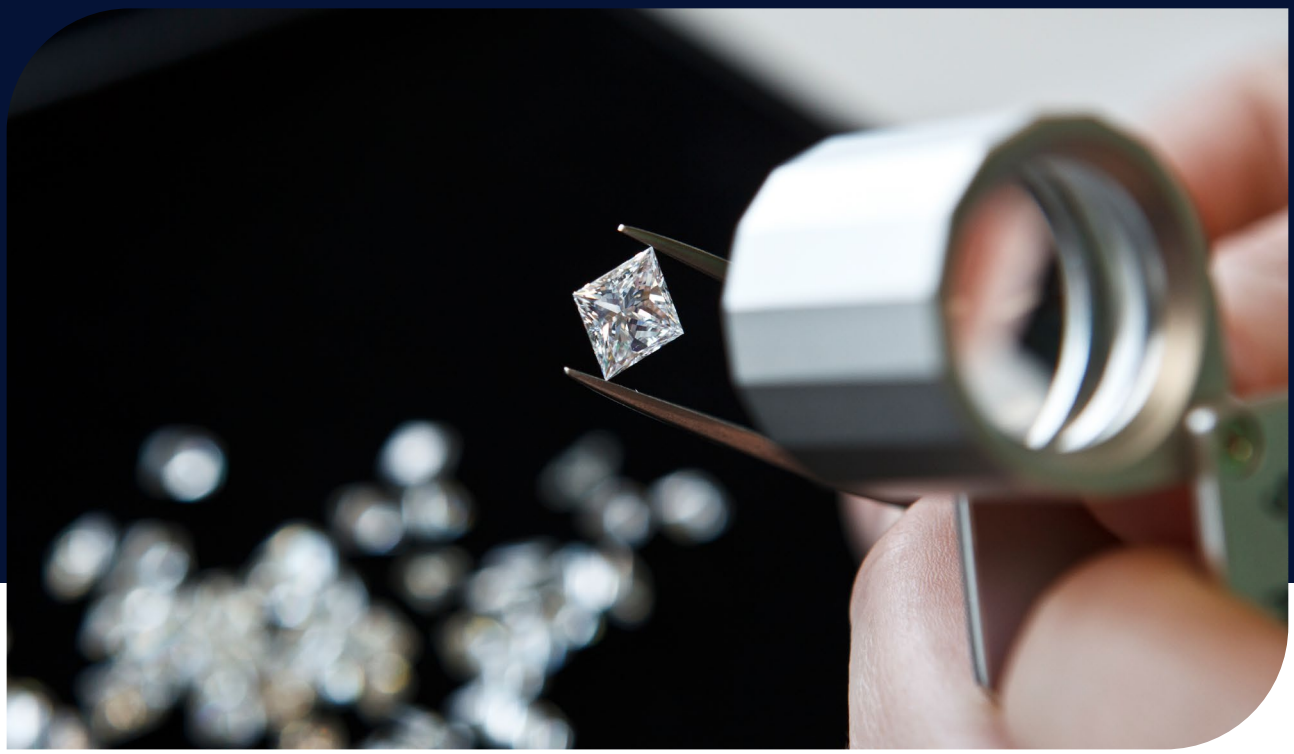
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Insights

Natural Diamonds at an Inflection Point

How structural disruption is reshaping the diamond value chain

October 2026



The natural diamond industry is undergoing a structural reset. The key question is which businesses have the liquidity, cost flexibility and capital structure to bridge it.

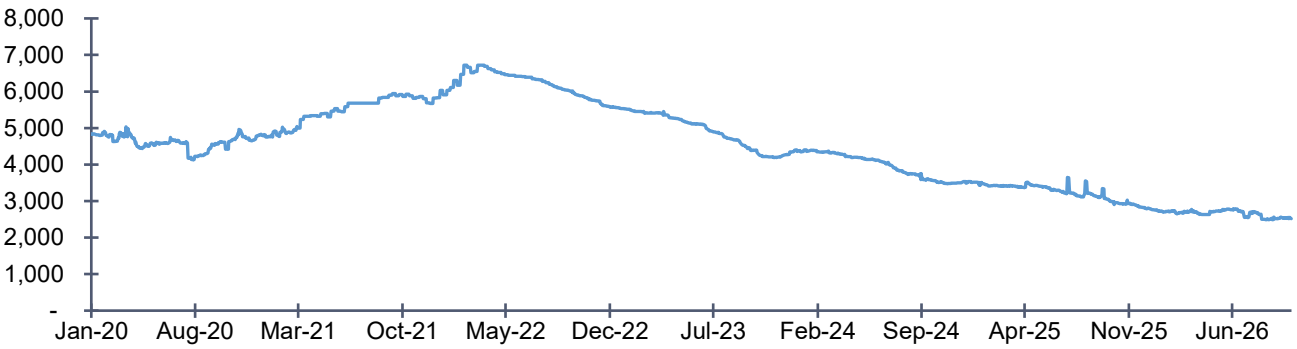
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Overview

