Mall 2600 Beach Blvd Biloxi Mississippi 39531 0000 USA</p>

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