

# HARRY WINSTON DIAMOND CORPORATION

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CORPORATE BROCHURE

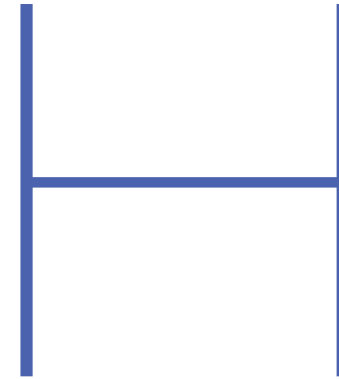


# *A multi-faceted business model*

Bob Gannicott, Chairman and CEO of Harry Winston Diamond Corporation, and Frédéric de Narp, CEO of the luxury brand Harry Winston Inc, talk about a unique business model, the expansion of an exclusive brand, and about living up to its founder's commitment to giving back







Harry Winston founded what has become the world's most famous brand in high quality diamond jewelry in New York in 1932. He soon became renowned for collecting the world's rarest and most beautiful diamonds, and also for giving back—the most famous gift being that of the Hope Diamond to The Smithsonian Institution in 1958.

The reputation of the brand was built on Harry Winston's extraordinary ability to connect very special stones to very special customers. Since Winston invented 'celebrity jewelry dressing', stars from Marilyn Monroe and Elizabeth Taylor to Gwyneth Paltrow and Angelina Jolie have graced the red carpet adorned by diamonds personally designed and crafted in the Harry Winston workshops. In this exclusive arena, the business needed only a few retail outlets, a function that was perfectly performed by the original salons in New York and Paris.

"Harry Winston's customers were very wealthy, and they tended to travel the world," explained Bob Gannicott, chairman and CEO of Harry Winston Diamond Corporation. "They would either visit the New York salon or one of the Winston staff would get on a plane and go to them."

The company continues to design and produce the most exclusive jewelry in the world, and with demand for diamonds increasing globally, Harry Winston is well advanced in a strategic move to broaden its customer demographic along with its geographical reach. "We will always retain that top end of the business, it's very important to

us," said Gannicott, "but our strategy is to build a bigger foundation below that."

"Harry Winston is the one luxury jewelry brand with the highest potential for growth," added Frédéric de Narp, CEO of the luxury side of the business, Harry Winston Inc. "In our 80 year history, we've only developed strongly in America and Japan. The rest of the world is still open for us so we are embarking on a large scale expansion of the Harry Winston brand." Demographic wealth trends support the expansion plans with the world's billionaires and millionaires growing rapidly in developing nations – China, India, Russia and the Middle East – while the trends in the US remain steady.

The expansion began a few years ago, and this would be a good time to introduce some historical perspective to explain the unique Harry Winston Diamond Corporation business model and the role that the luxury brand plays in the overall business.

If you've read our recent articles on the Diavik Diamond Mine, you will know that Harry Winston Diamond Corporation owns a 40 percent stake in the mine, with Rio Tinto holding the 60 percent majority share. Diamonds from the mine are split on a 40/60 basis, which puts Harry Winston in the unique position of being a supplier of rough diamonds to manufacturers in the cutting and polishing trade, and in turn, a customer for high quality diamonds from that very same source – operating at both ends of the diamond industry, mining and branded retail.



The story of this unusual business model begins with Aber Diamond Corporation, an exploration company formed in 1994 in Toronto. The name Aber came about because the company's first exploration was for lead/zinc deposits around Aberystwyth in Wales.

The discovery of diamonds in Canada brought Aber to the Lac de Gras area of the Northwest Territories to work in partnership with Kennecott Exploration, the exploration arm of Rio Tinto. When diamond bearing kimberlites were identified on the bed of the lake, Aber formed a joint venture with Diavik Diamond Mines Inc., a subsidiary of Rio Tinto that was created to develop the mine and operate it through its life cycle.

"We made the decision to build the mine in 1996, but production did not begin until January 2003," said Gannicott. "That gave us some time to figure out how best to handle selling the rough diamonds, because the diamond market is dynamic and continually changing. Rough prices are intrinsically linked to polished prices. Our

thinking was that only a jewelry company buying polished diamonds every day would have a true understanding of diamond prices and market trends that would allow us to accurately price the rough diamonds."

