



AllanHochreiter



Diamond Market

Outlook for supply and demand

**James Allan
Botswana
July 2007**



Allan Hochreiter

- **James Allan**

- Last top rated diamond analyst on the JSE.
- Represented minorities (25% of the shareholders) in the De Beers privatisation. Gained an extra \$2 per share for shareholders

- **Rene Hochreiter**

- Rated top platinum analyst 10 years in row

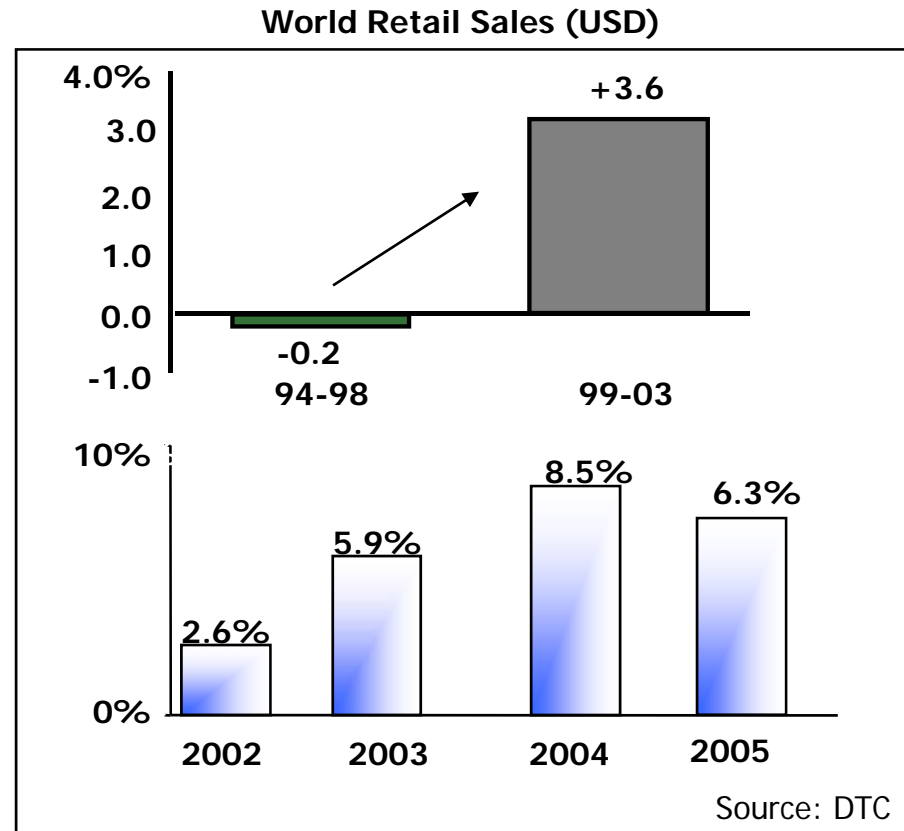
- Allan Hochreiter is a corporate finance boutique based in Jhb (www.allanhochreiter.co.za)

- Subsidiary – Partners Drilling

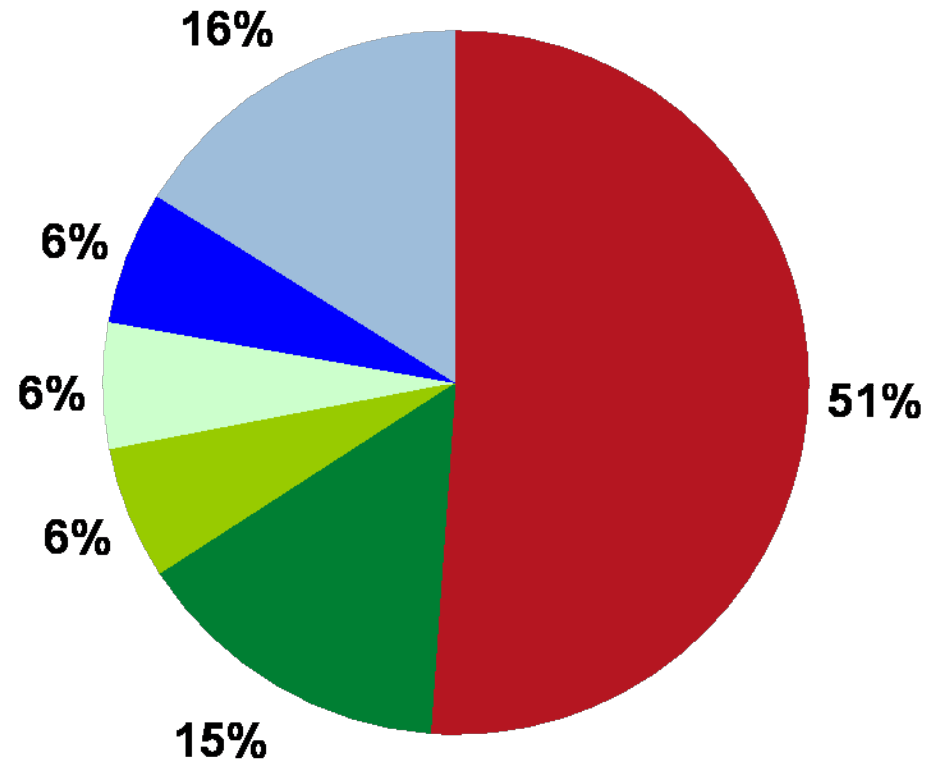
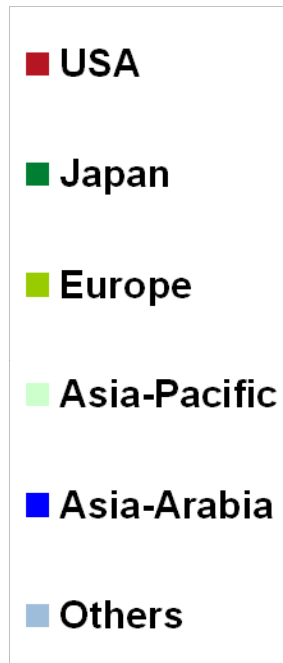
Contents

- Diamonds - still a girls best friend
- What is driving the market?
- Supply and Demand
- Conclusion

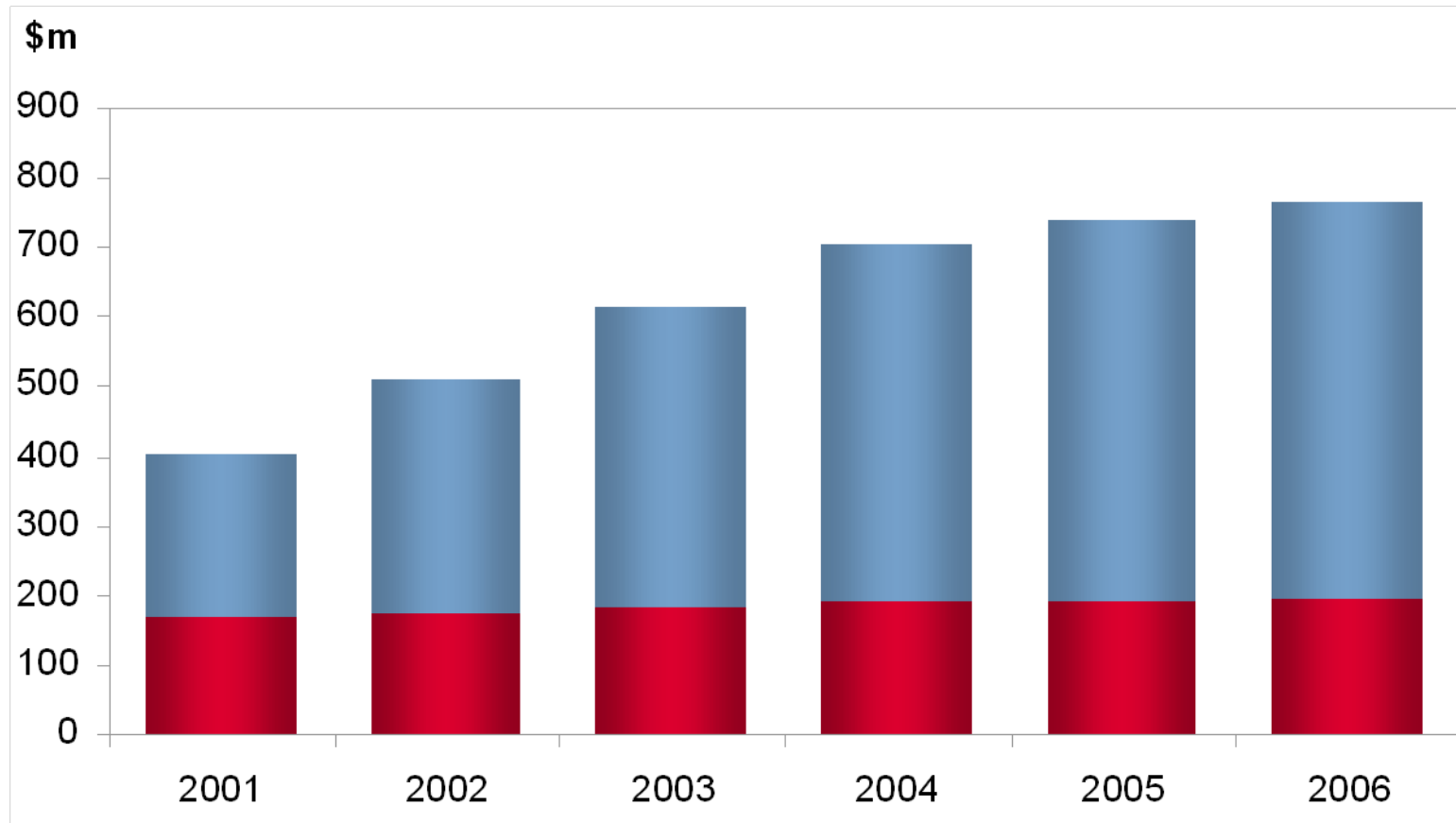
Driving Growth



Retail Sales of Diamond Jewellery 2006 (\$72bn) (+6.3%)



