



A Diamond in the Rough

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Lucara Diamond is a classic FMT Investment Advisory *Special Situation*. The business has the following characteristics:

- a. An aligned management team and board of directors who own 21% of the common shares
- b. Profitable (has paid out \$257 million in dividends since 2014)
- c. A strong balance sheet with no debt
- d. An attractive valuation (9.7x TTM earnings) with earnings near a trough
- e. **A strategic, free call option** within the company that could turn the company into an absolute powerhouse by displacing an inefficient, 100-year-old archaic supply chain and becoming the go-to source for diamond retailers, manufacturers, and many other producers with Lucara's proprietary, technological system, adding enormous incremental value to all prospective customers that utilize their system.

On the surface, Lucara Diamond is another nondescript miner that has profitable operations, albeit lumpy, at *just one* location in Africa. At best, Lucara appears to merely pay a higher than average market dividend for investors in an extremely *cyclical* industry.

That overview will catch the attention of very few investors and looks like an easy pass when there are thousands of other choices to shift through.

Those seeking income tend to be conservative investors who lean toward safety and stability. A dividend-paying company like Lucara that *has* been defined by a single mine in Botswana doesn't exactly conjure up the images of safety and stability for widows and orphans.

Those investors looking for growth over the last few years would have found little to get excited about in Lucara at 20x earnings in the cyclical world of mining diamonds.

Therefore, Lucara hasn't been particularly interesting to anyone over the last few years for good reason: It simply hasn't offered much in the way of value, safety, or growth in recent years. In

fact, Lucara Diamond was selling at a price per share of USD \$2.43 *over 4 years ago* and is at a price per share of USD \$1.63 today.

Aside from collecting some dividends along the way, Lucara has been a rotten investment for years.

The recent stock chart of Lucara is so ugly that it looks more like the death spiral of a company headed into the trash can of investment history (as it has grinded over 50% lower since the middle of 2016) than it does a current opportunity.

But this is exactly why Lucara is a misunderstood and overlooked opportunity for investors today.

After dropping roughly 50% over the last couple years due to overvaluation and lumpy earnings on the downswing, Lucara's core business is now attractively priced at 9.7x TTM earnings, with a 4.7% dividend yield.

That data alone still isn't going to attract a lot of interest by the vast majority of investors.

However, Lucara's *current* operations should likely support the current market cap now that the multiples have come in.

But in addition to their already profitable state-of-the-art open pit mining operations, there is every indication that Lucara may be able to extend the life of its Karowe Mine by 10-years (to 2036) with underground extraction as well.

This doesn't sound exciting on its own, but if Lucara is successful in the extension of their mine life with underground site extraction, the shares become a bargain – and that is just considering their core operations, as a site extension would materially increase their output and profits going forward. But it gets potentially much better than this.

We Get Lucara's Next-Generation Growth Project, Clara, for Free

For a good overview on how Lucara could revolutionize the supply chain in the diamond industry, along with making every business along the supply chain more profitable and tracking diamonds from provenance to finger with modern efficiency while expanding on the Kimberly agreement, here is Eira Thomas, CEO of Lucara, with a stellar overview:

<https://www.youtube.com/watch?v=BTkdwFn-NzQ>

The following is Lucara's recent corporate presentation, which details Clara, the potential go-to, next-generation, modern supply chain that is ready to disrupt a 100-year-old inefficient monopoly. Skip to page 21 to get right into one of the best possible ways to invest in the blockchain today:

https://www.lucaradiamond.com/assets/docs/presentations/20180605_LucaraDiamondCorp_London.pdf

As noted in the aforementioned, we get the entire potential of Clara for FREE because in our analysis, the core mining operations of Lucara should and can support the price of Lucara regardless of how Clara plays out.

Lucara: Part of the Lundin Group of Companies

The company has 21% of the shares outstanding owned by insiders. More than just alignment of interest, Lucara being part of the Lundin group gives it an enormous advantage, trust factor within its industry, and industry reach to help make Clara Diamond Solutions potentially (Lucara's answer to a modern, more efficient supply chain for the diamond industry) the very real and new go-to supply chain should broad adoption take place.

Lukas Lundin is a master capital allocator in cyclical industries that are tough to create real lasting value, which Lundin has.

Should Clara gain broad adoption, Clara itself would have the economic attributes and competitive strengths that very well could transform this holding from a **Special Situation** to an extremely hard to make the cut **Superinvestor Wealth Compounder** holding.

Should that transpire, we're indeed going to be on a real diamond in the rough journey.

Sincerely,

Nicholas Green

CIO

P.S.: Our last Special Situation, name not revealed because of its tiny market cap, that we wrote about in May has been skyrocketing! Write-up here: <http://fmtadvisory.com/money-trends/huge-potential-ahead>

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