

# Sarine emerges from rough patch, expects new product to help it meet targets

BY LEU SIEW YING |

Sarine Technologies sponsored an evening of music, food and drinks to kick off its participation in jewellery trade show JCK Las Vegas last month. Those who packed the JCK Wine(d) Down bar did not know a thing about their host, but by the time the string quartet drew out the last note and in the days that followed, many knew more about the gemological tool maker and some wrote cheques to buy its products. The company is now negotiating deals with several large retail players.

Its latest product, Sarine Profile, in particular, had a successful showing at the event. Sarine Profile marries a report on a diamond's light performance with an imaging tool that allows buyers to see a diamond as if they were holding it in their hands. The buzz created appears to underpin chairman Daniel Glinert's statement about Sarine Profile's potential after the company's dismal first quarter performance and the resulting sell-down of its shares.

He confirms that the trade products including Sarine Profile, Sarine Light and Sarine Loupe will contribute 5% to total revenue in 2HFY2015. "It's hard to say at this point what exactly the revenue is going to be like but we have always said it would be 5% of overall revenue. I see no reason at this point to change that indicative statement," says Glinert in a telephone interview with *The Edge Singapore*.

Last week, Sarine Technologies gathered senior sales officials in its headquarters in Kfar Saba, Israel, to draw up a strategy to leverage on the hype created in Las Vegas. The success of the plan and its willingness to spend to build a sales team for Sarine Profile will be crucial to the company's attempts to insulate itself from future turbulence in the diamond industry.

Glinert says there will be no skimping. "[Sarine Profile] has excited the market. This is the time to take bold steps and spend some money if that is what our staff tell us to do," he says. The company's engineers are still working to make Sarine Profile's value proposition more attractive but right now, Glinert says, the key issue is "sales, sales, sales and support".

Shares in Sarine Technologies soared in the past year to an all-time high of \$3.23 on Oct 7, but plunged 33% to \$2.17 in December on a slump in demand for its diamond manufacturing tools that was brought on by a squeeze on manufacturers' margins and credit. The shares quickly rebounded from the lows and were trading up 34% by February.

In March, Glinert said the industry had passed its low point, but that was not to be. Two highly anticipated trade shows in Hong Kong and Basel that month turned out to be disappointing. Worse was to come in April — De Beers' cut in the price of rough diamonds was deemed too small to induce manufacturers to take up more stock. As a result, Sarine Technologies shares took another severe hit and lost a third of their value. May brought no respite as Indian manufacturers were on their summer vacation.

## Stronger second half

But now, Glinert is saying the second half of the year will be more robust than the first. "April was a lost month. May, for most part, was the summer vacation in India but we see overall indications that the industry is moving back into more robust production," he says. "There is more robust interest in talking to us again about buying more equipment."

Can investors expect a smooth ride going forward or will there be more volatility?



Sarine Technologies' booth at JCK Las Vegas. The show generated a lot of interest in the company.

Over the past year, they would have discovered how much the diamond trade is driven by sentiment. JCK Las Vegas is now credited with dispelling the doom and gloom that has shrouded the industry for three months. Since the show, the company's shares have swung up and are now just 9% down year to date.

According to Glinert, buyers went to the show with a lot of trepidation, fearing a repeat of the March shows in Hong Kong and Basel, but came away satisfied. "People went to JCK with a lot of hope and relatively low expectations. For a lot of people, I think, the show exceeded their expectations. I know firsthand that some sellers had a fantastic show not just compared to what they expected but in absolute terms. Others had a medium show but it was also better than expected. Others came away with the feeling that nothing had changed but they were the minority," he said. He himself was "very bullish" going to the show as he had been showing Sarine

Profile to investors in Singapore, Hong Kong, London and New York and receiving positive feedback. "Even I was surprised at the degree of interest that we generated," he says.

The positive sentiment generated by JCK Las Vegas came on the heels of De Beers' May sight for selected rough diamond buyers. De Beers lowered prices and buyers bought more stones. The June 8 sight also struck a positive note even though prices didn't change because there were no expectations they would be lowered. The uptake in June was worth US\$650 million, which was normal.

## Still dependent on manufacturing

The recovery in diamond manufacturing is good news as Sarine Technologies will continue to be heavily dependent on the good health of manufacturers for a few more years to come. Investors have not been convinced that Sarine Technologies' "third leg", what Glinert calls its foray

into the downstream diamond value chain, can cushion the company away from the recurring issues of margin compression and credit crunch faced by the manufacturing midstream.