Adspend grows but still lags at 1.1%

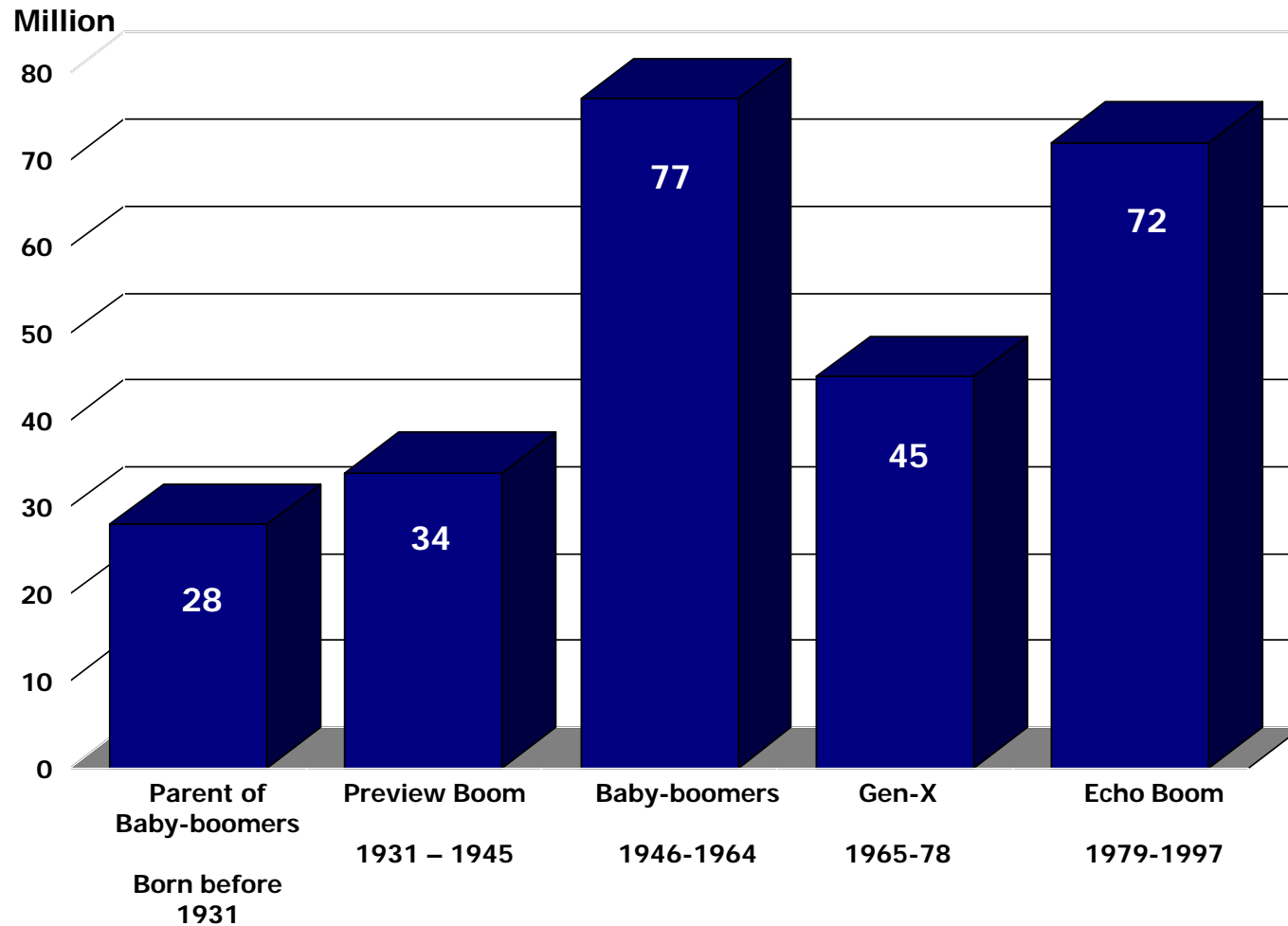


Has the SoC Strategy been solely responsible for the market growth?

- Increased ad-spend has no doubt played a role...
- But what are the underlying fundamentals
- Remember “economists don’t understand the fundamental drivers of an economy as they do not understand sex....”

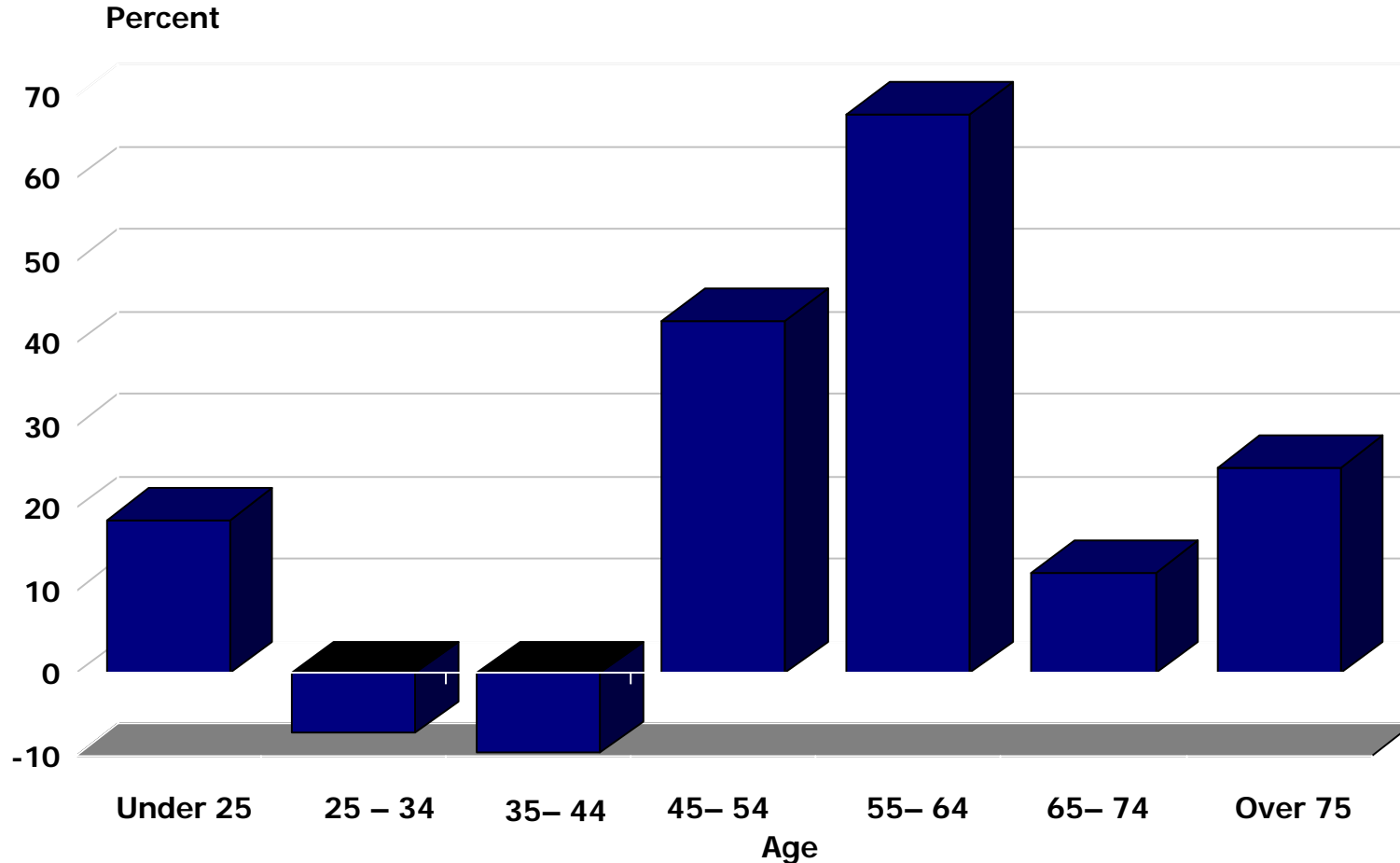


The Baby Boom – US Births by era

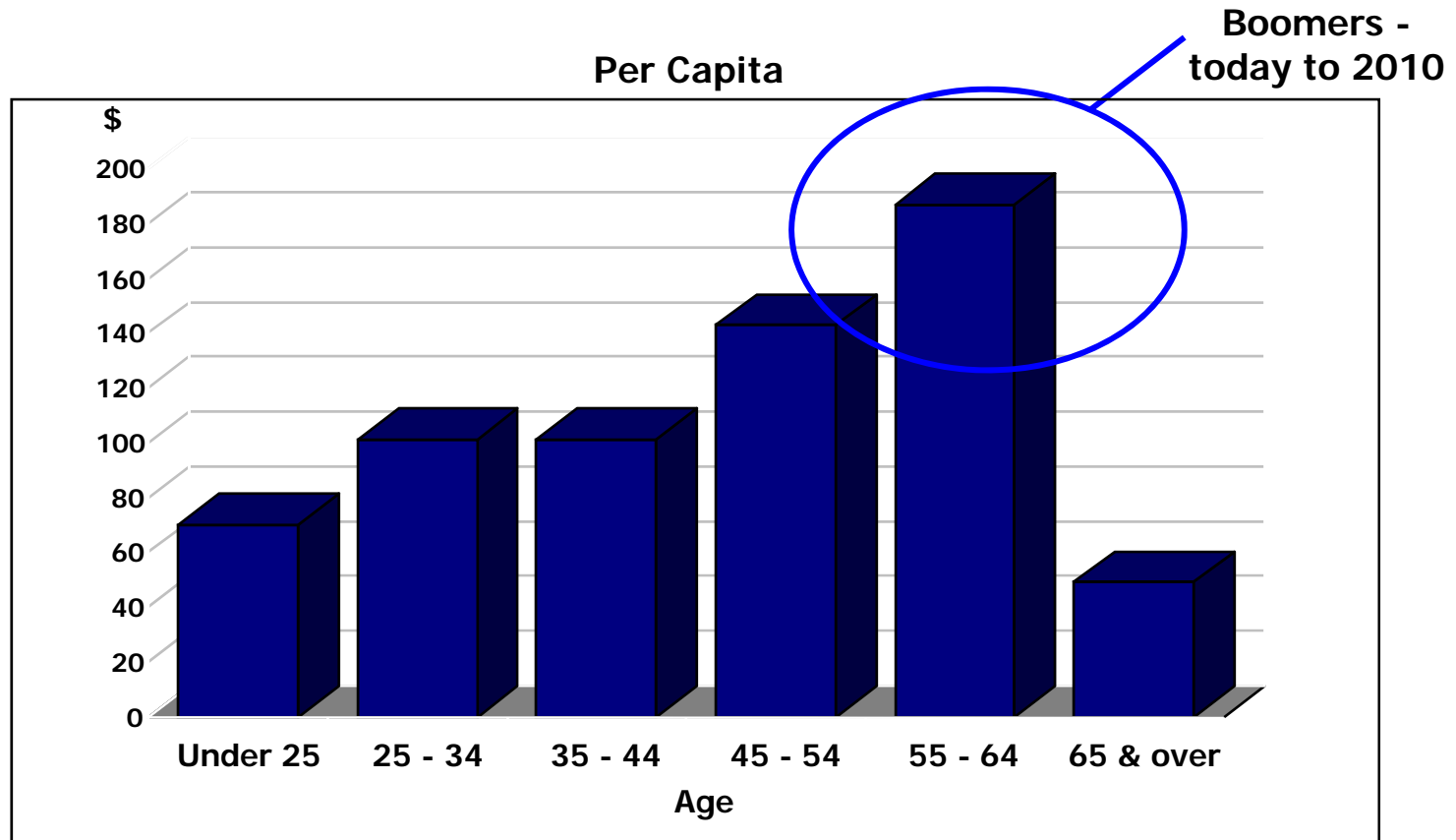


US Consumers – Increases/ Decreases by Age (1995 - 2010)

