

Lucara Diamond Corp

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Lucara's new Clara platform could revolutionise the way diamond miners take their product to market

It's called Clara, and it's a technological tool that could open up the diamond industry to new efficiencies and greater profits. Still at a relatively early stage, Clara has just been acquired by Lucara Diamond Corp (TSE:LUC), the established mid-tier producer chaired by Lukas Lundin and now headed up by Eira Thomas, two names to conjure with in terms of success and innovation in the resources industry.

Lucara itself already has something of a track record of innovation in the manner in which it goes about diamond mining, having pioneered the use of XRT and autogenous milling at its Karowe mine in Botswana.

WATCH: Lucara's blockchain platform Clara will modernise rough diamond market, says its new chief executive

This mine has underpinned Lucara for some years now, yielding several exceptional stones and likely to produce between 270,000 and 290,000 carats in total this year.

But it's in the quest for expansion that Lucara has turned to the Clara platform. The company remains on the lookout for high quality diamond projects, but in the meantime, reckons that there is a place for Clara as a disrupter and a driver of efficiencies as far as sales to cutters and polishers go.

"Fundamentally the diamond industry hasn't changed its approach since the start of the digital age," says Eira Thomas.

"With Clara we have the opportunity to use technology to change the value proposition. And this isn't just about driving efficiencies for the producers. It's also about the manufacturers."

The proposition itself is simple enough. The Clara platform aims to match up a willing buyer to a willing seller for each individual stone. If that sounds obvious enough, consider that in diamonds, sales are hardly ever transacted in this manner, with the notable exception of the very large stones.

Instead what normally happens is that parcels of stones are put out to tender, and buyers have to accept a certain amount of goods that don't meet their specific requirements in order to secure the stones that do.

With Clara, that way of operating will be done away with, at least as far as stones in the one-to-15 carat range are concerned.

This range, says Thomas, represents a big part of the value chain, although it may not necessarily be a correspondingly large part of the carats produced by the industry overall. There are still the smaller stones, and of course the very large stones of the type Karowe throws up now and again.

But it's in the middle of the range where the stones are of a good enough quality to be matched with the specific

Price: 0.82

Market Cap: \$325.42 m

1 Year Share Price Graph



December 2018 June 2019 December 20

Share Information

Code: LUC

Listing: TSX

| 52 week | High | Low |
|---------|------|------|
| | 1.87 | 0.81 |

Sector: Mining

Website: www.lucaradiamond.com

Company Synopsis:

Lucara Diamond Corp. is a new diamond producer. Its key asset is the Karowe Mine in Botswana. The 100% owned Karowe Mine is a newly constructed state-of-the-art mine which was fully commissioned in Q2 2012. The Karowe Mine is a large scale asset with tonnage and throughput upside and production has consistently included large, Type IIA stones.

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requirements of a buyer that Clara finds its niche.

READ: Lucara turns to blockchain with Clara acquisition

How does it work? That would be telling. But what Thomas will say is that it uses a combination of "proprietary analytics, cloud and blockchain technologies."

She should know, because as well as settling in to her new role as chief executive of Lucara, she doubles up as one of the founders of Clara. And close followers of the diamond industry will know that her pedigree as a pioneer and investor stretches a long way further back than that, in particular as chief executive of Stornoway Diamonds and as vice-president of Aber.

She knows this industry, and how to meet its needs, and accordingly she has a clear enough idea of how to make Clara work.

"Lucara is going to commercialise it using Karowe diamonds, and then we'll be inviting other producers onto the platform and targeting manufacturers and integrated jewellers."

But will it catch on? Because of the old fashioned way the industry is currently set up, there is a good chance that it will.

"All diamonds are unique," says Thomas.

"All have individual price points. But how do you price them? The prevailing wisdom is to sell them in batches. But the challenge for the manufacturers is that the stones in the batches won't all be fitting their requirements. So they then have to go into the secondary market to sell unwanted goods on." And of course, there is value loss in each transaction.

With Clara, the whole process will be turned on its head.

"Manufacturers will upload their polished orders," explains Thomas. "Producers will upload the individual parameters. Clara will then match the optimal rough to the polished output. This allows manufacturers to buy in real time and means that they are no longer tied to a sales cycle."

The model from the Lucara standpoint is that to the extent that there's a spread between the bid and the offer, Clara will take its cut out of that.

Longer term outlook for Lucara

An in-built assurance of diamond provenance will provide an extra level of security, and blockchain technology will be used to enable delivery, with physical delivery to use distribution channels that already exist in the industry.

It all looks like a no-brainer from the Lucara perspective. To get Clara up and running will require a minimum amount of capital, and not much maintenance. Compared to the 1,200 or so people employed by Karowe, it's not labour intensive at all.

So, with Clara set up to provide interest and growth in the near-term, what does the longer term outlook hold for Lucara.

Well, the open pit mine life at Karowe is set to run out at least to 2026, with plans in place to move underground for an additional ten years when the time comes. So the revenue streams that investors have been enjoying for a good while now are all set to continue.

Thomas says that shareholders, including Lukas Lundin, are very tied to the dividend, so that's likely to stay in place too.

Outgoing chief executive William Lamb was very alive to this dynamic as he ran Lucara successfully through some of the toughest times the industry has seen in recent years.

"Our focus was always on margin," he says. "The margin is what allows us to pay dividends and put capital into projects. The focus is on margin, not on carats."

It was this single-minded approach that's allowed Lucara to be debt-free since 2013.

"We've paid back more in dividends than the total capital invested in the mine to date," agrees Thomas, who as one of the founders of Lucara has been on the board since the outset.

"Karowe is a cash generating machine. 35% of the current market capitalisation has been given back to shareholders."

It's this dynamic value creation that provides the room for Lucara to manoeuvre and to innovate with new ideas like Clara. But it's also the willingness to innovate that underpins the ongoing value creation.

For now, Lucara has created a virtuous circle in the diamond mining business, and under the new leadership of Thomas, that looks all set to continue.

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