



PAUL ZIMNISKY
DIAMOND ANALYTICS



Antwerp World Diamond Centre Webinar

Paul Zimnisky, CFA

Hosted by Christopher Gemerchak of AWDC

Rough Market Q&A

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The logo consists of a dark grey diamond shape with a light blue arrow pointing to the right, partially overlapping the diamond's right side.

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Disclosure: At the time of the presentation Paul Zimnisky held a long position in Lucara Diamond Corp and North Arrow Minerals Inc.

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Contact: +1-917-806-4555, paul@paulzimnisky.com

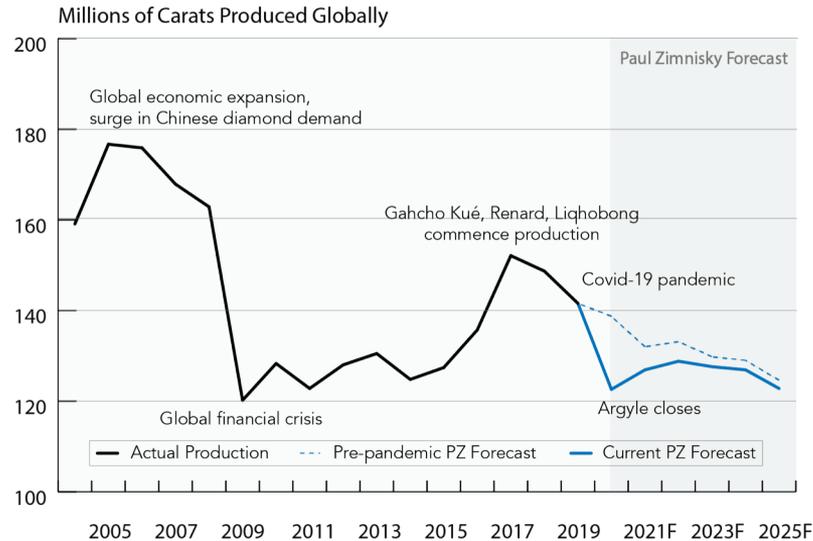
Supply update

- ◇ **2020 production forecast to approach Global Financial Crisis lows**
 - ◇ Border closures and work-quarter quarantine measures related to pandemic have led to production curtailments and outright production suspensions at multiple diamond mines globally
 - ◇ PZ 2020 global mined production forecasted at 122Mcts from a pre-pandemic ~140Mcts
 - ◇ De Beers' parent, Anglo American, cut 2020 diamond production guidance to 25-27Mcts from a previous 32-34
 - ◇ ALROSA to keep 2020 production guidance unchanged at 34Mcts but changes sales guidance to “depend(ent) on the epidemiological situation” from a previous 37-39Mcts
 - ◇ Ekati, Renard, Williamson and Liqhobong production suspended until further notice

- ◇ **Forecasted trend of declining production through at least 2025**
 - ◇ Multiple legacy mines reaching/approaching depletion, e.g. Argyle, Almazy-Anabara placers, Diavik
 - ◇ Post-2021, potential for new incremental production to enter supply chain, although the likelihood is uncertain at this point, e.g. Luaxe, Marange, Star-Orion South
 - ◇ However, general trend of declining production forecasted to continue mid-decade

Mined Global Rough Diamond Supply Volume Forecast

Production in Millions of Carats



Rough price update

- ◇ **Much of the diamond supply chain has been virtually suspended since border closures and travel restrictions globally were implemented in the last two weeks of March in response to the pandemic**
 - ◇ The diamond manufacturing hub in India was officially closed on March 24
 - ◇ Most retail outlets that sell diamonds and jewelry throughout the world, excluding China, were mandated to shut in mid-to-late March

- ◇ **The relative volume of rough transactions has been minimal but at deep discounts due to circumstances**
 - ◇ Recent sales held by independents have yielded prices down as much as 25% or more on LFL-basis relative to sales in prior weeks/months
 - ◇ However, many producers (that can afford to) are not selling into this market and will optimally wait for the supply chain to reopen before selling again
 - ◇ Larger miners that sell most production via contract have limited client/buyer requirements and in general seem to progressing with a “price over volume strategy” in managing supply to market, i.e. favoring reducing sales volume and maintaining prices

Demand update

- ◇ **Retail outlets around the world reopening to likely catalyze much-needed “demand pull-through effect”**
 - ◇ In the short-term, recovery in rough demand to also depend on mid-stream re-opening/health, e.g. profitability, financing ability, work-force/operating capacity
 - ◇ Economic damage done to end-consumers and related sentiment to likely impact pace of recovery medium-term
 - ◇ Potential for material luxury, e.g. diamonds and jewelry, to outperform “experiential” lux
 - ◇ Ultimately, end-consumer demand to likely drive rough demand and prices longer-term
 - ◇ Industry spend/marketing, global-macro to be key drivers

- ◇ **Potential green shoots?**
 - ◇ LVMH, the world’s largest luxury conglomerate, said it is seeing significant improvement in sales growth in Mainland China since stores reopened; sales figures became positive in mid-March and have continued into April, in some cases sales growth has been +50% YoY
 - ◇ Chow Tai Fook expects customer traffic and sales in Mainland to “normalize” around October-December 2020 fiscal quarter; over 90% of stores have reopened in Greater China market
 - ◇ Chow Sang Sang still plans to open ~30 net new stores in 2020; + 4-5% store-count

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Email: subscriptions@paulzimnisky.com

Call: +1-917-806-4555