Aber's search for a partner in the jewelry industry coincided with jeweler Harry Winston's search for an investment partner, and their serendipitous merger created a unique business model. Aber acquired 51 percent of Harry Winston in April 2004 and enhanced that to 100 percent in 2006. In 2007 Aber changed its name to the globally recognized Harry Winston, and began trading with a secondary listing on the New York stock exchange.

Although the Harry Winston brand was already known as the King of Diamonds and Jeweler to the Stars, it was not fulfilling its potential. "When we first acquired Harry Winston, the company had essentially gone to sleep," said Gannicott. As with many visionary and dynamic leaders, the company's founder had been a hard act to follow.

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After his death at the age of 82 in 1978, his two sons had engaged in a long legal battle to gain ownership of the business and the cost of that battle and final settlement drained the company of capital. "The good news is that there had been no rash attempt to enter secondary product lines such as fragrances or handbags on the brand name," said Gannicott. "The brand was still in excellent condition, although the business had gone to sleep through lack of capital and focus."

The current strategy is to accelerate the store expansions around the world that had begun before Aber's takeover, and to develop a new

layer to the Harry Winston brand by expanding the bridal, designed jewelry collections and watch segments. At the time of writing, Harry Winston has 19 salons around the world in locations which reflect the global distribution of wealth. There are now eight salons in the United States, five in Japan, and others in London, Paris, Singapore, Taipei, Hong Kong and Beijing. The five year plan envisions a total of 50 salons with the majority of that growth planned for Asia, the Middle East, Russia and Europe.

Expansion into engagement rings makes perfect sense. "The bridal segment is a natural fit for Harry



Winston,” said de Narp. “The US accounts for 39 percent of diamond consumption around the world. There are 2.3 million weddings a year and 1.9 million engagement rings are sold, so there’s a huge opportunity to grow market share in the bridal segment.” Harry Winston’s bridal business is expected to grow more than 30 percent this year. China represents one of its biggest future opportunities as engagement trends support the growth in diamond engagement rings.

Alongside engagement rings, Harry Winston is also developing the watch side of the business. These are manufactured in Harry Winston’s owned and operated timepiece facility in Geneva, the Swiss watch-making capital. Harry Winston

established legitimacy in fine timepieces through the development of its Opus collections, and this year it launched the Opus 11, the 11th in the series. The limited edition set of 100 watches immediately sold out when it was presented at the Basel World Watch Fair. Its more complicated Histoire de Tourbillon timepieces, produced in limited-edition series, have a waiting list of collectors.

Historically, Harry Winston watches were targeted at the top of the market, with an average retail selling price of around \$50,000. Highly complex timepieces were aimed at the male customer base and diamond encrusted watches for women. While retaining these

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top end timepiece products, the company is introducing an additional layer of products for a previously untapped customer base spending in the \$14,000 to \$30,000 range per timepiece.

As for the designed jewelry collections, de Narp states, “The other segment not previously covered by the brand is the independent woman between 25 and 45 years old. We wanted to enhance our product line, especially in jewelry, for the younger autonomous woman who wants to buy something a little bit more accessible, but still priced between \$5,000 and \$50,000. Five thousand dollars is the most accessible price at Winston but our competitors have their most accessible prices at essentially one tenth of that. This makes Winston ten times more exclusive.”

Even with these more accessible lines, Harry Winston still uses IF to VS2 clarity – internally flawless to very small and no visible inclusions – and DEF color stones, the highest color ratings set by the GIA (Gemological Institute of America), the so-called colorless or pure white diamonds.

The advantage the company gains from being both a supplier of rough diamonds and a customer for high quality polished diamonds is the knowledge of both ends of the market. “The big plus that we have and the uniqueness of the business model is that we position ourselves as a pure diamond player,” said de Narp. “It’s not a vertical integration model as we don’t engage in cutting and polishing the diamonds, but because we sell rough diamonds to polishers we can trade more easily for the polished stones we need for the luxury brand. We are a trusted player, and that’s part of the mindset. The world of diamonds is a world of trust.”

Harry Winston is unique in the industry as a true diamond company. Gannicott believes this combination provides a competitive advantage to both sides of the company’s business – giving the company better pricing on its rough diamonds and better access to the world’s finest and most rare diamonds for the jewelry.