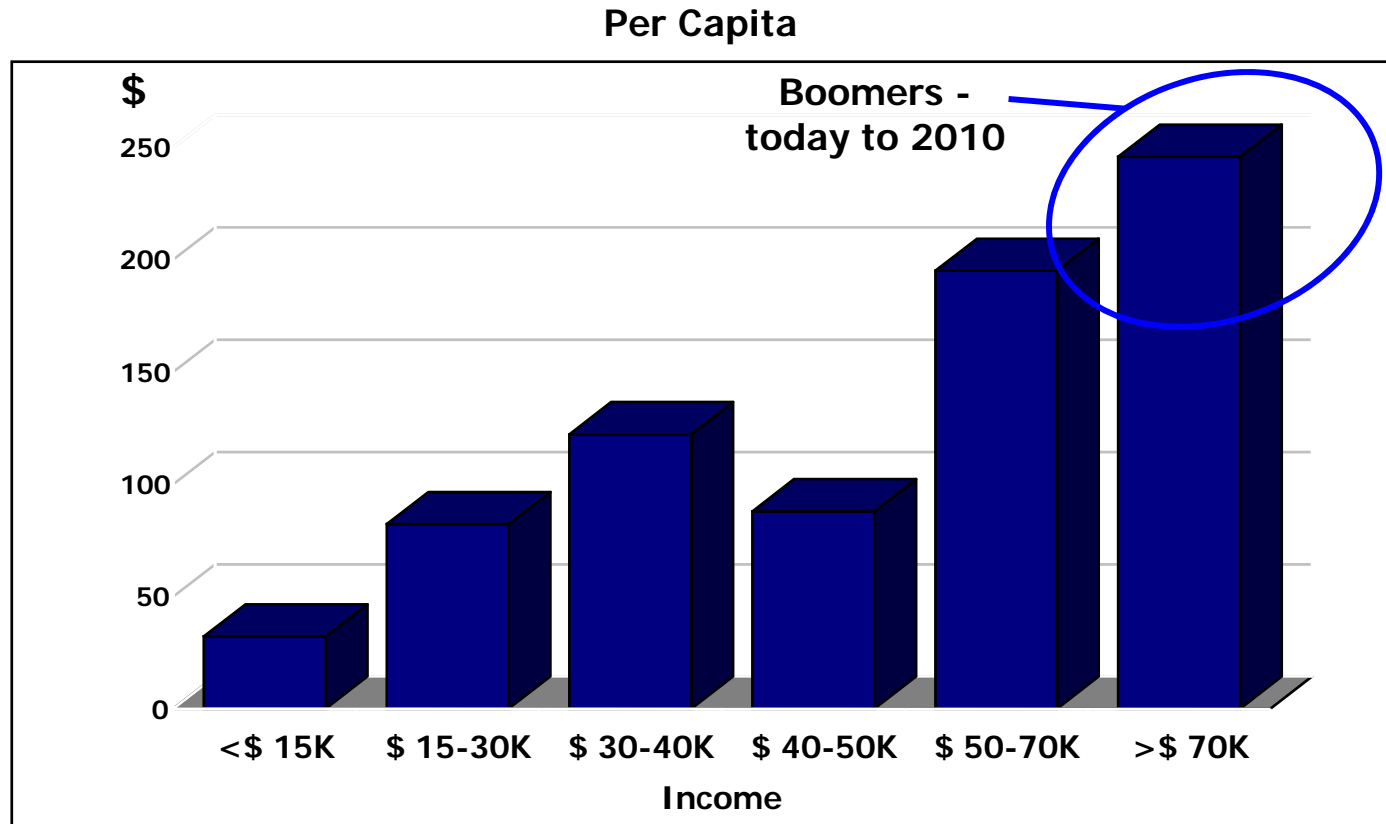
Projected % Change in Consumers by Age



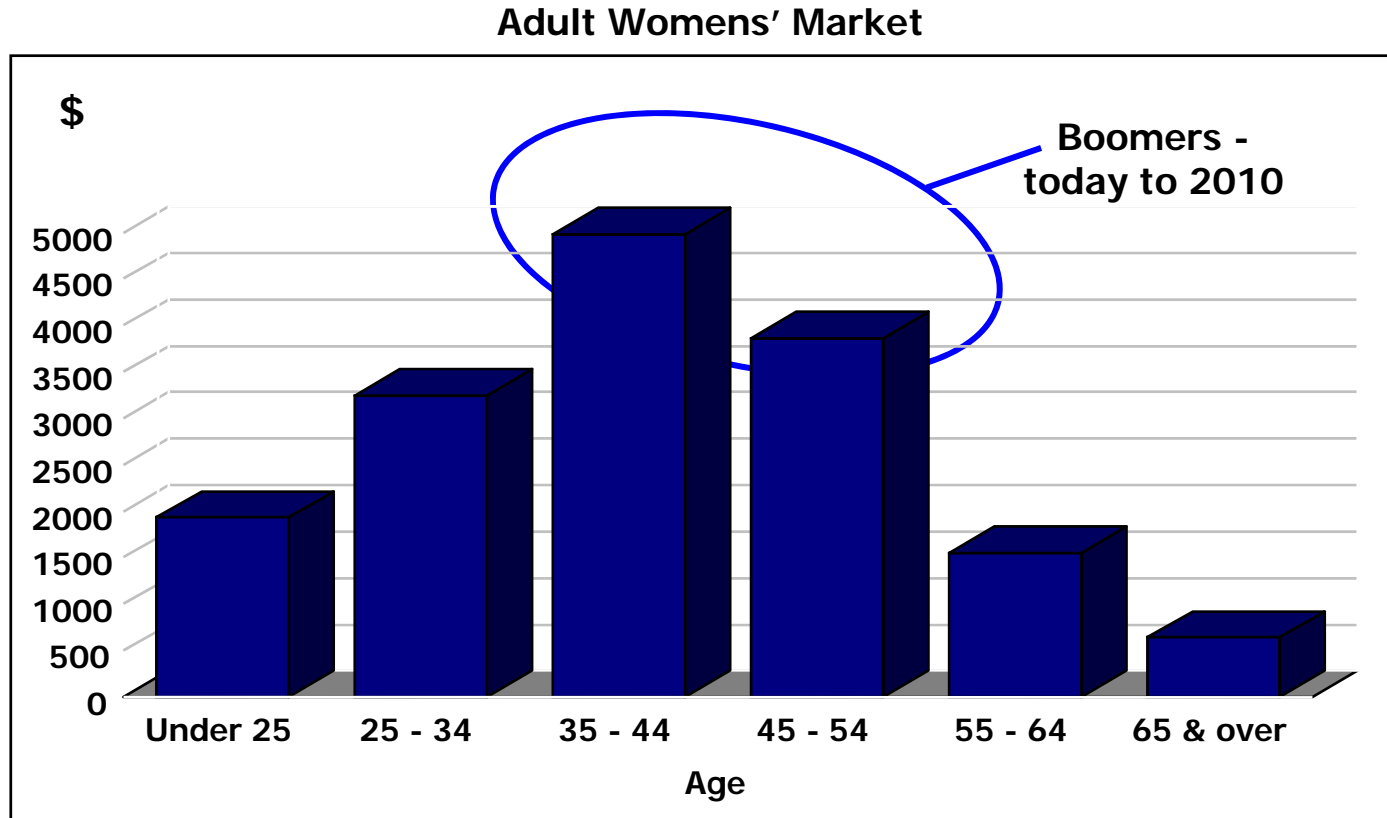
Jewellery Expenditures by Age



Jewellery Expenditures by income



US Diamond Jewellery Expenditure by Age (000's)



The Jewellery Boom

- Baby Boomers entering high income bracket
- Inheriting more
- High disposable income
- Jewellery spend to rise sharply

The Jewellery Boom

**BOOMERS TO GIVE
US JEWELLERY SALES
DRAMATIC GROWTH**



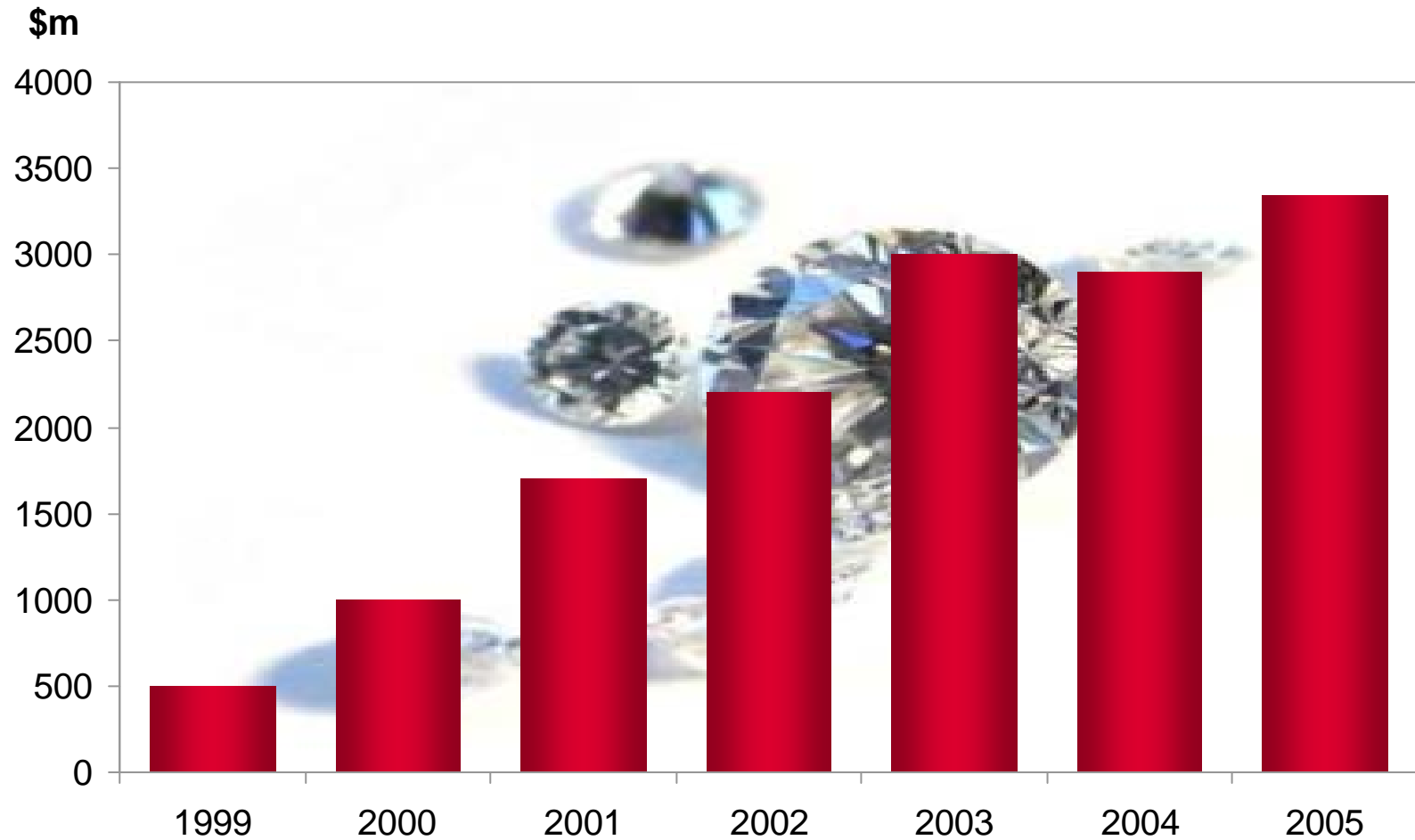


USA

3 STONE JEWELLERY



3 Stone Ring Sales +11% 2005



Right Hand Ring advertising +15% in 2005



YOUR LEFT HAND IS YOUR HEART. YOUR RIGHT HAND IS YOUR VOICE. YOUR LEFT HAND SAYS "I DO." YOUR RIGHT HAND SAYS "I DID WHAT?" YOUR LEFT HAND KNOWS THE ANSWERS. YOUR RIGHT HAND ASKS THE QUESTIONS. WOMEN OF THE WORLD, RAISE YOUR RIGHT HAND.



A DIAMOND IS FOREVER

THE NEW DIAMOND RIGHT HAND RING. MODERN VINTAGE, ROMANTIC, FLORAL AND CONTEMPORARY STYLES AT ADIAMONDISFOREVER.COM



USA

Journey Programme



Journey Diamond Jewellery

As a couple, you are on your own unique journey – two separate lives woven together into an adventure story shaped and strengthened by shared experiences





US Jewellery Sales

- +20% adspend in Q4
- 50% sales in final 2 weeks
- DOW reaching record highs?
- Action by the FED
- Consumer confidence