The natural diamond industry is undergoing a structural reset. Lab-grown substitution, weaker demand in key traditional markets, geopolitical disruption, inventory correction and tighter financing conditions are placing pressure across the value chain.

The impact is increasingly bifurcated; larger, higher-quality natural diamonds have proved more resilient, while smaller and lower-value stones remain under greater pricing pressure. For businesses carrying higher fixed costs, inventory or debt, the key challenge is whether liquidity and capital structures can bridge an uneven transition.

Figure 1: Diamond Standard Index



Source: Bloomberg: Diamond Standard Index (DIAMINDX)

The diamond index has fallen materially from its post-Covid peak in 2022 (c.60% reduction),[1] driven by four structural factors:

1. **Lab-grown diamonds have structurally changed the value proposition**
   - Lab-grown diamonds have moved from a niche alternative to a mainstream jewellery category.
   - Falling production costs and expanding capacity have widened the price gap with natural diamonds and accelerated substitution in price-sensitive segments.
     - Wholesale price index in Q2 2026 was c. 96% below 2018 prices.[2]
     - Lab-grown centre stones accounted for 61% of U.S. engagement-ring purchases in 2025.[3]

   The key implication is not simply market share loss for natural diamonds. Lab-grown price deflation is resetting consumer expectations around size, price and value.

2. **The market is bifurcating rather than disappearing**
   - Lab-grown diamonds have become an increasingly credible substitute in price-sensitive consumer segments, replacing smaller, commercial and lower-value diamonds, while demand for larger, higher-quality natural diamonds remains more resilient.
   - Rapaport's Trade Diamond Index (RAPI), the polished 3-carat index saw a (0.3)% fall in price across 2025, compared to a (20.3)% decline in the 0.3ct index.[4]
   - The natural diamond industry is focusing heavily on marketing its differentiation, focusing on rarity and provenance of natural diamonds.

[1] Bloomberg: Diamond Standard Index (DIAMINDX) as of 30 September 2026
[2] Edahn Golan, After a 96% Decline, What's Next for Lab-Grown Diamond Prices? The Q2 2026 LGD Wholesale Price List, July 2026
[3] The Knot, Real Weddings Study 2026, February 2026
[4] Rapaport News, Diamond Market Cautious at Start of Year, January 2026

Overview

3. **Consumer demand is becoming more fragmented**
   - Diamond demand remains sensitive to luxury consumer confidence, but performance is increasingly divergent by geography and price point.
   - The U.S. and India remain relatively resilient, while mainland China continues to be weak. India has overtaken China as the world's second-largest diamond market, accounting for c.11% of global demand, behind the U.S. at over 50%.[5]
   - Supply chain transparency, traceability of diamond origins and social impact of mining continue to be a key area of concern with customers, in an industry that has faced challenges with these issues in its past.
   - **The strategic challenge is increasingly one of differentiation rather than price competition.**

4. **Supply is adjusting but not quickly enough to remove near-term stress**
   - Lower production, mine closures and deferred investment are beginning to rationalise natural rough diamond supply.
   - This may support a better-balanced market over time, but the benefit is unlikely to be immediate while inventory remains elevated, and demand recovery is uneven.
   - The key question is whether businesses can adapt their cost base, inventory and financing structures quickly enough to a structurally different market.

The industry challenge is no longer simply "natural vs lab-grown." It is whether natural diamond businesses can adapt their product mix, cost base and capital structures quickly enough to a structurally different market.

