

# Synthetic diamonds' price differential continues to rise

News flow from the diamond industry in 2018 has been dominated by the launch of commercial synthetic diamond jewellery ranges by prominent industry players.



A visual comparison of rough lab-created diamonds (left) and natural (right)

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**Henry Lazenby**

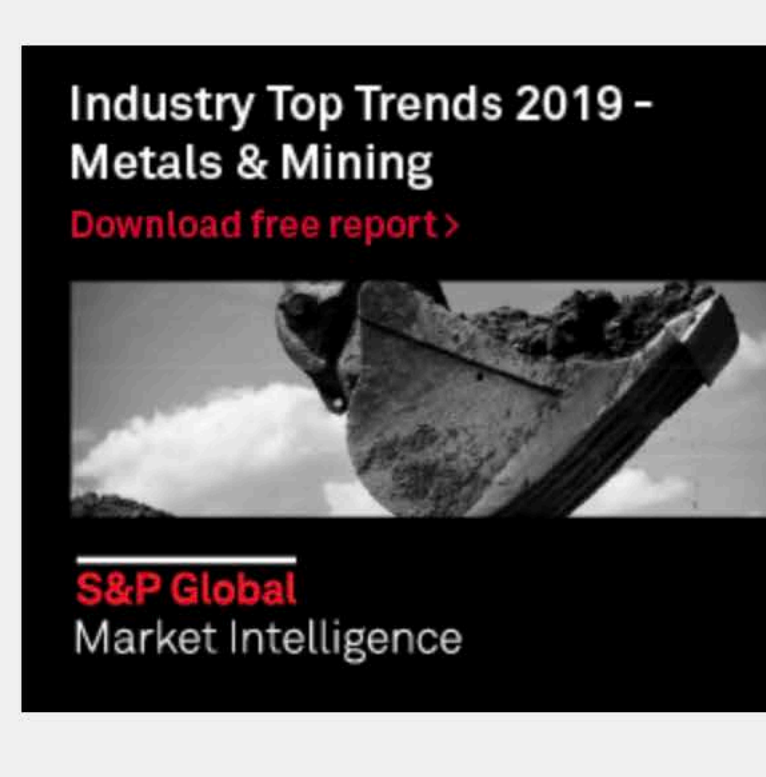
New York-based analyst Paul Zimnisky questions how much consumers are willing to pay for laboratory-created precious gems that have no proven resale value and are not bound by the supply constraints of natural diamonds.

According to Zimnisky's data, the discount synthetic diamonds receive on the market compared with generic natural diamonds of the same size and characteristics has grown from 16% in 2016, to 18% in 2017, swelling to a significant 42% to date in 2018. In fact, 2018 saw the price differential for synthetic diamond prices drop from 29% in January.

Contributing to this is industry bellwether De Beers, which in late May "crossed the Rubicon" when it announced it would be entering the lab-created diamond jewellery space through a subsidiary called Lightbox.

The move implied a "nuanced strategy" with a general aim at differentiating consumer perception of lab-created and natural diamonds.

In late September the product became available to consumers exclusively through the company's website with the notable item a 1-carat solitaire pendant offered for US\$800 plus a nominal setting fee. At the time of launch an equivalent-quality 1ct generic lab-created diamond was selling for around \$3,700.



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According to a Lightbox representative in October, initial demand for the 1ct solitaire pieces exceeded expectations, resulting in a temporary sell out. Further, it was noted that the items would be restocked in relatively short order given that production of Lightbox diamonds is an ongoing process through De Beers' synthetic diamond production subsidiary Element 6 in the UK.

According to Zimnisky, the process of growing a 2.5ct rough laboratory-created diamond (the approximate size that yields a 1ct polished) typically took three-to-four weeks, plus additional time to cut the diamond and manufacture the jewellery. As of early-November, out of 43 Lightbox items offered, five were still sold out. There was only one 1ct solitaire item available, a white princess-cut pendant offered at \$900 (\$800 for the diamond plus \$100 for the sterling silver setting and chain).

In the company's initial Lightbox press release, De Beers noted that a new \$100 million Element 6 facility in the US is being built to cater to Lightbox diamond production. The US facility, located outside of Portland Oregon, is expected to produce upwards of 500,000cts of rough annually, starting early next decade.

The production will yield about 200,000cts of polished diamonds a year. At that production rate, and given the linear pricing structure of the diamonds (\$200 for a quarter-carat, \$400 for a half-carat) Lightbox is estimated to be about a \$175 million business for De Beers and parent-Anglo American. For reference, De Beers produced over \$5.8 billion in revenue in 2017 and represented less than 20% of parent Anglo's total business.