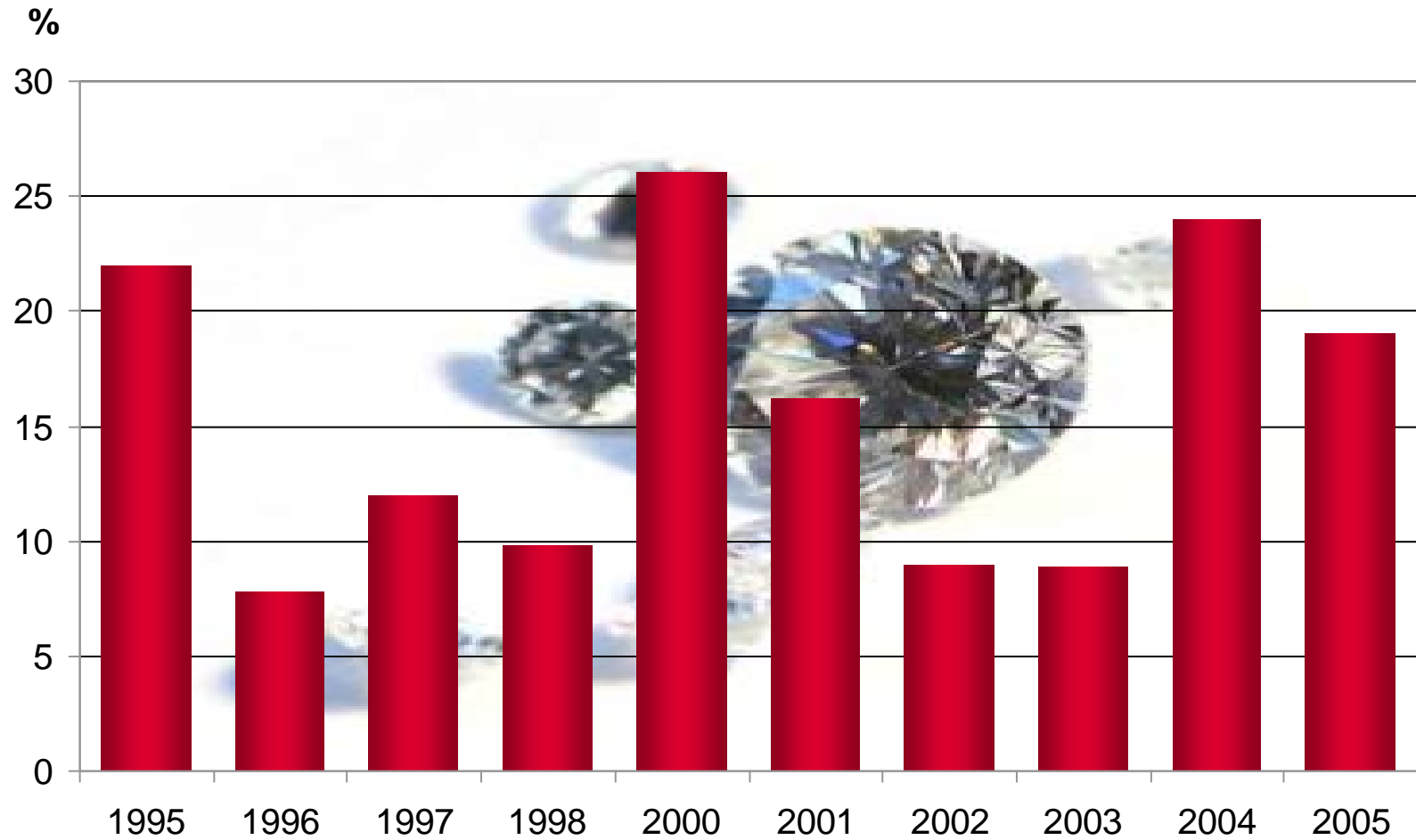
Dow Jones Industrial Average 1 Year Chart

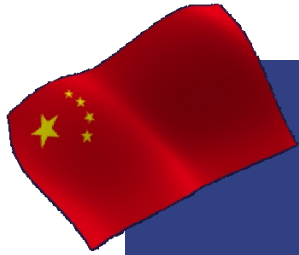


US Jewellery Sales

- Growth of 7% in 2005; 6% in 2006
- Still underperforming luxury goods (+12.6%)
- Major drivers: married women, high income households and heavy owners
- Right hand ring and 3 stone ring showing superior growth
- Consumer confidence is still high (particularly in high income households)
- Economy “going very well”

Market Growth India



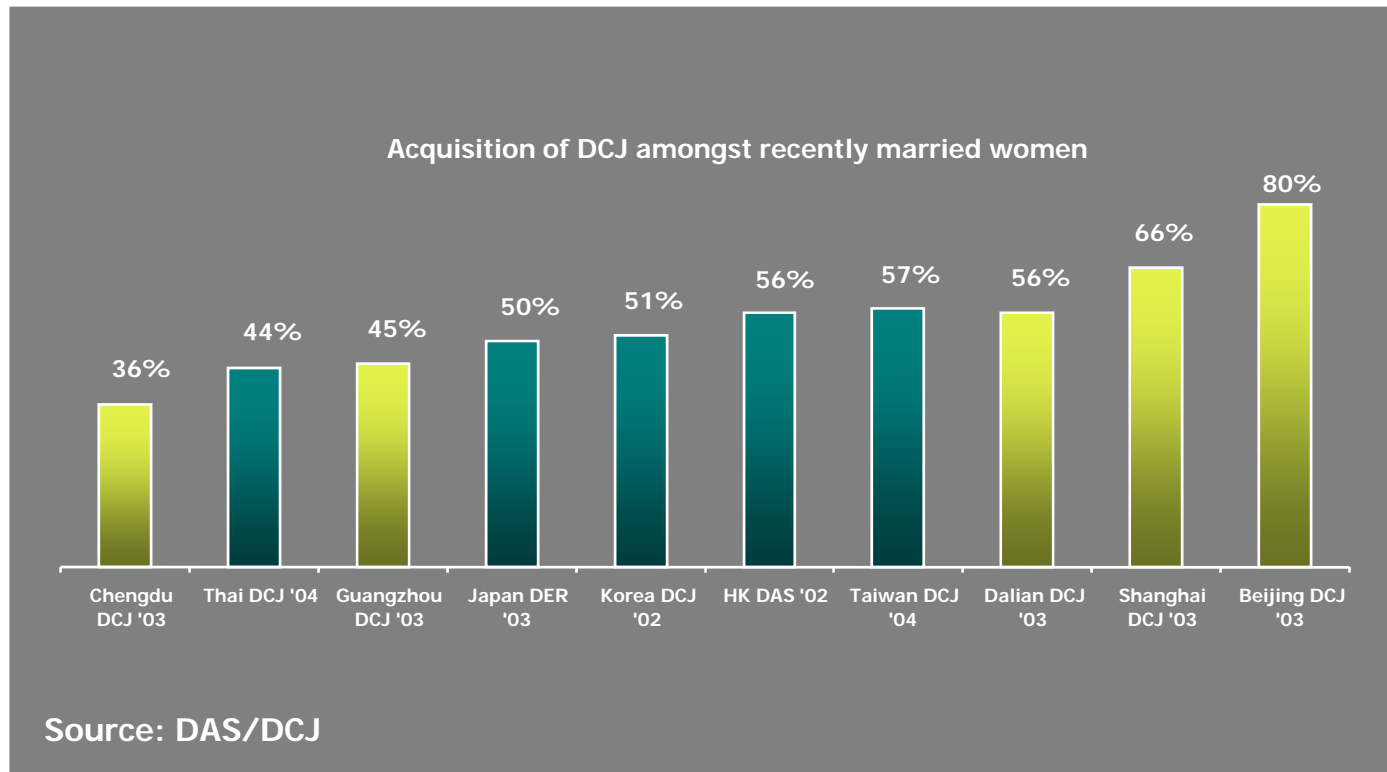


CHINA
DIAMOND WEDDING
RING



China

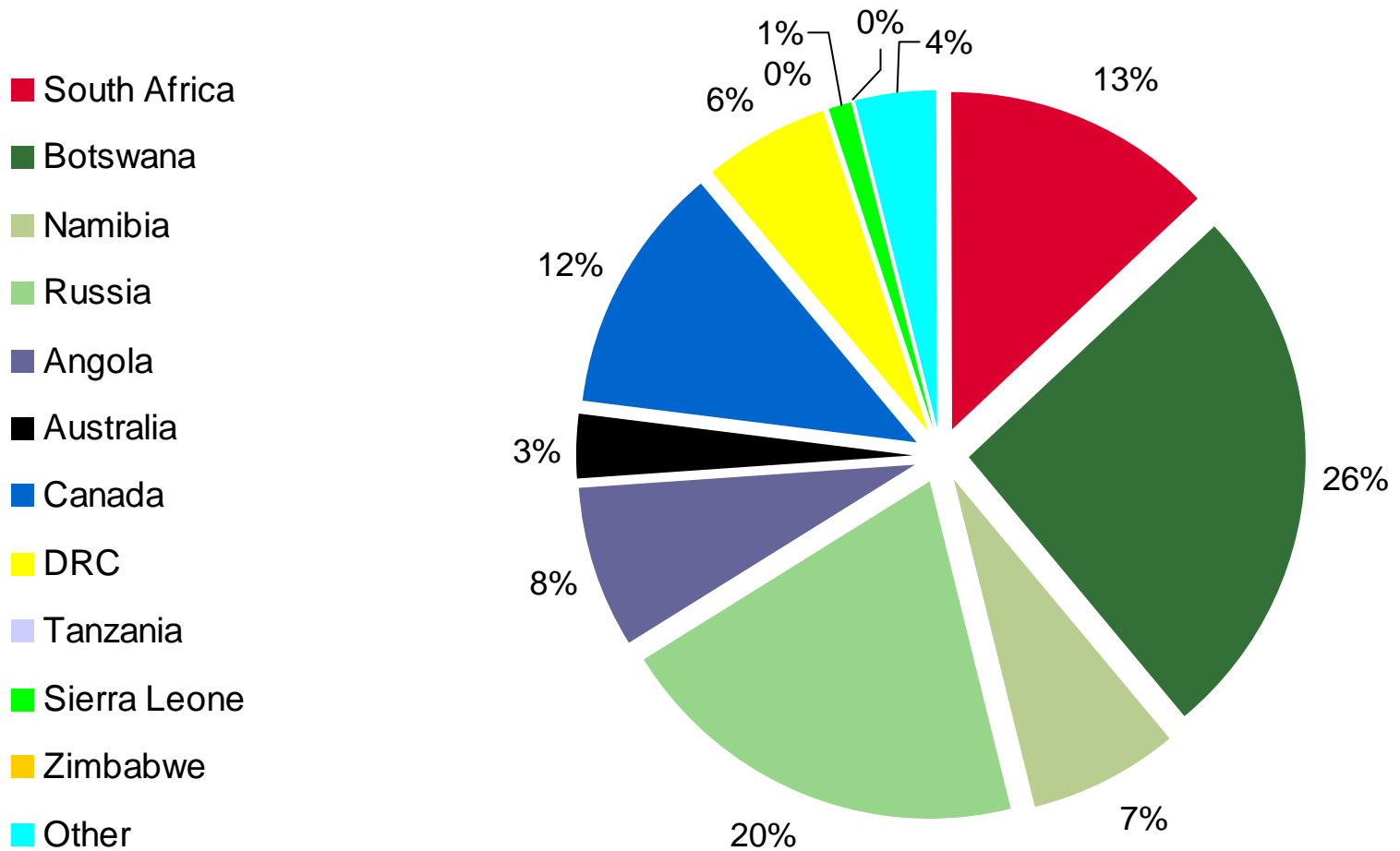
Diamond Wedding Ring Acquisition in China Now Exceeds that of More Mature Markets



