



OVER 30 YEARS OF INNOVATION

## PRESS RELEASE

### FY2023 A Challenging Year

#### New Services Launched by Sarine Should Benefit FY2024

- **Macro-economic challenges coupled with disruption by Lab Grown Diamonds (LGD) negatively impacted consumer demand for natural diamonds in FY2023.**
- **With lower consumer demand, manufacturers reduced polishing activities impairing Sarine's sale of equipment and recurring scanning revenues.**
- **Although macro-economic headwinds persist (mainly in China), the disruption by LGD may be waning due to the sharp fall in LGD retail prices (lowering retailers' margins) and possible growing consumer recognition that LGD are not always substantially more environmentally friendly.**
- **Lower inventory of natural polished diamonds at FY2023 year's end and the significant 15-20% reduction in natural rough prices in January 2024 may further stabilise the diamond industry.**
- **The forecast improvement in prospects for the natural diamond industry in 2024 will benefit Sarine's core businesses.**
- **Sarine launched in Q1 2024 an expansive portfolio of new businesses and services which are adding new customers and new recurring revenues: (i) Most Valuable Plan™ (MVP) paradigm for the optimal planning of small rough diamonds, (ii) Adaptation of rough planning technologies to LGD, (iii) GCAL by Sarine LGD grading lab in India, and (iv) new AutoScan™ Plus and Journey™ combined solution to address ESG issues and G7 sanctions on Russian-sourced diamonds.**



**Hod Hasharon (Israel) 25 February 2024** - Singapore Exchange Mainboard and Tel Aviv Exchange listed Sarine Technologies Ltd (“**Sarine**” and along with its subsidiaries “**the Group**”) (**U77:SI; SARN.TA**), a worldwide leader in the development, manufacturing, marketing and sale of precision technology products for the evaluation, planning, processing, measurement, grading and trading of diamonds and gems, announces its financial results for the twelve months ended 31 December 2023.

### **Review of FY2023**

Significant economic headwinds in the major U.S. and China markets stifled the diamond industry in 2023. In the primary U.S. market concerns of a looming recession dampened consumer sentiment for much of the year, easing towards year-end. In China, the second most important market for diamond jewellery, negative news relating primarily to the real-estate market and fears of possible banking insolvencies impacted consumer spending and continue to do so. In addition, the rapid expansion of the LGD segment in the U.S. market in 2022 and 2023 disrupted demand for natural diamonds.

In the last months of 2023, the interest rate outlook in the U.S. improved, and this contributed to more buoyant consumer confidence in the critical year-end holiday season. Overall holiday spending was some 5% higher over the preceding year. Significantly, the market disruption caused by LGD may have peaked, as the growth trend of LGD adoption slowed in the second half of 2023. This may have been due to the sharp decline in LGD wholesale and, more importantly, retail prices, thus reducing retailers' profits and margins, along with the growing consumer realisation that not all LGD are necessarily "green". While it may be too early to call this a new trend, the slowdown could indicate that the natural diamond and LGD segments of the diamond jewellery market are reaching a new equilibrium.

In another year filled with challenges, Group revenue for FY2023 declined 27% to US\$43.0 million. At the segmental level, capital equipment sales fell by about 50% while as recurring revenues declined only 3%. The half year segmental for H2 2023 recorded a 62% decrease in capital equipment sales, offset by an approximate 4% increase in recurring revenues due to the addition of GCAL. In May 2023, the Group acquired a 70% stake in the gemmological laboratory grading business and certain assets of the New-York based Gem Certification & Assurance Lab, Inc. (GCAL). Recurring revenues are expected to continue growing in FY2024 from the expansion of our grading services to India and adoption of our new pay-per-use services for natural and LGD stones optimal planning.