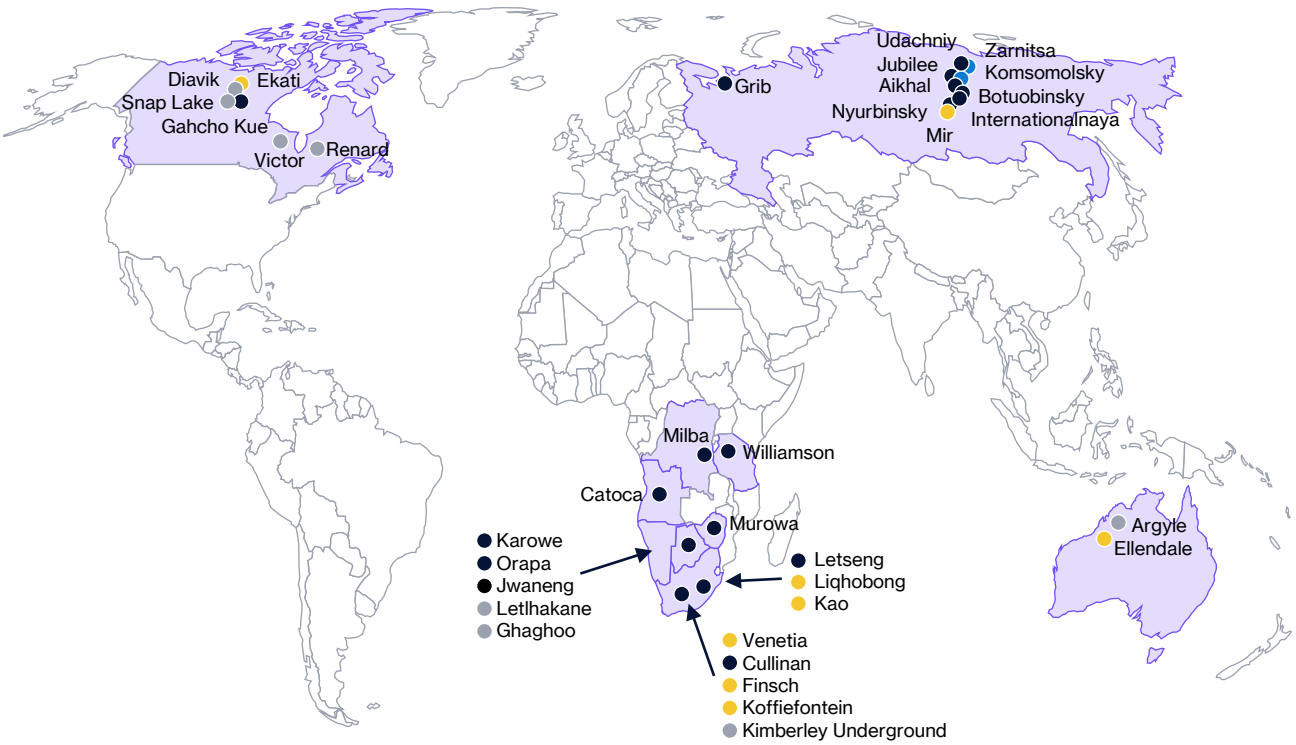


[5] McKinsey & Company and BoF Insights, The State of Fashion 2026, November 2025

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Industry Reaction

Figure 2: Selected Diamond Mines*



Key

- Producing mine
- Producing mine with mine life of <5 years
- Placed on care and maintenance or uncertain future
- Mine now closed

List of Closures / Placement into Care and Maintenance in 2026*

- August 2026: Finsch (South Africa)
- July 2026: Venetia (South Africa)
- July 2026: Kao (Lesotho)
- July 2026: Ekati (Canada)
- March 2026: Diavik (Canada)

Notes: *List of diamond mines not exhaustive
Source: Petra Diamonds FY24 annual accounts, Teneo analysis compiled from public announcements

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Industry Reaction

Businesses across the natural diamond value chain have had to respond rapidly to lower prices and structural changes in demand. Natural diamond suppliers are responding to the changing dynamics, but near-term and medium-term liquidity pressure remains.