The new strategy also has implications for the salons themselves, which must adapt to cater for a broader product range and new customer groups. “We’re redesigning our salons to make them much more approachable,” said Gannicott. “The original stores were frankly rather intimidating, even for people with the wealth to afford Harry Winston products, let alone for young people in their 20s looking for an engagement ring.”

The new salon design creates a relaxing and comfortable environment and enables staff to provide a personal and intimate experience for young couples looking to express the lifelong commitment that engagement represents. The first of the newly styled salons opened this year



in Las Vegas, and is a model for more to come.

“We developed a new store concept with famed architect Bill Sofield, which we introduced in our Las Vegas store,” added de Narp, “and it’s extremely successful. The concept is for the façade of our stores to be less intimidating, more welcoming and more transparent. Inside the salon we have separated the spaces so that every client can feel at ease. So in the future, in the major flagship store we are building in Shanghai, for example, inside the store you will see a watch salon, a bridal salon, a jewelry collection salon and a high jewelry salon. You will have someone trying on a tiara or a \$1 million necklace in the high jewelry corner, and in separate corners of the salon you will have a young couple trying on \$5,000 engagement rings, and a timepiece customer in our watch corner nearby, so there will be separate spaces for every customer to feel at ease.”

Given the value of trust in a business like this, might the company’s star customers find their exclusivity eroded by an extension of the brand into ‘more accessible’ product ranges? Not at all, said de Narp. “You can still do more in the high jewelry segment at the same time as you develop the more accessible products,” he





insisted. “We are doing more in the high end segment—more PR events, more high jewelry collections. I am currently launching a new high jewelry collection called ‘Ultimate Adornments’. It’s a beautiful collection of high jewelry priced between \$30,000 and \$6 million. Every year and a half or two years we launch a new high jewelry collection, so we are bringing more collections to high end clients, or bringing the clients to the high end pieces.”

A shining example of this kind of event is the celebration in New York last year of the 50th anniversary of the donation of the Hope Diamond— a 45.52 carat deep blue diamond considered to be the rarest gem ever found on Earth. It has been described as the most famous diamond in the world, and after the Mona Lisa, is the second most-visited museum artifact in the world.

The diamond was discovered in India 350 years ago, and although its history is not clearly

documented until the 1800s, it is said to have passed through many famous hands, allegedly including the French monarchy in the 17th and 18th centuries (when it was known as the Tavernier Blue or the French Blue). Although the word “hope” has been exploited over the years for obvious reasons, the diamond became known by this name only after it came into the hands of an English banking family. It was displayed in the Great Exhibition of London in 1851, when it was owned by one Henry Thomas Hope. Harry Winston purchased the diamond in 1949 and today, over five million people go to the Harry Winston Gallery in the Smithsonian every year to view the Hope Diamond.

“When we celebrated the 50th anniversary of the donation we organized a Court of Jewels in our New York salon and the Hope Diamond came home,” explained de Narp. “We surrounded the Hope with a tremendous assortment of jewels worth \$1.5 billion, just for two days. It was the

most important exhibition of high jewelry and gemstones ever put together in the industry by any brand name. This is how we cultivate the high jewelry segment through the association of Harry Winston with the most beautiful gems in the world.”

The donation of the Hope Diamond to the Smithsonian has created a legacy of “giving back,” which resulted in the creation of the Harry Winston Hope Foundation in November last year, based on the belief that education is the key to creating opportunities for young people around the world to embrace hope and achieve their dreams. The Foundation is committed to removing barriers for disadvantaged young people to obtain a quality education and the skills necessary to be successful in life. “Harry Winston was the ambassador of giving back,” said de Narp. “That’s in the DNA of the Harry Winston brand, so it’s important that we continue to honor the legacy and continue what Harry

created 80 years ago.

“We created the Harry Winston Hope Foundation for the celebration of the 50 year anniversary, and our donations are to support education around the world. Our first commitment was to give \$1 million to the Smithsonian Institution to help them with their educational projects.

“We are presently working with the Robin Hood Foundation in New York and have done a variety of events and activities with them, all related to the education of children around the world. We are also working with the International Youth Foundation in China.”

The diamond has a unique position in our society as the most enduring symbol of purity, love and hope. It would be impossible to sell into the top end of this market without a reputation for trust and integrity. These are characteristics that Harry Winston had in spades, and the company he created intends to guard that legacy.

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