On lower revenue and a change in the revenue mix that includes GCAL, gross profit margin dropped to 64% in FY2023 from 69% in FY2022 with a corresponding decrease in gross profit from US\$40.6 million in FY2022 to US\$27.4 million in FY2023. Overall expenses fell in H2 2023 due to cost-cutting steps taken, and the reduction will accelerate into FY2024 as the Group continues to right size its expenses in FY2024. With the decline in gross profit, the Group reported a loss of US\$2.8 million for FY2023, as compared to a profit of US\$8.8 million for FY2022.

The Group delivered only 27 Galaxy®-family inclusion mapping systems in FY2023. As of December 31, 2023, our installed base was 830 systems.



## Prospects

The outlook for interest rates has improved from late 2023. Most central banks have stopped further rate increases, and there is growing expectation that interest rates could start falling later in 2024. Within the diamond industry, conditions have improved from the challenges of H2 2023. Year-end sales have reduced the inventory of polished natural diamonds and the substantial reduction in the prices of rough diamonds in January 2024 has improved the profit margins of manufacturers. The market disruption caused by LGD may have peaked in 2023, and any recovery of the natural diamond industry in 2024 will benefit our traditional businesses of capital equipment sales and Galaxy® scanning.

The Group's new services have received encouraging responses from industry participants, and we expect recurring revenue to continue growing from continued adoption in 2024. Our recently launched Most Valuable Plan™ (MVP) paradigm for the optimal planning of rough diamonds 40 points and below will be extended to rough diamonds of up to 90 points in the second half of 2024. MVP has been proven to create significant added value for our customers, and its immediate addressable market will be the 27 million rough stones of these sizes scanned on our installed base of Meteorite™ Plus systems in 2023. Also slated for release in 2024 is the Meteor™ Plus inclusion scanning system for stones up to 90 points, a segment in which an additional 6 million stones were scanned in 2023. These innovations should drive both legacy planning and Galaxy®-family scanning systems capital equipment sales in 2024, in addition to their generation of a new recurring revenue stream.

In any new equilibrium for the diamond industry, LGD are expected to account for a meaningful portion of the diamond jewellery market. To adequately address this segment, we have adopted GCAL's work procedures, and our LGD-focused GCAL by Sarine grading lab in India commenced operations in January this year. Adaptation of our AI-derived grading technologies to LGD will enable further expansion of this service. We aim to attain an 8-10% share of the estimated US\$ 100 million LGD grading segment in FY2024. This month, we launched the utilisation of our industry-leading rough planning technologies on LGD on a pay-per-carat service basis. Initial responses have been positive with recurring revenue already being generated. Additional LGD manufacturers, currently testing the offering, may be adopting it soon as well.

The AutoScan™ Plus and Sarine Diamond Journey™ combined solution provides a cost-effective means to address the environmental, social and governance (ESG) issues that concern retailers, especially luxury brands and new customers will be added in 2024. The G7 countries have implemented tighter sanctions on Russian-sourced diamonds, banning importation of polished diamonds over half a carat in stages throughout 2024. If their enforcement is predicated on a "verifiable" source traceability system, we are confident that the AutoScan™ Plus and Sarine Diamond Journey™ can provide a scalable (an estimated 3 million plus diamonds of the relevant sizes are polished annually) accurate and cost-effective means to meet the mandated requirements with minimal overhead or disruption to the diamond value chain.

This press release is to be read in conjunction with Sarine's FY2023 results released to the Singapore Exchange on 25 February 2024.



### **About Sarine Technologies**

Established in 1988, Sarine Technologies Ltd. is a worldwide leader in the development and manufacturing of advanced modeling, analysis, evaluation, planning, processing, finishing, grading and trading systems for diamonds. Sarine products include the Galaxy® family of inclusion and tension mapping systems, rough diamond planning and optimisation technologies, laser cutting and shaping tools, laser-marking, inscription and fingerprinting equipment, automated (AI-derived) Clarity, Color, Cut and light performance grading systems and traceability, visualisation and retailing services. Sarine systems have become standard tools in every modern manufacturing plant, properly equipped gemology lab and diamond appraisal business, and are essential aids for diamond polishers, dealers and retailers. For more information about Sarine and its products and services, visit <http://www.sarine.com>

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