

Parting company

Diamond mining has helped put Yellowknife on the world map. Now the largest of the local miners, Dominion Diamond, is moving its head office to Calgary. The move will save millions, but at the cost of a CEO

By Paul Brent

Usually, when a CEO steps down “for personal reasons,” markets think the worst and are quite often right to do so. The company has performed poorly, the chief executive has clashed with the board, or investors are clamouring for change.

It is not so straightforward what has gone on with Dominion Diamond Corp. (TSX:DDC) and soon to be departing CEO Brendan Bell.

The Yellowknife-based diamond miner, Canada’s largest, announced in January that Bell was stepping down for the clichéd personal reasons. But that’s where things get complicated. The CEO had just approved a move of the company’s head office from Yellowknife to Calgary, a controversial relocation of 100 jobs that will save the company an estimated \$19 million in annual costs. But Bell, the former Northwest Territories Minister for Energy and Mines, isn’t going. He wants to stay in the north, declaring, “This is not the right move for my family.”

Beyond that statement, company executives aren’t commenting and on the surface the impending departure looks amicable. Bell has agreed to stay on as CEO until the end of June when a successor has hopefully been found. It is also expected that Bell, who joined the company in 2013 and became acting CEO in the fall of 2014, will remain a consultant. (His political and community connections as an eight-year legislative member and former minister for both mining and environment are invaluable to a company like Dominion Diamond). There is also expectation that Bell, who grew up in Yellowknife and had a business there before entering politics, could run again in the Territories’ next election.

Investors took the news of a change at the top in stride. “The company was kind of in the midst of a management shakeup anyway, so I don’t see it’s a problem that they find a new leader,” says Steven Green, an analyst at TD Securities.

The third-largest producer of rough diamonds in the world has had its share of senior turnover. Bell took over as CEO from mining legend Robert Gannicott, who helped discover and develop the Diavik diamond mine in the N.W.T. and founded what is today Dominion Diamond (the company has a 40%-stake in Diavik and a controlling interest the Ekati diamond mine). Gannicott, who left the company after being diagnosed with leukemia, died last August. The company is also on its third chief financial officer in less than three years.

Part of the reason for that churn is the complexity of Dominion

Diamond’s operations, which has led to some friction between analysts and management. Dominion has a challenging balance sheet for investors to follow. The company has a January yearend, Diavik reports on a calendar basis and the company’s two mines produce gems that can vary wildly in price, carat to carat. The new CFO, Matthew Quinlan, is a Bay Street veteran, previously working as managing director and co-head of CIBC World Markets’ global mining group.

There has been other drama, too. Beyond the death of its founder last year, there was a fire at the Ekati processing plant that cut into production for three months and cost \$20 million to fix. At the end of 2015, the company was also targeted by an activist shareholder, K2 &

Associates Investment Management Inc., seeking changes. As a result, Josef Vejvoda, a portfolio manager at K2, joined Dominion Diamond’s board last January, along with current chairman James Gowans. In August, another four new directors were elected to the eight-member board, leaving just two from the Gannicott era.

“I think [Bell] was intended to be there only temporarily from the beginning,” says Paul Zimmisky, a New York-based, independent diamond industry analyst. “I think they were looking for someone to represent the company longer term for a while.”

Zimmisky notes that while Bell will stay on perhaps until June, he has stepped down from the board of directors immediately. “That kind of tells you everything that you need to know. I think that the activist shareholder has basically taken control of the board, they are going to bring someone in that is going to be focusing on operating that company efficiently.”

Recent years have been rough for the US\$14-billion diamond market. In heady days after the financial crisis, prices rose

sharply as Chinese and Indian consumers embraced diamonds. But now demand is down in China, and India’s recent currency reforms, targeting black-market cash, have resulted in falling rough-cut sales to the country as some dealers struggle to raise funds for diamond purchases. Globally, major producers have cut production to stabilize prices.

In this context, moving Dominion Diamond’s head office 700 miles south to Calgary makes business sense. “Bob [Gannicott] loved Yellowknife and that is why he moved the company there but it is an expensive place to live,” says Ken Armstrong, president and CEO of diamond exploration company North Arrow Minerals Inc. in Vancouver. “[But] it is fair to say I would be surprised that the CEO would make a decision to move the office but not go with it.”



Staying put: CEO Brendan Bell will remain in the Northwest Territories when Dominion Diamond moves to Calgary