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**Issuer:** Sarine Technologies Ltd

**Stock code:** U77

**Meeting details:**

Date: 26 April 2022

Time: 3.00 p.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

**Q1.** The group's milestones for FY2021 could be seen on page 6 of the annual report. It was a watershed year as the Galaxy® family of scanning and inclusion mapping systems processed a record 33 million stones, a 73% surge during 2021.

In addition, as disclosed in the chairman's statement, the diamond jewellery value chain rebounded dramatically and exceeded forecasts for the scale of the recovery. Diamonds, along with luxury goods, made a quick return to pre-pandemic levels.

The group's revenues grew by 51% to US\$62.1 million. Gross profit margin was 73.8% while profit from operations increased significantly by 303% to US\$19.2 million. Net profit surged by 600% to US\$16.5 million with net profit margin increasing to 26.5% (FY2020: 5.8%).

The group's main objectives for 2022 can be seen on page 13 of the annual report in the chairman's statement and on page 27 in the management's review.



(Source: company corporate presentation – February 2022)

- (i) As seen from the diagram above, the group already spans the entire diamond value chain. **Are there still gaps in the market for the group to expand into? Does it mean that innovation and/or growth will be more evolutionary in nature (such as upgrading Advisor® 7.0 to Advisor® 8.0) and less revolutionary?**

With 80 deliveries in 2021, the group's installed base of 711 Galaxy® systems (as of 31 December 2021) gives management the confidence that Galaxy® usage will hit a new high again in 2022. This is due to the larger installed base as well as new services and features.

- (ii) **What is management's strategy to further reduce the friction for potential customers to adopt its Galaxy® systems?**

**(iii) Similarly, what are the barriers management has to overcome to scale up e-Grading™?**

The group expects trade revenue (i.e. rough and polished diamond wholesale and retail related), digital tenders, the Sarine Profile™ and the Sarine Diamond Journey™, to continue to scale up. In FY2021, these amounted to 8% of the group's total revenue, up from 4-5% in the previous year (page 12).

**(iv) Can management help shareholders better understand the growth trajectory?**

The company also made significant headway in its IP enforcement activities and is successful against a diamond manufacturer, Rudra Diam, that was using pirated versions of the Advisor® diamond planning software.

**(v) What is the financial impact of the judgement to the group?**

**Q2.** The environmental and sustainability issues are becoming core considerations, or even the top priority for certain consumers. There is an identified gap for the industry to demonstrate its sustainability credentials to the new generation of consumers.

As noted in the De Beers report, there is a premium of up to 20% if brands are able to provide evidence of sustainability credentials.

- (i) Can the board/management help shareholders better understand the value proposition of the group's services/products in provenance traceability? Are there established industry standards? Or is the group one of the leaders in providing provenance traceability and thus setting the industry standards?**
- (ii) Does management see lab-grown diamonds (LGD) "cannibalising" the demand for mined diamonds or will LGD expand the market and attract a new segment of customers who would not have bought mined diamonds?**
- (iii) Will the group have to alter its business model given the lower price point of LGD to perhaps focus on volume? If so, does this affect the group's future profitability as the volume of LGD increases?**

**Q3.** On 31 March 2021, the company announced that it was seeking to apply for a dual listing on the Tel-Aviv Stock Exchange (TASE).

The company noted that it was domiciled in Israel and it was leveraging the new tie-up between TASE and the Singapore Exchange ("SGX") to facilitate the ease of dual listings of companies already with primary listing on either venue.

The company expected the dual listing to broaden the potential investment base of the company and improve the share's liquidity. It was also advised that such a dual listing will also broaden the potential investing audience to the U.S. market as the time difference between Tel-Aviv and the U.S. is only 7 hours, as opposed to the 12-13 hour time difference to Singapore.

The Israeli equity and debt (bond) markets are considered to be highly sophisticated markets with attractive terms for raising capital through the issuance of equities or debt.

The company commenced its dual listing trading on the TASE on 5 July 2021 under the symbol SARN.TA.

