



**Banc of America Securities**  
**34<sup>th</sup> Annual Investment Conference**  
**September 22, 2004**

# Blue Nile, Inc.

## Safe Harbor Statement

Our presentation includes, and our responses to various questions may include, forward-looking statements, including, without limitation, statements regarding expectations of net sales, gross margin, operating results, net income, operating cash flow, capital investment and other financial statement or balance sheet items, as well as statements about our future plans and objectives. Generally speaking, statements regarding the Company's or management's beliefs, expectations, targets, goals, plans, outlooks or predictions for the future are forward-looking. Any such statements are subject to a number of risks and uncertainties that could cause the actual results and the implementation of the Company's plan and operations to vary materially from the anticipated results implied by the forward-looking statements. These risks and uncertainties include, without limitation, risks related to our fluctuating operating results, seasonality in our business, our ability to acquire products on reasonable terms, our online business model, demand for our products, the strength of our brand, competition, our ability to fulfill orders and other risks detailed in our filings with the Securities and Exchange Commission, including the Prospectus with respect to our initial public offering filed pursuant to Rule 424(b)(4) on May 20, 2004 and our quarterly report on Form 10-Q for the quarter ended June 30, 2004.



# Company Overview

- We are the leading online retailer of diamonds and fine jewelry
- Founded in 1999
- Headquarters and fulfillment operations in Seattle, WA
- 120 employees
- \$148 million in trailing twelve months net sales
- 8 consecutive quarters of positive net income



# Investment Highlights

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- Premium brand in a growing market
- Superior customer experience
- Significant supply chain advantage
- Highly scalable business model
- Rapid growth with strong operating cash flow
- Highly profitable



# Key Participant in the U.S. Jewelry Market

- \$51 billion in size
- Initial focus on \$4.5 billion diamond engagement market
- Growing presence in non-engagement diamond jewelry market
- These combined markets exceed \$23 billion



# Diamonds are Well Suited for Online Retailing



# The Blue Nile Purchase Experience



# The Traditional Diamond Jewelry Supply Chain

- A rough diamond passes through many steps
- Each adds a markup
- Takes ~2 years before a consumer purchases

Diamond Mining



Rough Brokering



Diamond Manufacturing



2 – 3 months

Diamond Wholesaling



5 months/  
wholesaler

Jewelry Manufacturing



2 months

Jewelry Wholesaling



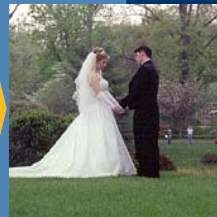
3 months

Retail Inventory



10 months

Consumer





# Business Model Highlights

## Unique Supply Chain Solution

- Eliminates layers
- Exclusive relationships

## Working Capital Advantage

- Broadest selection with minimal inventory
- Suppliers finance growth

## The Online Advantage

- Asset efficiency – increased ROA, ROIC, sales/employee
- Capital efficiency – low capex, low customer acquisition costs



**Superior Operating Cash Flow Generation**



# Superior Cash Flow

(\$ in Millions)

2003 Performance as a % of Net Sales

 blue nile TIFFANY & CO.  amazon.com.