## New market entrants

On October 31, only a month after Lightbox diamonds became available to consumers, Berkshire Hathaway-held jewellery manufacturer Richline announced that its new lab-diamond line 'Grown with Love' would be available this holiday season through US department stores Macy's and JCPenney. The launch marked the first wide distribution of lab-created diamonds through a bricks-and-mortar retailer. The line notably includes engagement rings with diamonds as large as 3cts in size.

Despite, De Beers' Lightbox move only weeks earlier, the 'Grown with Love' line was being marketed at a price point equal with where lab-diamonds were selling before De Beers entered the scene, Zimnisky said.

For example, JCPenney is selling a 1ct 'Grown with Love' solitaire ring for \$3,750 and a 1.5ct for \$6,500, both which grade at near-colourless and SI in clarity. While Lightbox diamonds were strategically not sold with a grading certificate it was estimated that they were near-colourless or better and VS in quality, which is a notch above SI, the analyst noted.

Several other new players have recently entered the lab-created diamond jewellery space and most are targeting bridal products and diamond sizes greater than 1ct, the two areas that De Beers is not breaching, at least initially.

There are currently producers in China selling 2ct near-colourless rough in SI clarity for \$300. Some of these producers are also selling polished. For example, a 0.8ct, the polished yield from a 2ct rough, is being offered for \$425. This compares to a Lightbox retail price of \$640 for an equivalent-sized diamond, using their \$800-per-carat linear pricing metric.

Some of the carbon vapor deposition method start-ups common in the West appeared to have operating profits approaching 50% using the higher price points in the plus-1ct polished categories, the size-category that now is protected from Lightbox and the low-cost producers in the East. The question was, how long would the window last, Zimnisky said.

"Further, even though there is not currently competition from Lightbox or the low-cost producers in the plus-1ct polished category, an important question still remains: how many consumers will be willing to pay thousands of dollars today for a diamond that is theoretically unbound in supply and possibly holds no resale value?"

"It is a reasonable question to ask given that a 2ct slightly-better-than-medium-quality lab-created diamond currently sells for over \$10,000," he said.

Zimnisky expected the 'Grown with Love' product line to potentially be the first reliable proxy capable of answering this question given the wide distribution and promotion backing it.

## Topics

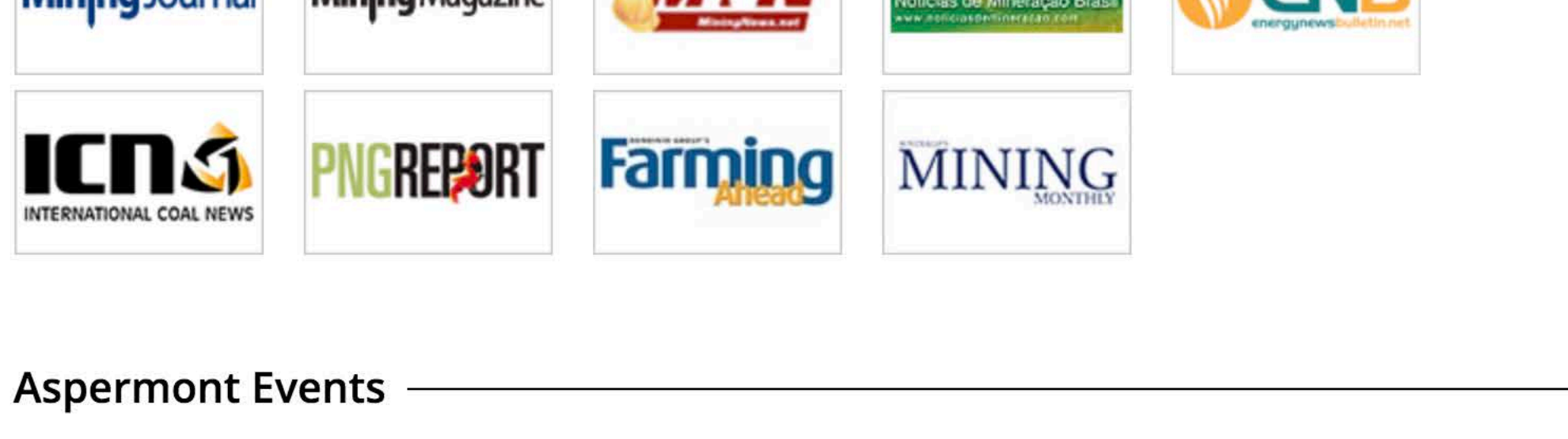
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