- (i) **What are the realised benefits (tangible and intangible) since the company's listing on TASE on 5 July ?**
- (ii) **In particular, has the board/management reviewed if the share's liquidity has improved?**
- (iii) **How much was spent on professional fees for the dual listing? Are there recurring professional fees to be incurred to maintain its dual (secondary) listing on TASE?**
- (iv) **Is there a change in the profile of the shareholders, especially any increase in investors from the U.S. market?**
- (v) **Are there plans to raise capital on TASE or SGX in the near term?**

<sup>^</sup>On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

<sup>^</sup> Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation  
(<https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation>)

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings (“Meetings Order”) would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

**Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.**

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](http://www.sias.org.sg)

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Q1

*[i] As seen from the diagram above, the group already spans the entire diamond value chain. Are there still gaps in the market for the group to expand into? Does it mean that innovation and/or growth will be more evolutionary in nature (such as upgrading Advisor® 7.0 to Advisor® 8.0) and less revolutionary?*

The referenced diagram shows the Group's products and services primarily as they relate to the midstream polishing segment of the diamond value chain, wherein, indeed, our growth will be more evolutionary than revolutionary. However, our primary growth strategy is to aggressively expand into the upstream mining / production and downstream retail segments of the diamond value chain, where the potential for growth is significant. As noted in our Annual Report in the Chairman's Statement on page 13 and in more detail on page 28 in the Management's Business Operation and Financial Review, we will, in the upstream segment:

- Launch, as just announced, our new Sarine AutoScan™ system for the high speed scanning of rough stones at the mine, both to avail their traceability and address acute internal inventory control issues; and
- Explore additional implementation of our technologies in the secondary rough diamond trade market, wherein our digital tools have already made significant inroads by way of the digital tenders paradigm;

And in the downstream segment our main efforts focus on our efforts to drive continued adoption of our traceability offering, which the current events in Europe are showing to be crucial to address both government and consumer concerns, as well as the commercial launch of our revolutionary e-Grading™ offering, as noted:

- The continued rollout of our Sarine Diamond Journey™:
  - Engage with additional luxury brands and leverage successes to other players, with special focus on the U.S. market;
  - Offer it as an independent service or packaged with AI-based 4Cs grading (as with Maison Boucheron);
  - Accelerate engagement with the upstream by introduction of the Sarine AutoScan™ to enable a broader based application of traceability; and
- The rollout of our e-Grading™ innovation by implementing a four-pronged strategy:
  - Broadening presence in the midstream polishing segment with a clear value-added proposition (direct cost reduction, indirect cost elimination, dramatic time-to-market minimisation and operational flexibility);
  - Addressing the market of non-graded goods, as the cost benefits we offer avail the grading of smaller and lower quality polished diamonds – an extensive market;
  - Engaging with key wholesalers, especially in the fragmented U.S. market;
  - Engaging retailers with a continued focus on luxury brands and expansion to high-end independent retailers and regional retail powerhouses;

*With 80 deliveries in 2021, the group's installed base of 711 Galaxy® systems (as of 31 December 2021) gives management the confidence that Galaxy® usage will hit a new high again in 2022. This is due to the larger installed base as well as new services and features.*

*[ii] What is management's strategy to further reduce the friction for potential customers to adopt its Galaxy® systems?*

Again, as noted in the Annual Report on page 28 in the Management's Business Operation and Financial Review, we will:

- Introduce a new scanning system with accelerated throughput and lower cost of ownership;
- Introduce automated "Pay-Per-Value" algorithms to reduce Galaxy® Pay-Per-Carat use charges automatically for lower quality rough natural diamonds and for LGD raw material, so as to significantly expand our market to additional goods currently below threshold for economically viable scanning;

*[iii] Similarly, what are the barriers management has to overcome to scale up e-Grading™?*

e-Grading™ is an innovative time-saving, cost-reducing (both direct and indirect costs) and operationally beneficial concept being introduced into a market segment with an approximately US\$ 700 million annual turnover, in which there are existing players, some with a significant long-standing market share and some, including ourselves, with a lesser market share. We expect our revolutionary concept, moving the grading from a third-party offsite laboratory to the midstream polisher's own facilities, will readily appeal to these players, as the beta-testing uptake has showed. We also expect the benefits of a technological AI-driven accurate, consistent and objective solution, offered as a digital cloud-based report, will appeal to today's technologically-minded media-savvy consumers. The primary barrier is to gain broad retailers' acceptance of our solution. As noted in our Annual Report, we have already seen successes with high end retailers such as Maison Boucheron and New Art in Japan and U.S. wholesalers, who value the importance of strengthening their own brand, rather than that of this or other gem lab (our reports are typically presented under the retailer's own brand "powered by Sarine").