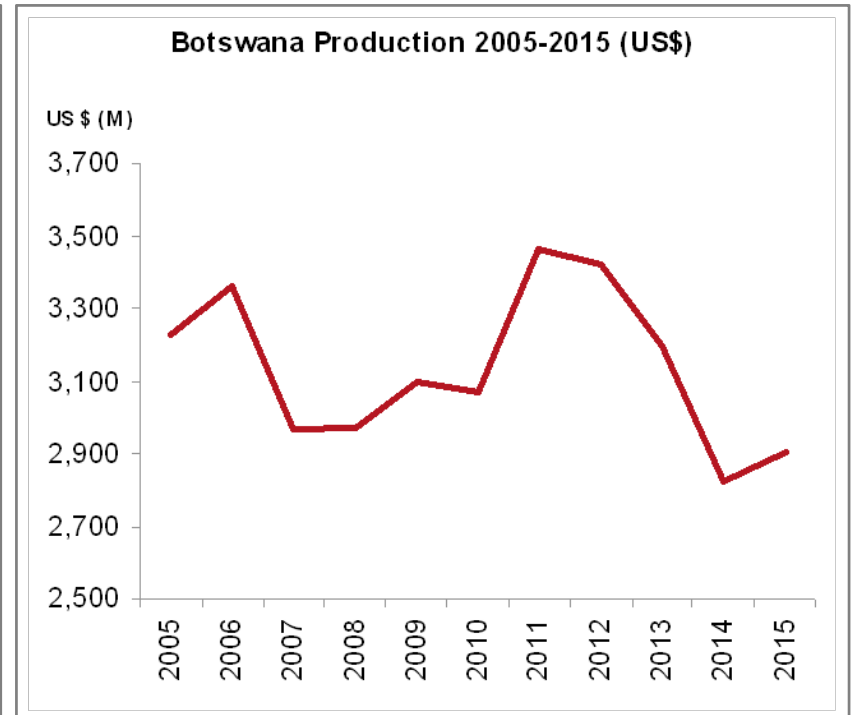
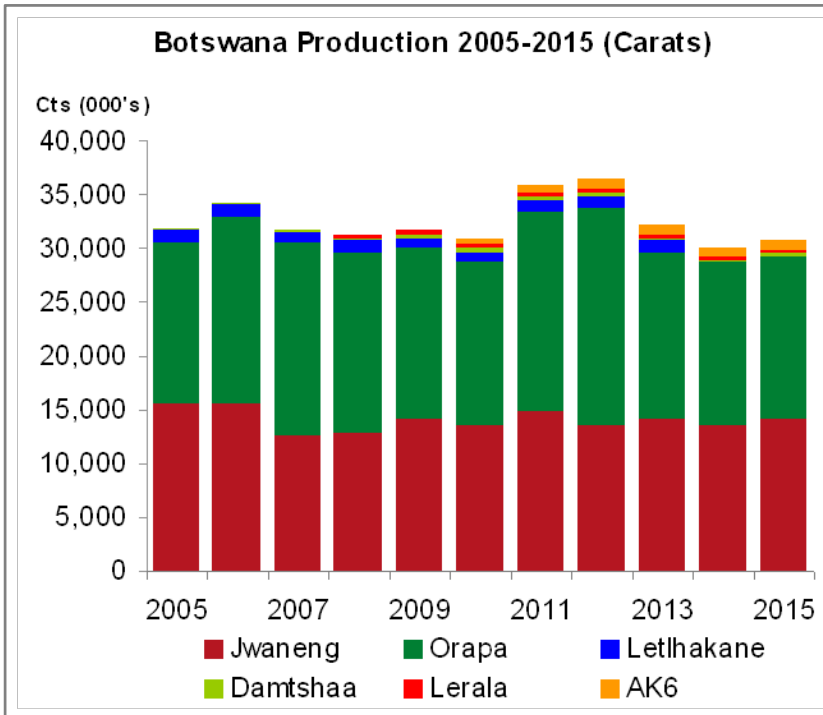
Chasing the Petro Dollar



Diamond Production in 2006 (\$12.8bn)

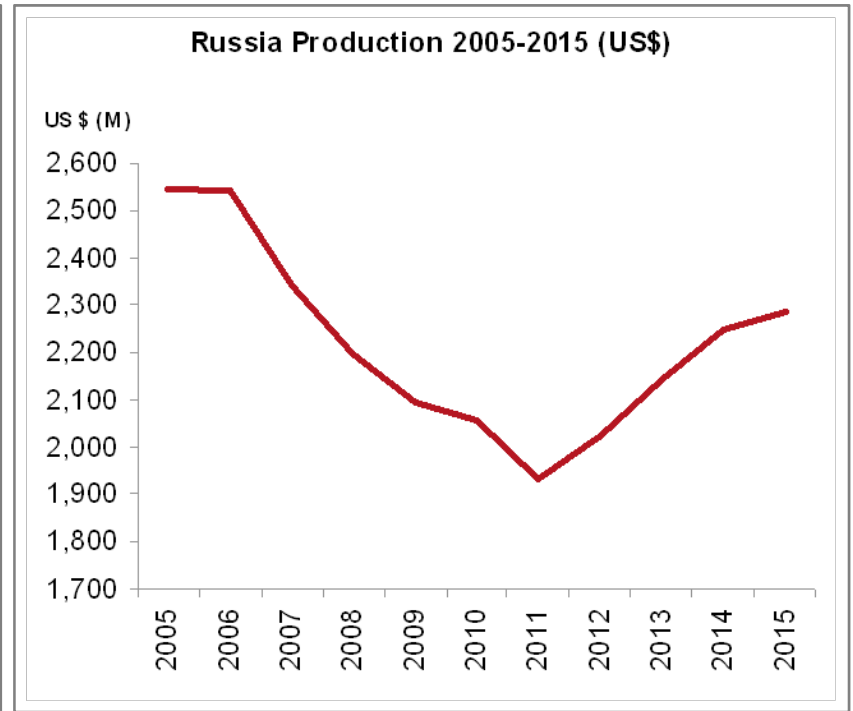
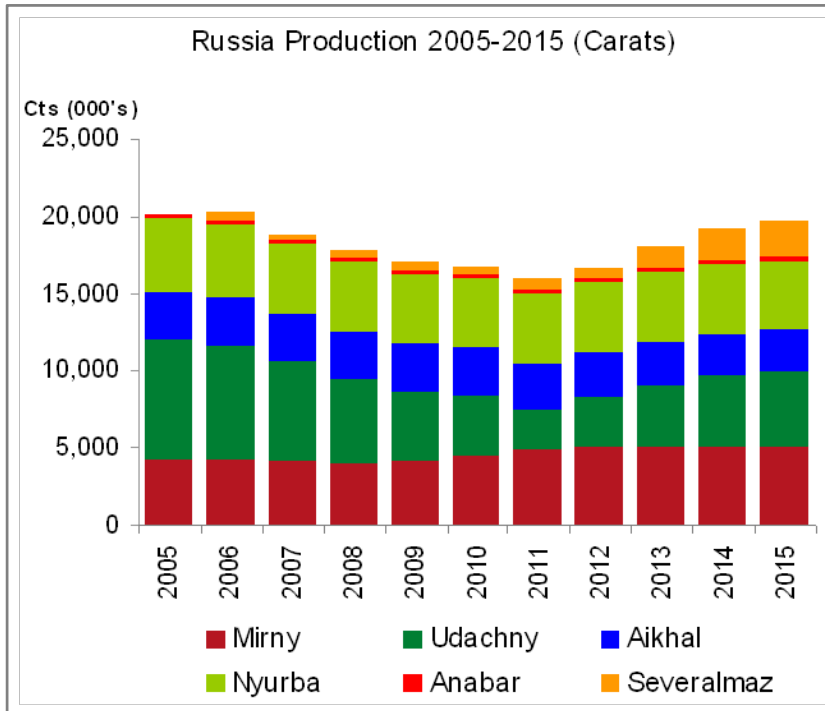


Botswana (Decline \$460m)



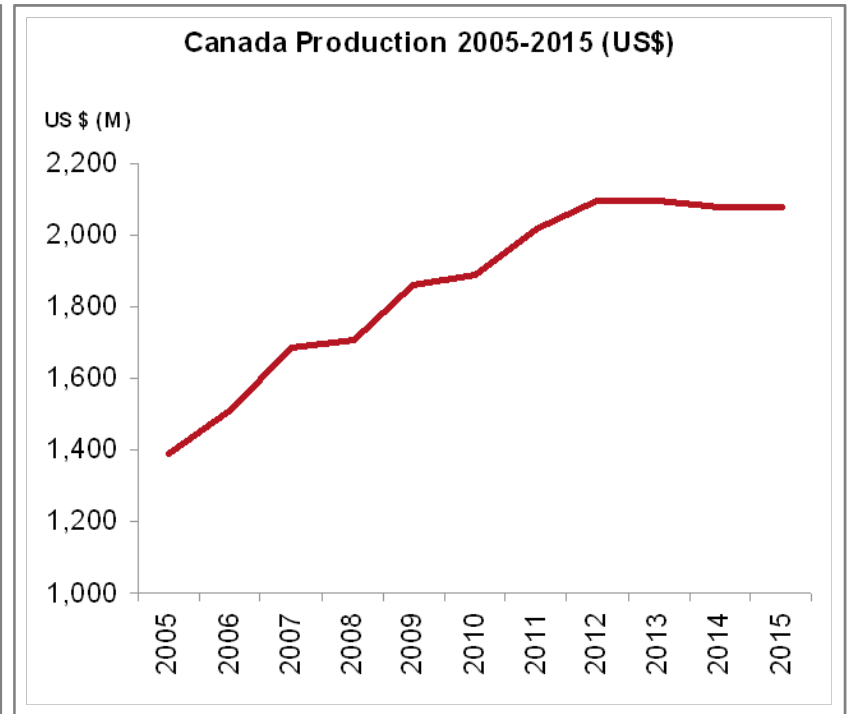
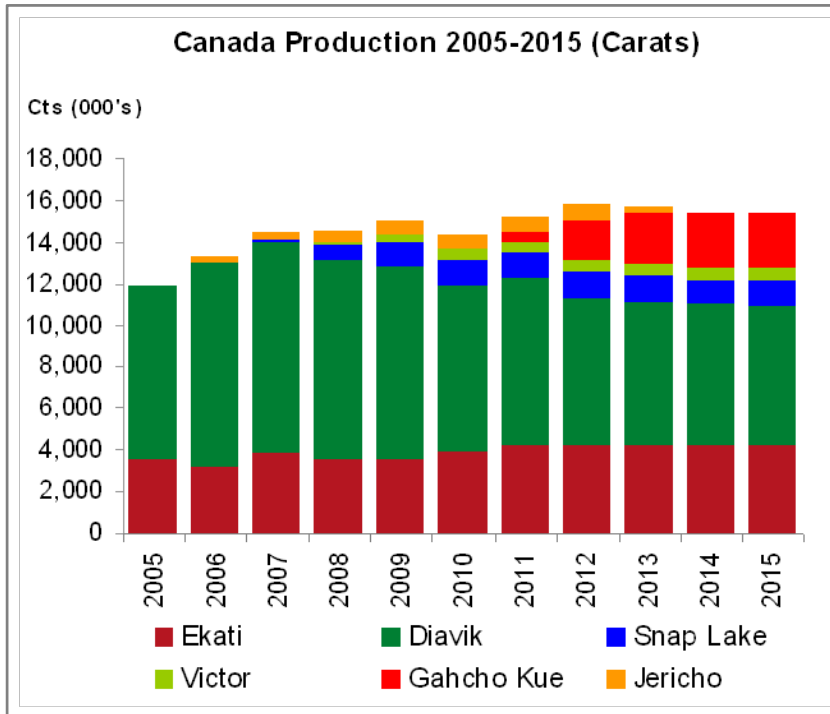
- Grade decline at Jwaneng in 2006-2009
- Grade decline Orapa 2013-2015
- Letlhakane end of open pit life in 2014

Russia (Decline \$260m)