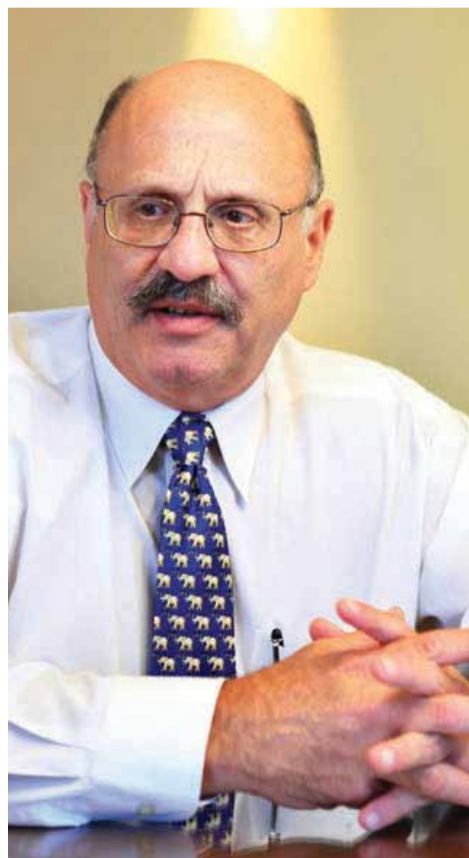
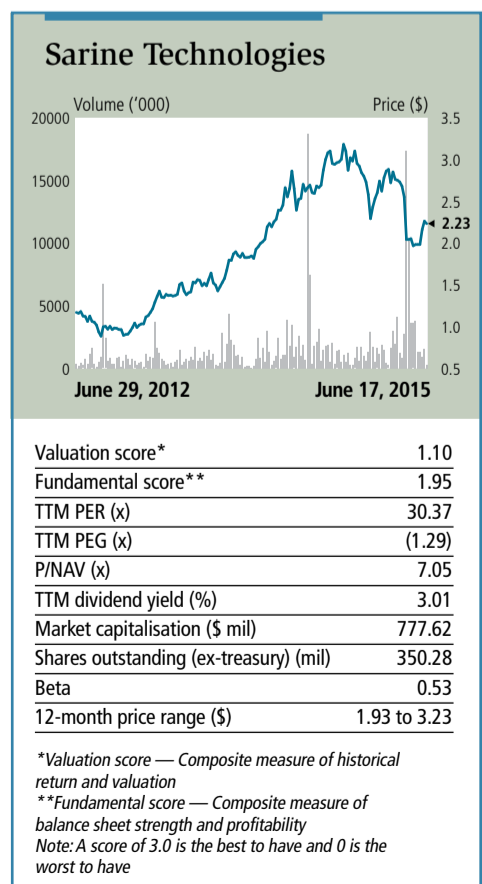
Both manufacturing and the retail diamond trade were down in March and April. Glinert agrees that the diamond trade was slow, but says it was doing better than the manufacturing business. "People cut manufacturing by an average of 30%. Trade was not affected anywhere near that number," he says. Demand in the US is growing marginally even though it is a very mature market. The markets that were hit by a slowdown in demand were the Middle East and Russia, which are affected by the slump in oil prices, and China where there is a crackdown on corruption.

Even then, it will take two to four years, by Glinert's reckoning, before Sarine Technologies' third leg is strong enough to protect it from future headwinds. One thing investors have to brace themselves for as it grows its new revenue stream is a sizeable spike in the cost of sales. Sales and marketing expenses rose 14% y-o-y to US\$12.6 million (\$17 million) in FY2014 and were up 13% to US\$3.2 million in 1QFY2015.

Shares in Sarine Technologies still have a long way to go before reaching the peak scaled last year but Glinert is taking comfort from the recent spike. "The market is recognising there is nothing fundamentally wrong with our business proposition or brand position and recognition," he says. The volatility will not go away for good any time soon as the company has a market value of only \$782 million and is thinly traded.

Within the company, the volatility is a problem only for Glinert, a software engineer who co-founded the company with CEO Uzi Levami and several shareholders. "The management team is quite adept at putting these issues aside. They don't take the share price into consideration of what has to be done next. It is my job as executive chairman to make sure they are isolated from these issues and at the same time keep the public abreast of what we are doing," he says.

The company's next financial results will be announced in early August. In the meantime, investors will be watching closely for details of the deals secured at JCK Las Vegas.



Glinert: Sarine Profile has excited the market