Press Release

DIAMOND INDUSTRY BUCKS ECONOMIC UNCERTAINTY TO DELIVER 2-4 PERCENT GROWTH ACROSS THE ENTIRE VALUE CHAIN IN 2013

Antwerp, 9 December 2014 - In its fourth annual report on the global diamond industry, Bain & Company forecasts a solid outlook for diamond demand, but cautions that access to diamond financing, particularly for the middle market, could hamper future market growth.

The rollercoaster trajectory of the diamond market in recent years showed signs of moderating in 2013 with 2-4 percent growth at every point along the value chain. Looking ahead to the next decade, the outlook should remain strong, as long as the industry can step up its focus on driving demand and sustaining a positive image for the market. However, macroeconomic uncertainties, coupled with industry challenges, including dwindling access to financing – one of the biggest hurdles facing the diamond value chain's middle market– could impact future growth; this according to the fourth annual global diamond industry report, *Diamonds: Timeless Gems in a Changing World*, developed by Bain & Company and the Antwerp World Diamond Centre (AWDC).

Bain's research found the diamond industry's growth last year was centered primarily in the U.S., China and India. The U.S. confirmed its position as the world's leading diamond retail market, powered by economic growth of approximately 2 percent – a big improvement from the 1.6 percent decline posted during and immediately after the global financial crisis. Meanwhile, India and China continued to dominate the cutting and polishing and jewelry manufacturing sectors, respectively.

Despite the industry's rebound, persistent macroeconomic uncertainties are spurring questions around diamond demand dynamics in these markets and worldwide.

"The economic peaks and valleys that the global diamond market experienced over the last few years are steady, at least for the time being, but the industry cannot afford to get too comfortable," said Olya Linde, lead author of the global diamond industry report and a Bain partner. "Macroeconomics, along with other factors – financing, marketing challenges, undisclosed synthetic diamonds, environmental concerns, social awareness, and even country-specific preferences – stand in the way of an easy, straight path to sustained diamond industry growth over the long-term."

Bain anticipates that beginning in 2019 the global diamond market is poised to experience a widening gap of up to 5-6 percentage points, due to dwindling diamond supply and increased demand led by expanding wealth and a growing middle class in developed and developing countries alike.

Bain's proprietary forecasting method anticipates rough-diamond demand to grow at an average annual rate of 4-5 percent over the next decade in line with historic trends:

- **U.S.** – Diamond consumption in the U.S. is expected to continue its current rebound trend of the past few years, before converging with its historical long-term growth rate in line with GDP and disposable income growth, which is expected to grow in the range of 2-3 percent over the next decade.
- **China** – Expansion of China's middle class, a rising urban population and a spike in personal wealth should help the diamond jewelry market sustain strong growth. Diamond demand is expected to double by 2024.
- **India** – In India, a revived economy and a middle class that is expected to grow 2.8 times by 2024 will deliver high single-digit growth for the country's diamond jewelry market.

The supply outlook for rough diamonds over the same time period will develop in line with the planned reduction in global production levels. Bain anticipates global supply will grow, on average, 3.5- 4 percent during 2013-2019 and then decline by 1.5-2 percent through 2024, as a result of aging mines and a shift to underground mining. The report estimates supply will reach 163 million carats in 2019, which is below the pre-crisis production of 177 million carats in 2005, dropping to 163 million carats in 2008.

In addition to addressing the growing gulf between diamond supply and demand, the industry faces several issues that will also influence the future outlook and development for the market – the most significant of which is declining availability of financing, particularly for the middle market, which includes traders, cutters and polishers, and, to a certain extent, jewelry manufacturers.

Amid a newly cautious and constrained environment brought on by increased borrowing, the industry's rising credit risk and tighter bank regulations, many traditional diamond banks have reduced their exposure to the industry. In some cases they are reducing the percentage of stones financed from 100 percent to 70-75 percent. As a result, a period of deleveraging could strike with available levels of financing plummeting by as much as $3 billion in the medium term.

"For all stakeholders to capture the opportunities created by the projected growth of the diamond market over the next decade, banks and diamantaires must change the way they do business. In the short- to medium-term, this includes increasing transparency of the reporting and inventory for the middle market segment, introducing new and more secure products, and enhancing cooperation between traditional commercial banks and diamond banks," said Ms. Linde.

The report also identifies three additional key challenges that are important in defining the long-term outlook for the industry's development. These include: sustaining the emotional appeal, and

Private Stichting – Antwerp World Diamond Centre (AWDC) Hoveniersstraat 22, BE-2018 Antwerpen, Belgium
T +32 3 222 05 11 F+32 3 222 05 99 info@awdc.be www.awdc.be BTW – BE 0885 969 987

therefore, the demand for diamonds; securing long-term access to diamonds – particularly for diamond jewelry players – as long-term supply tapers off; and defining the role that synthetic diamonds should play in the industry.

"The Antwerp World Diamond Centre is happy to contribute for the fourth time to a comprehensive report, providing international stakeholders with an insight into the state of the global diamond industry and its future trends," said Ari Epstein, CEO of AWDC.

"Not unlike other global industries, the diamond sector is confronted with challenges, while being focused on delivering on future opportunities," said Stephane Fischler, AWDC President. "Despite a well-developed consumer culture when it comes to diamonds, our industry must make sure we understand and establish a relationship with the new generation of consumers and address their needs and expectations. We are also seeing the rise of technological advancements, which have a considerable impact on the dynamics of the diamond pipeline and are a tremendous opportunity for those eager and able to embrace them."

Editor's Note: For a copy of the *Global Diamond Industry Report 2014* or to schedule an interview with Olya Linde:

- International media: Dan Pinkney at dan.pinkney@bain.com or +1 646 562 8102
- Russian media: Masha Shiroyan at masha.shiroyan@bain.com or +7 495 721 8686

To schedule an interview with AWDC, please contact Margaux Donckier at margauxdonckier@awdc.eu

Antwerp World Diamond Centre
AWDC**,** short for Antwerp World Diamond Centre, is an industry-established foundation, whose mission is to serve and support the diamond business in Antwerp, the world's most important diamond trade hub. AWDC is the coordinating body and the official representative of the Antwerp diamond sector, and as such are recognized internationally as the host, spokesperson and intermediary for the Belgian diamond community. In this capacity, AWDC liaises on behalf of the Belgian diamond sector with governments and actively promotes support for the diamond sector at home and abroad.

84% of all rough diamonds and 50% of all polished diamonds pass through Antwerp. Diamonds represent 5% of the total Belgian exports and 15% of all Belgian exports outside the EU, making diamonds the most important export product outside the EU.

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