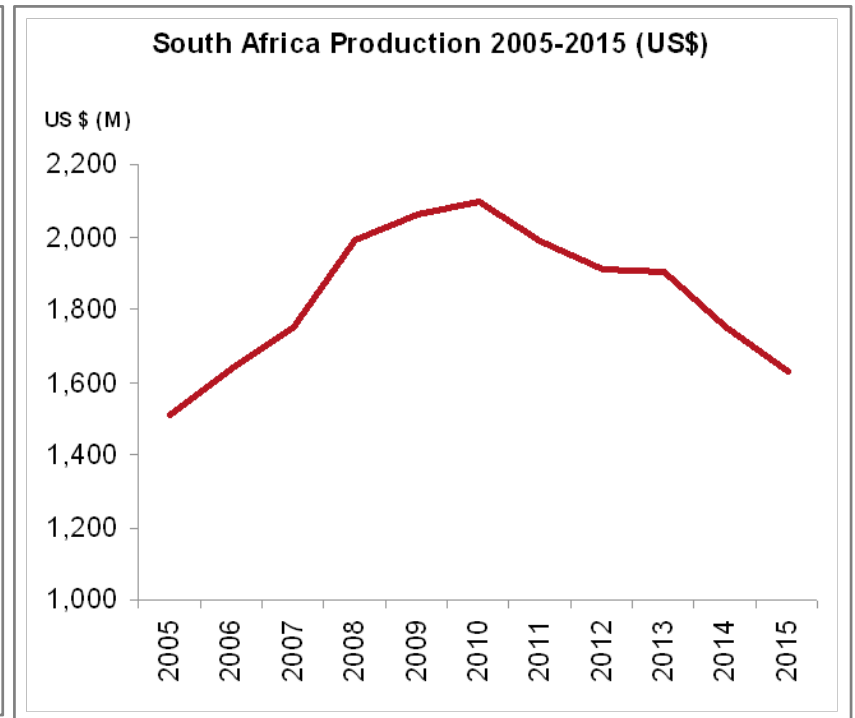
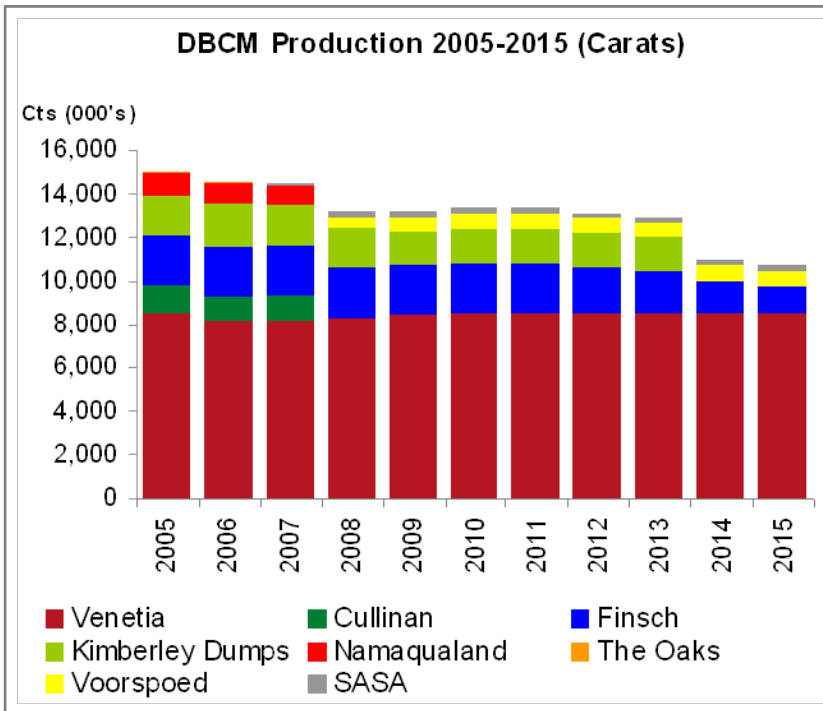
- Mirny and Udachny going underground

Canada (Increase \$570m)



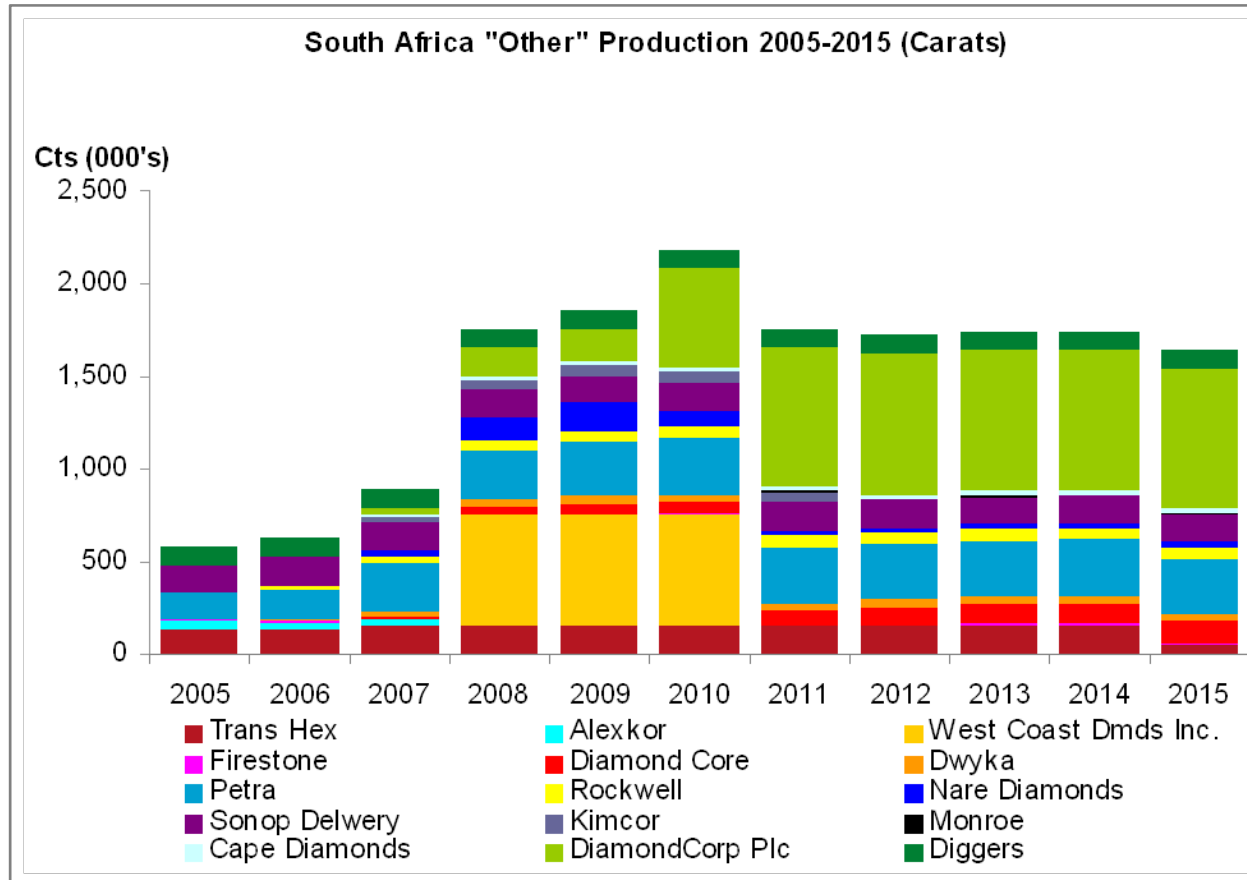
- Jericho starting up
- De Beers mines: Snap Lake, Victor and Gacho Kue

DBCM South Africa (Decline \$160m)



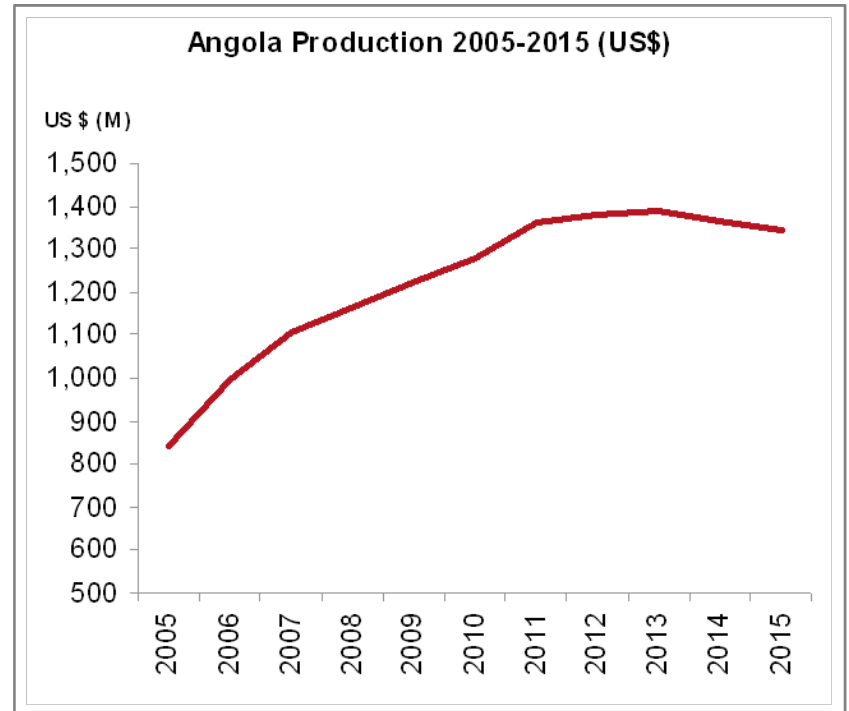
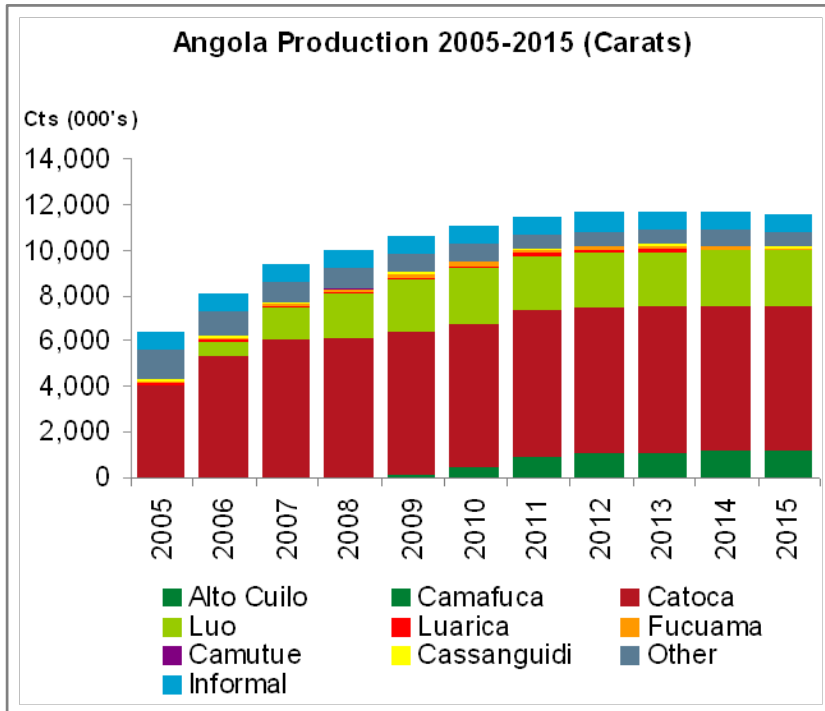
- Venetia steady
- Finsch declining
- Cullinan sold in 2007/2008?

South Africa Other (Increase \$160m)