*The group expects trade revenue (i.e. rough and polished diamond wholesale and retail related), digital tenders, the Sarine Profile™ and the Sarine Diamond Journey™, to continue to scale up. In FY2021, these amounted to 8% of the group's total revenue, up from 4-5% in the previous year (page 12).*

*[iv] Can management help shareholders better understand the growth trajectory?*

As a rule, we do not provide actual forecasts / projections of this sort. However, as noted in the Chairman's Statement of the Annual Report (page 12 immediately following the last sentence of your query) "We expect trade revenues to continue growing in FY2022 from new customers and the broadening adoption of our new technologies."

*The company also made significant headway in its IP enforcement activities and is successful against a diamond manufacturer, Rudra Diam, that was using pirated versions of the Advisor® diamond planning software.*

*[v] What is the financial impact of the judgement to the group?*

The financial impact was relatively insignificant, as Rudra Diam's infringement was relatively minor. However, as the first-ever judgment of an Indian court finding in our favor in one of our lawsuits alleging copyright infringement, we see this as a significant milestone, hopefully to be followed by additional such findings against more significant infringers with more significant financial ramifications.

Q2

*[i] Can the board/management help shareholders better understand the value proposition of the group's services/products in provenance traceability? Are there established industry standards? Or is the group one of the leaders in providing provenance traceability and thus setting the industry standards?*

As you noted in your preamble to this query ***"The environmental and sustainability issues are becoming core considerations, or even the top priority for certain consumers. There is an identified gap for the industry to demonstrate its sustainability credentials to the new generation of consumers. As noted in the De Beers report, there is a premium of up to 20% if brands are able to provide evidence of sustainability credentials."*** Our value proposition is specifically to address this evolving need. There are no established industry standards, and we, indeed, believe we are one of the leaders providing provenance traceability and thus setting the industry standards.

*[ii] Does management see lab-grown diamonds (LGD) "cannibalising" the demand for mined diamonds or will LGD expand the market and attract a new segment of customers who would not have bought mined diamonds?*

As we have in the past discussed, there are many divergent opinions on this matter, ranging from total cannibalisation to no or very minimal cannibalisation as, indeed, LGD may expand the market and attract a new segment of customers for lesser costly non-bridal jewellery. Current trends indicate that bridal jewellery will remain set with the more expensive unique natural mined stones (an even more exotic trend is presented in an article just published in the Financial Times "Why Everyone Wants a Diamond in the Rough" <https://www.ft.com/content/1e9c1148-5d33-4e46-8344-ba151feb636a>), while as there will be lower priced products for lesser significant occasions, such as holiday giftings, as was evidenced this past Christmas in the U.S. market.

*[iii] Will the group have to alter its business model given the lower price point of LGD to perhaps focus on volume? If so, does this affect the group's future profitability as the volume of LGD increases?*



Naturally, services aimed at the LGD market, where the cost of the end product and source rough material is a fraction of that of naturally mined stones, and we dare say will continue to decrease and not hold value per se, will have to be priced differently. We are already developing the automation necessary to implement differential pricing tiers for different types and qualities of scanned stones, including LGD, as noted in our response to Q1 [ii] above. The LGD market is already creating a new segment into which to sell our industry-leading services (e.g., our Quazer III laser cutting and shaping system) and thus provides additional evolutionary growth.

*Q3*

*The company commenced its dual listing trading on the TASE on 5 July 2021 under the symbol SARN.TA.*

*[i] What are the realised benefits (tangible and intangible) since the company's listing on TASE on 5 July ?*

We have not as yet seen very substantial benefits, but we are creating awareness with new Israeli-based investors, who had not been interested in investing in an SGX-only listed entity.

*[ii] In particular, has the board/management reviewed if the share's liquidity has improved?*

We have not seen any meaningful liquidity improvement.

*[iii] How much was spent on professional fees for the dual listing? Are there recurring professional fees to be incurred to maintain its dual (secondary) listing on TASE?*

There were very minimal professional fees (less than US\$ 50,000) associated with the dual listing, nor do we expect any meaningful professional fees to be incurred for its maintenance.

*[iv] Is there a change in the profile of the shareholders, especially any increase in investors from the U.S. market?*

We have seen interest from Israeli investors, both institutional and retail, and we believe we do have new Israeli investors. We cannot say that we have, as yet, seen an increase in interest from the U.S. market, but we believe that Covid-19 travel limitations as well as current events have limited our efforts to increase our exposure there.

*[v] Are there plans to raise capital on TASE or SGX in the near term?*

As a rule, our predisposition is not to respond to queries of this sort.