Primary producers: supply rationalisation and cost control

- Diamond miners are responding to weaker trading conditions by reducing production, cutting costs and deferring capital expenditure to preserve liquidity and reduce the risk of persistent oversupply.
- De Beers has proposed a two-year production pause at the Venetia mine to reduce costs and rephase underground capex, while other assets have closed or moved into care and maintenance.
- For some producers, the downturn has resulted in more acute financial distress. Ekati has closed following the receivership of its owners, while Rio Tinto's Diavik mine ceased production in March 2026 following depletion of its economic reserves.
- Global natural rough diamond production is forecast at c. 95m carats in 2026, 36% less than the c. 150m carats produced in 2017.[6]
- Mine closures, production cuts and limited new supply may support prices over time. However, recovery will also depend on inventory normalisation and sustained consumer demand.
- For lenders, production cuts can preserve long-term asset value but may create a near-term funding requirement before operational cost savings are realised.

Midstream: falling prices create a working-capital squeeze

- The midstream may find itself particularly exposed given its inventory-intensive model and long cash-conversion cycle. Rough purchases are often financed, while reduced demand may see polished diamonds remain in inventory or be sold to customers on credit.
- Falling prices can therefore create a **two-sided liquidity squeeze**:
  - inventory acquired at higher prices may require write-downs, while falling collateral values may reduce borrowing availability as inventory takes longer to convert into cash.
- De Beers has identified surplus midstream inventory and cautious restocking as contributing to weaker rough-diamond trading conditions.[7]

Early Signs of Stabilisation but Recovery Remains Uncertain

- Supply reductions are beginning to show tentative signs of supporting prices with Rapaport's RAPI 1-carat index rising by 0.5% in August 2026, its first increase in 15 months.[8]
- For lenders, the key question is not only to what extent diamond prices will recover, but whether the businesses have sufficient liquidity and capital flexibility to bridge the period until
they do.

A structural reset also has implications for valuation and debt capacity. If lower pricing or weaker profitability proves persistent, some businesses may need to operate with lower asset values, reduced leverage capacity and a capital structure calibrated to a lower level of sustainable earnings.

[6] Paul Zimnisky, Diamond Supply is Precipitously Falling, May 2026
[7] De Beers Group, Interim Financial Results for 2025, July 2025
[8] Rapaport News, Diamond Price Recovery Broadens Further in August, September 2026

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Industry Reaction

Trade concentration, sanctions and tighter financing are increasing pressure across the diamond value chain.

Trade concentration amplifies disruption

- The diamond value chain is highly concentrated: India is the key global cutting and polishing hub, while the UAE is a major rough-diamond trading centre. India accounts for c.40% of global rough-diamond import volumes, with the UAE accounting for a further c.35%.[9]
- This concentration means disruption in either hub can transmit quickly across the wider value chain, affecting the timing and availability of rough supply, inventory levels, margins and working-capital requirements.
- Recent events illustrate the exposure: Middle East conflict-related flight disruption delayed diamond tenders and shipments through Dubai,[10] while changes in U.S.–India tariffs have placed additional pressure on the Indian cutting and polishing sector.[11]
- Against this backdrop, India's cut-and-polished diamond exports declined 8.5% in FY2025/26, following a 16.8% decline in the prior year.[12] This reflects broader market weakness and should not be attributed solely to tariffs or logistics disruption.

For midstream businesses, trade disruption can quickly translate into higher costs, slower inventory turns and greater liquidity requirements.

Sanctions and provenance are increasingly financing issues

- Russian-origin diamond restrictions have increased the importance of traceability and origin records across the supply chain.
- Russia accounted for c.32% of global rough diamond production by volume in 2025.[9] Restrictions on Russian-origin non-industrial diamonds remain in place across G7 and EU markets.
- For lenders, this creates a wider collateral issue:
  - inventory needs to be both valuable and saleable;
  - origin and sanctions compliance can affect realisable value; and
  - assets that cannot access key markets may provide less effective collateral support.

Liquidity will determine who can bridge the downturn

- The prolonged market weakness is increasing pressure on businesses with high fixed costs, committed capex or short-dated financing.
- Long-life assets may remain fundamentally attractive, but could still require covenant resets, capex deferrals, refinancing, new equity or broader stakeholder support to bridge a prolonged downturn.

The key risk is that concentrated trade flows and tighter sanctions / provenance requirements reduce both liquidity and the realisable value of inventory used as collateral.