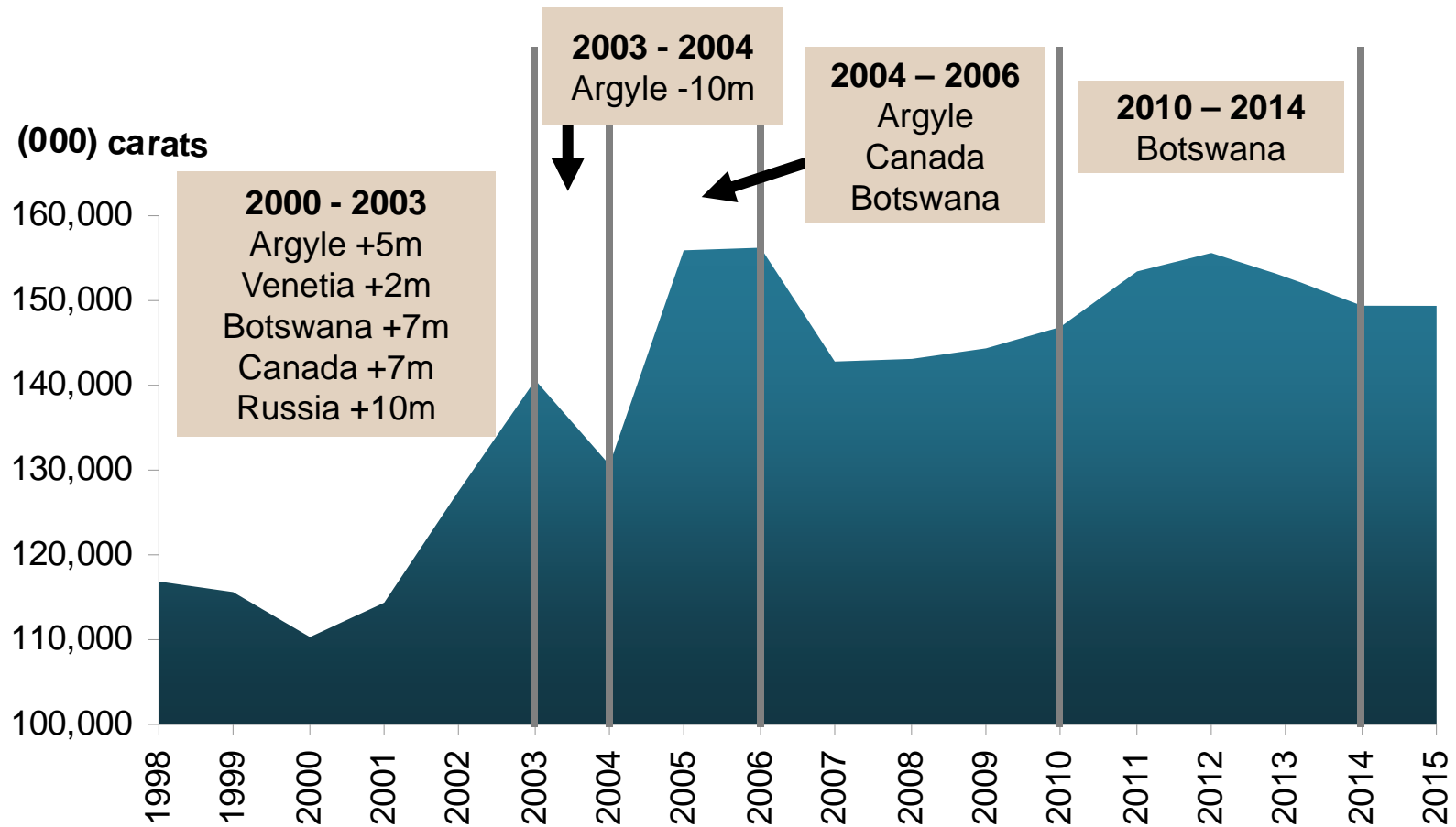
- Other producers increasing
- Sustainability
- Risk is on the downside

Angola (Increase \$350m)

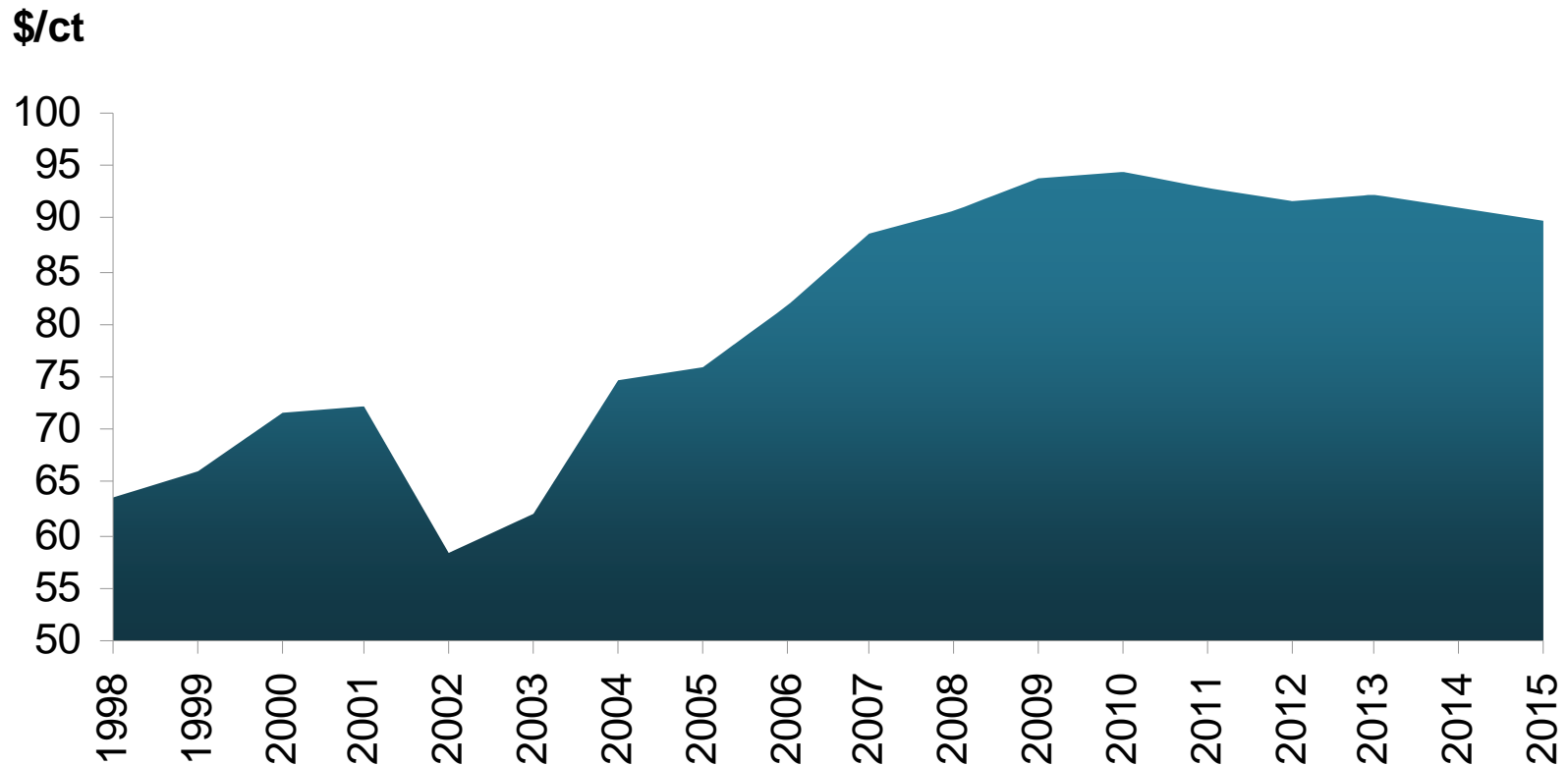


- Catoca and Luo expansions
- Start production at Alto Cuilo and Camafuca

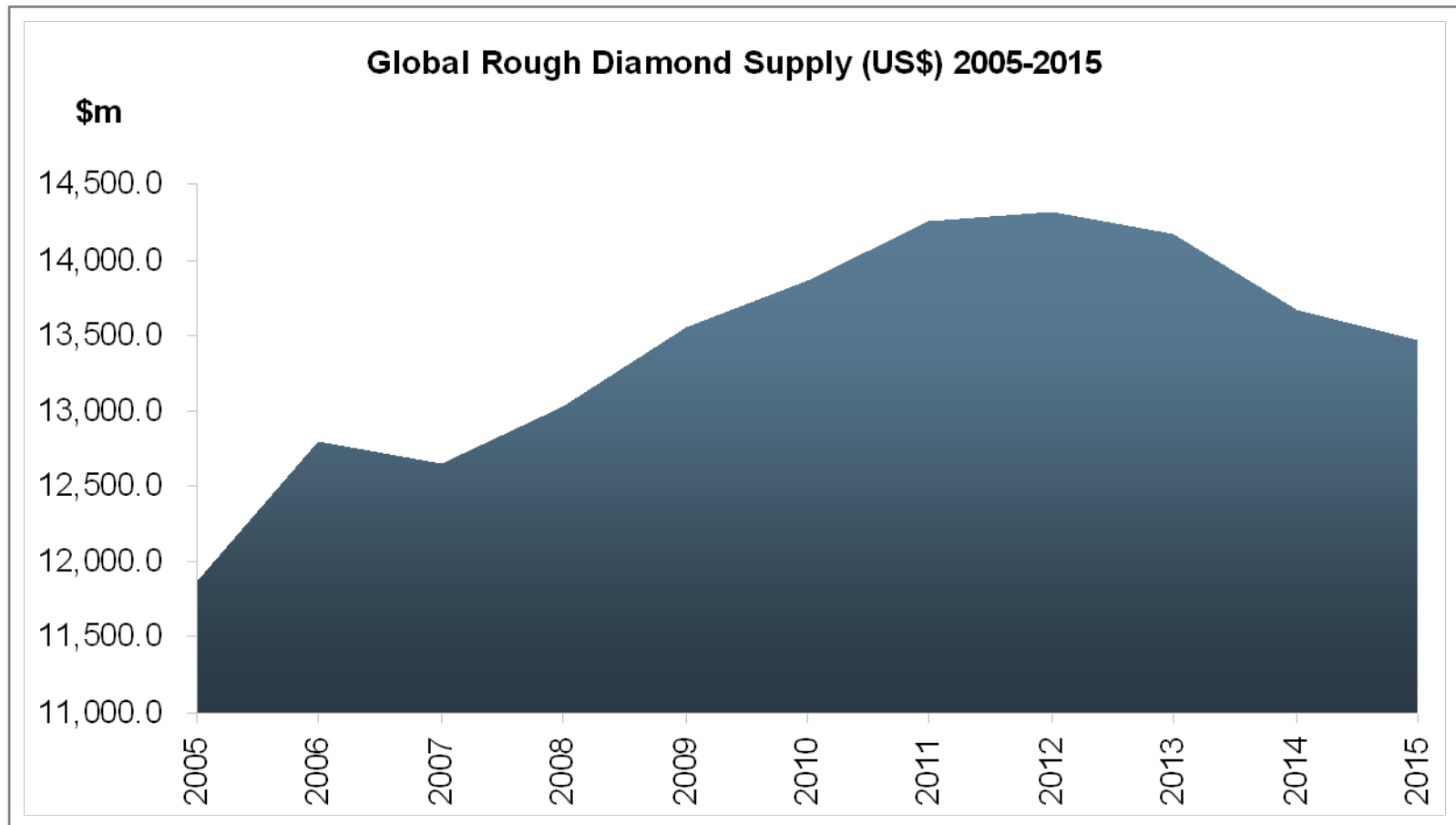
Mine Supply 1998-2015 ('000cts)



Mine Supply 1998-2015(\$/ct)

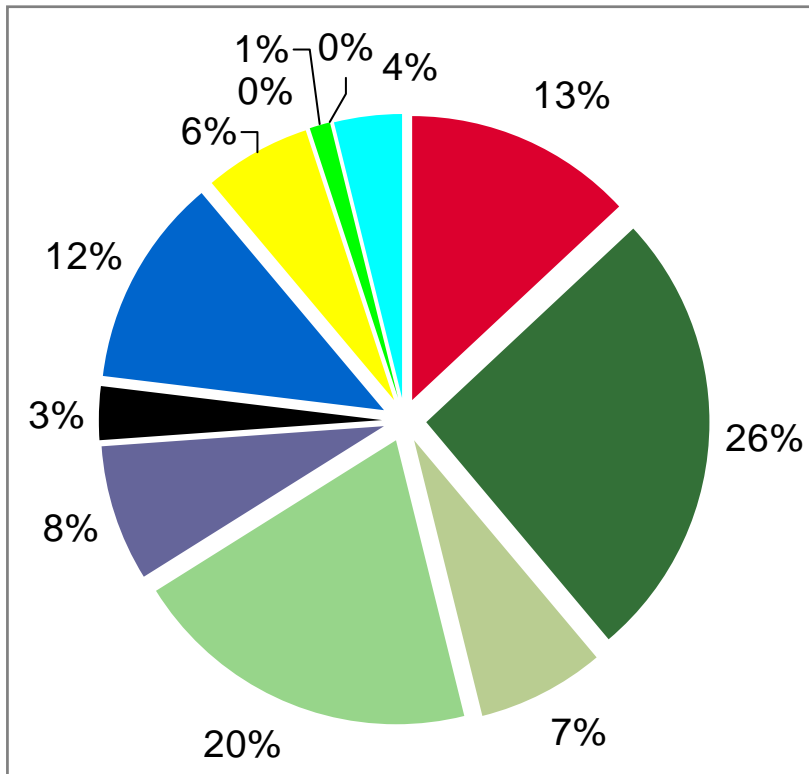


Mine Supply 1998-2015 (\$m)