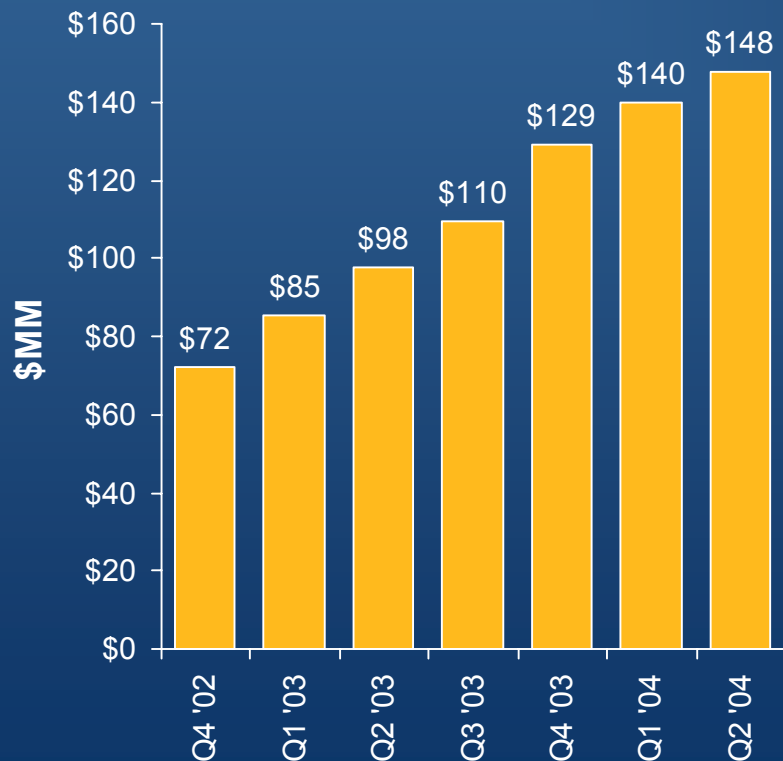
Net Sales	\$129	\$2,000	\$5,264
Operating Cash Flow	15.4%	14.2%	7.4%
Capital Expenditures	2.7%	13.6%	0.9%
Free Cash Flow*	12.7%	0.5%	6.6%

\*Operating Cash Flow Less Capital Expenditures (including capitalized software and development)  
Source: Company filings. Amounts represent CY 2003 performance

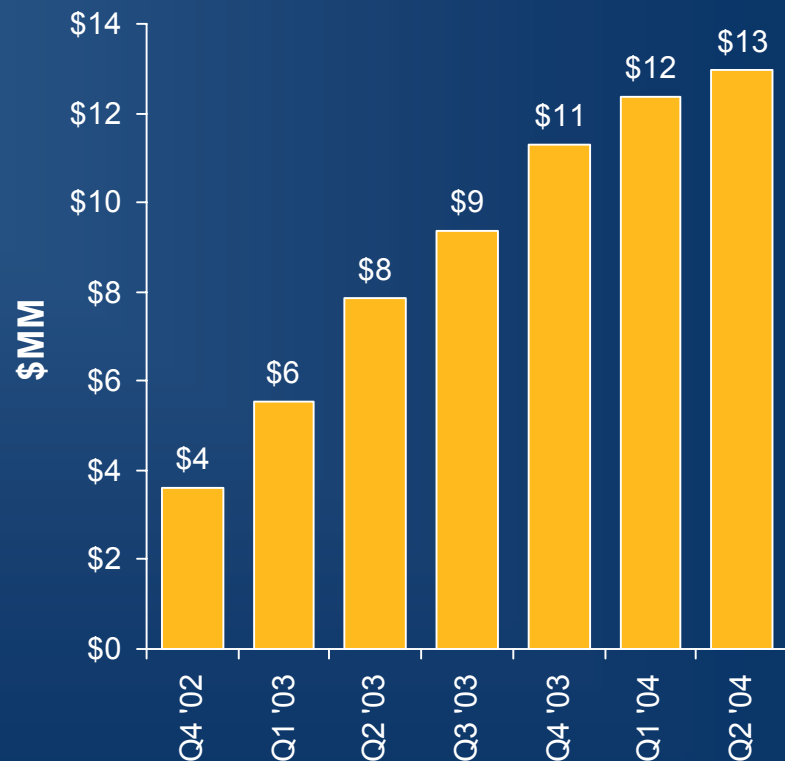


# Superior Net Sales and Cash Flow Growth





TTM Net Sales



TTM Operating Income



# Key Take-Aways

Criterion	Scorecard
 <b>PROVEN</b>	<ul style="list-style-type: none"><li>• \$129mm in 2003 net sales</li><li>• Profitable with expanding operating margins</li></ul>
 <b>SCALABLE</b>	<ul style="list-style-type: none"><li>• Blue Nile model inherently scalable</li><li>• Minimal capital investment required for growth</li></ul>
 <b>DEFENSIBLE</b>	<ul style="list-style-type: none"><li>• Premium brand difficult to replicate</li><li>• Exclusive arrangement with suppliers</li></ul>
 <b>EXTENDIBLE</b>	<ul style="list-style-type: none"><li>• Geographically (U.S. and international)</li><li>• Products (complementary and new categories)</li></ul>

**The Winning Business Model**