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[9] Kimberley Process Certification Scheme, 2025 Annual Summary Charts, August 2026
[10] Reuters, India's jewellery exports and diamond imports disrupted as Iran conflict escalates, March 2026
[11] Crisil Ratings, Tariff hike to cut revenues of diamond polishers 28-30% this fiscal, August 2025
[12] GJEPC India, India's Gem & Jewellery Exports in FY 2025-26 at USD 27.72 Billion Signals Structural Reset Towards Broad-Based Growth, Reducing Dependence on a Single Market, April 2026

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Financial Risks

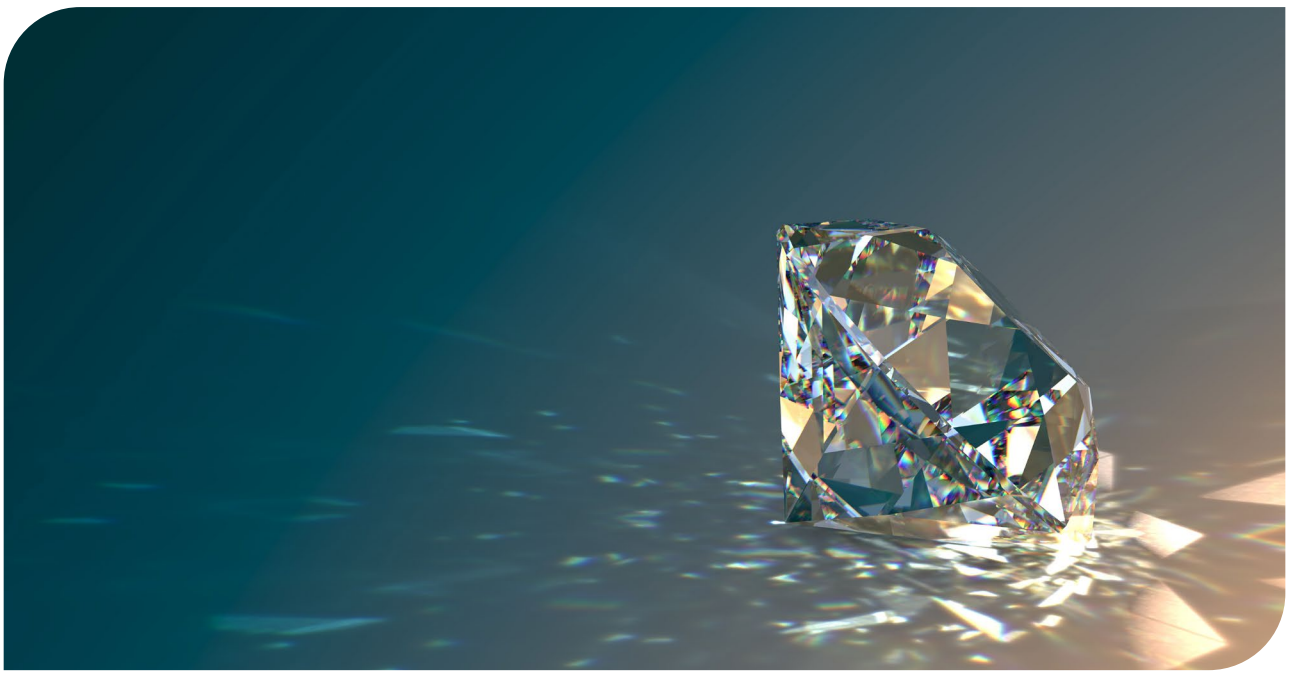
How Structural Disruption Becomes Financial Risk

01
Technology & Consumer Demand
- Lab-grown adoption
- Changing value perception
- Geographic divergence

02
Price & Product Mix
- Natural price pressure
- Bifurcation by size/quality
- Falling lab-grown prices

03
Operations & Working Capital
- Inventory markdowns
- Slower stock turn
- Production cuts
- Capex deferrals

04
Cash & Credit
- Borrowing-base pressure
- Covenant risk
- Lower debt capacity
- Asset valuation / impairment
- Refinancing need



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Financial Risks

Where Financial Pressure Is Most Likely to Emerge

The financial impact is driven by both pricing pressures and by how quickly businesses can adapt their cost base, inventory and financing structures to a structurally different market.