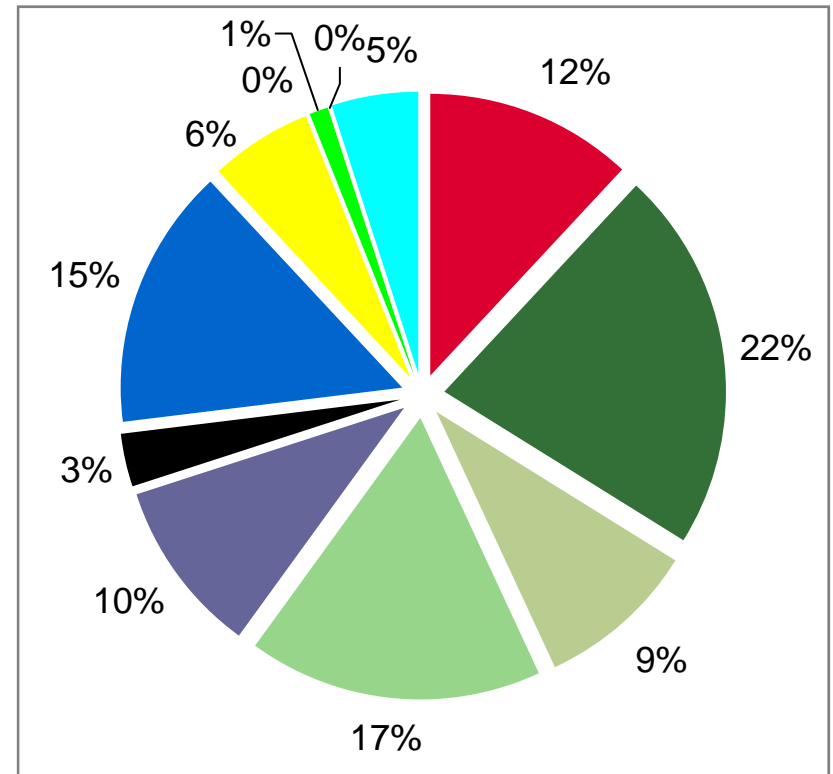


Diamond Production

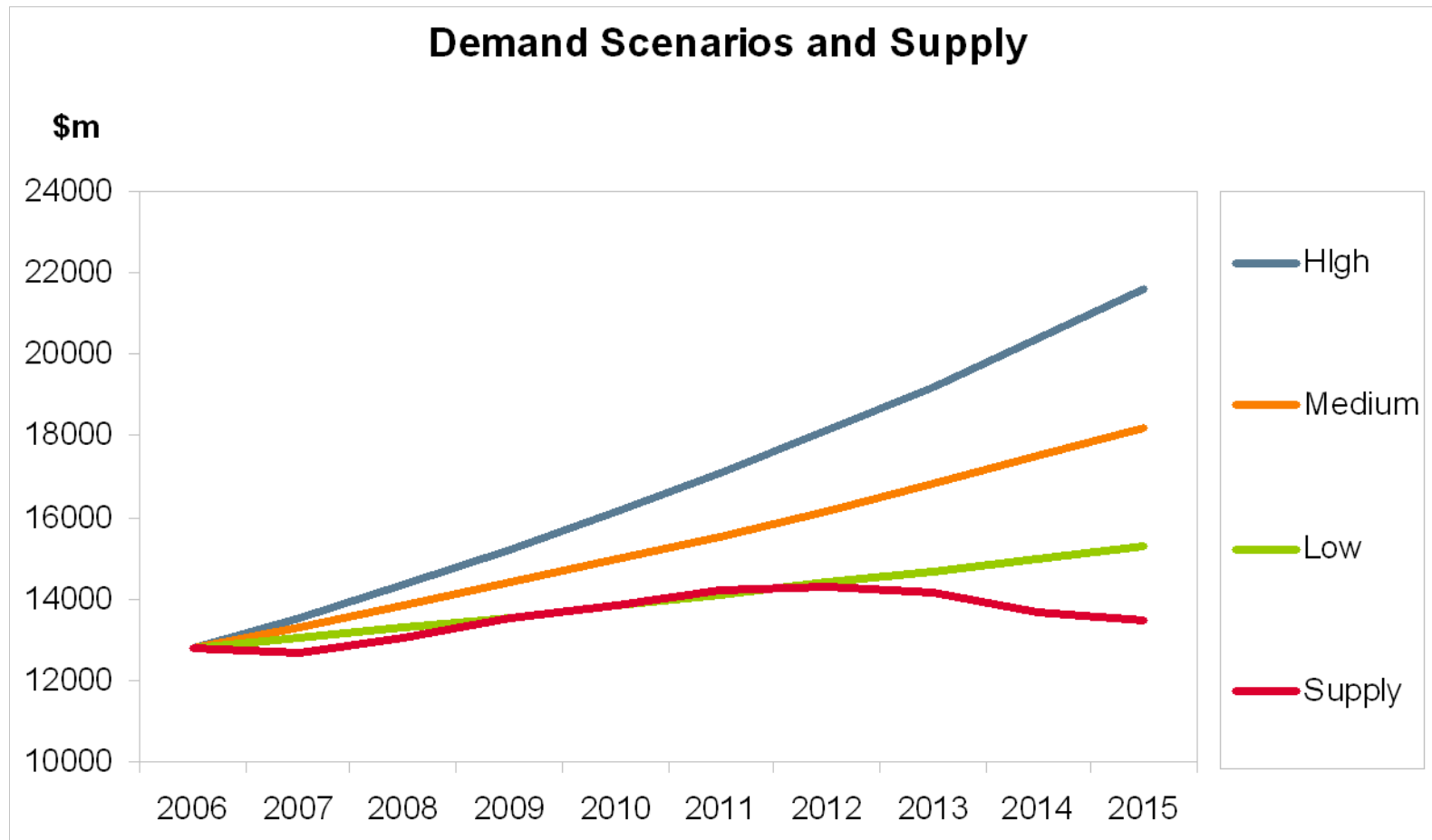
2006 (\$12.8bn)



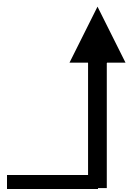
2015 (\$13.4bn)



Demand scenarios and mine supply



Supply/demand deficit

- Demand growth to 2006-2015 - \$5-8bn?
- Supply growth to 2005-2015 - <\$1bn?
 - Canada \$600m (Snap Lake, Victor, Diavik, Jericho)
 - Angola and DRC >\$450m
 - Botswana down \$500m?
- Deficit – \$5bn- 40% of current supply Prices 

Post 2015

- Jwaneng
- Venetia
- Cullinan
- Finsch
- Outlook for supply to decline as openpits go underground and underground mines look to next cut.....

Synthetics- A threat to the industry

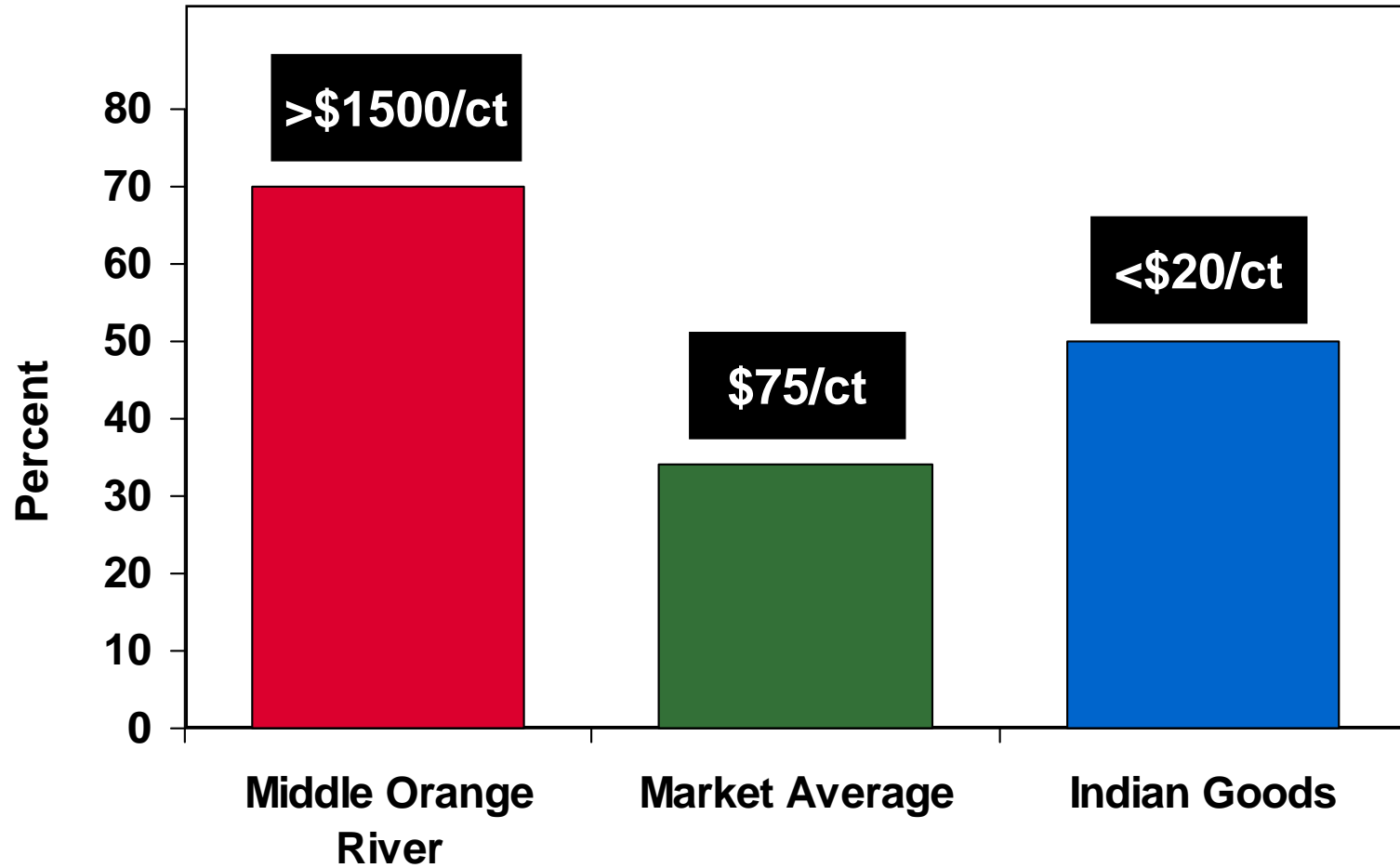
- Combat the synthetic threat on several fronts
- Detection
- Disclosure
- Differentiation

Global Overview

- Rough diamond prices up 35% since 2002
- De Beers prices up, 2% in Feb 2006 > poorly timed
- H2 slowdown – already over?
- Carat production decline of 10% 2005 to 2010
- Argyle production to halve by 2010
- But growth in value of 7% to 2010
- Demand growth 5-6% per annum?
- Upward pressure on rough prices (but not in 2006 and 2007)
- Less carats to cut and polish!
- Indian cutting centre will be under pressure to take bigger stones

Rough Diamond Price Increases Since 2002

Source: JA Presentation to World Diamond Conference Perth 2006



Middle Orange River Produces Big Stones

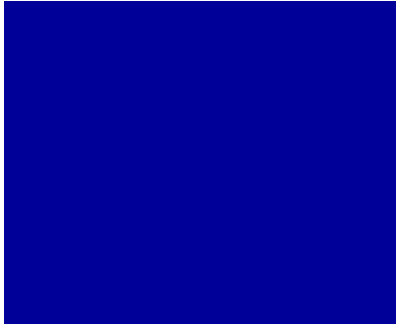


152 carats
\$30 000/ct
\$4.6m

Alluvial production:
Rockwell
Diamond Core

Conclusion on the Diamond Market

- Supply growth average of 1% per annum to 2015
- US, China, India, Middle East growth is strong
- Prices flat in 2007
- Prices to balance market in 2008 to 2015
- Consumer confidence remains key to growth



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Questions?

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