Value Chain

Upstream
Primary producers / miners

Product Mix, Cost Position and Capital Structure Will Determine Resilience

- Product mix matters: smaller and lower-value stones remain under greater pricing pressure as the market bifurcates.
- Operating leverage is high: lower realised prices can translate quickly into EBITDA and cash-flow pressure.
- Valuation and debt capacity may reset: if lower pricing and profitability prove structural, asset values and sustainable leverage may need to be recalibrated.
- Capex flexibility is critical: deferrals can preserve liquidity but may reduce future production or asset value.
- Capital structures need to reflect mine life and downside liquidity requirements: financing should provide sufficient headroom to withstand a prolonged recovery period.

Key Risk: viable assets can still become distressed if liquidity runs out before pricing recovers, or if valuations and debt capacity reset below existing capital structures.

Midstream
Cutters, polishers and traders

Inventory Is the Central Financial Risk

- Slower stock turns and falling prices can create inventory write-downs and borrowing-base pressure.
- Trade concentration amplifies disruption: tariffs, sanctions or logistics changes affecting India or Dubai can quickly increase working-capital requirements.
- Volatility can create trading opportunities, but only where businesses retain sufficient liquidity and inventory discipline.
- Receivables are equally important: slower customer payments can extend the cash cycle.

Key Risk: businesses can face a two-sided liquidity squeeze as stock becomes harder to sell and less valuable as collateral.

Downstream
Jewellery retailers

Lab-Grown Diamonds Create Opportunity but Margin Durability Remains Uncertain

- Higher volumes and attractive margins have supported lab-grown growth to date.
- Falling lab-grown prices may reduce jewellery retailer gross profit per transaction as retail pricing catches up with lower wholesale costs.
- Natural and lab-grown diamonds increasingly require different pricing, merchandising and marketing strategies.
- Inventory risk is asymmetric: natural inventory may turn more slowly, while lab-grown inventory can face rapid price obsolescence.
- Consumer appetite: the key question is whether lab-grown demand is incremental or cannibalising natural-diamond sales.

Key Risk: apparent growth in lab-grown sales may not translate into sustainable earnings for retailers if unit economics continue to compress.

Across the value chain, the common pressure points are the same: inventory, liquidity, operating leverage, valuation, debt capacity and the ability to adapt quickly to a structurally changing market.

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How We Support Clients

Structural disruption can create liquidity and capital structure pressure even where the underlying business or assets appear to be fundamentally viable. We support companies, lenders and investors through periods of uncertainty, from early-stage planning through to implementation.

The objective is not simply to bridge a downturn. It is to determine whether the business plan, valuation and capital structure remain appropriate for the market that emerges from it.

Supporting Borrowers Through a Business and Capital Structure Reset	Supporting Lenders and Investors in Assessing Borrower Requests	Crisis Management and Event-Driven Support
Helping management teams establish a credible plan and engage stakeholders early. • Business plan reset: assess downside scenarios, asset-level economics, liquidity runway and sustainable earnings. • Liquidity and working capital: identify near-term cash requirements and opportunities to release or preserve liquidity. • Capital structure: assess sustainable debt capacity and options to address upcoming maturities or covenant pressure. • Stakeholder engagement: prepare for and support discussions with lenders, shareholders and other key stakeholders. • Refinancing and recapitalisation: develop and execute refinancing, new-money or broader balance-sheet solutions.	Providing an independent view of business viability, liquidity requirements and the appropriate financing response. • Independent business plan review: challenge assumptions on pricing, volumes, costs, capex and recovery. • Liquidity assessment: determine the quantum and timing of any additional funding requirement. • Valuation and debt capacity: assess sustainable earnings, asset values and leverage under a structurally different market. • Amend and extend / waiver requests: assess whether proposed covenant resets, maturity extensions or new money are appropriate. • Options analysis: evaluate refinancing, restructuring and enforcement alternatives and likely stakeholder outcomes.	Helping stakeholders respond quickly when market disruption becomes an immediate liquidity issue. • 13-week cash flow and liquidity management. • Rapid downside and contingency planning. • Working-capital and inventory analysis. • Stakeholder coordination and communications. • Emergency funding and new-money assessment. • Restructuring planning and implementation where required.
Typical trigger: a fundamentally viable business facing a prolonged market reset that its existing plan or capital cannot sustain.	**Typical trigger:** a borrower seeks additional liquidity, covenant relief or an extension to existing facilities.	**Typical trigger:** a sudden price, demand, trade or event-driven shock creates an immediate funding requirement or threatens business continuity.

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