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Conference Call Transcript

SIG - Q2 2010 Signet Jewelers Ltd Earnings Conference Call

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PRESENTATION

Operator

Good day and welcome to the Signet Jewelers quarter two results conference call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Terry Burman. Please go ahead, sir.

Terry Burman - ***Signet Jewelers Ltd - Chief Executive***

Good morning and welcome to the conference call for Signet's second quarter and half year results for fiscal 2010. I'm Terry Burman, Chief Executive and with me is Walker Boyd, Finance Director. The presentation deck we will be talking to is available from the webcast section of the Company website, www.signetjewelers.com. Before I go through our operating performance, Walker will give the Safe Harbor statement and review the financial performance for the quarter and year to date.

Walker Boyd - ***Signet Jewelers Ltd - Finance Director***

During today's call, we will in places discuss Signet's business outlook and make certain forward-looking statements. Any statements that are not historical facts are subject to a number of risks and uncertainties and actual results may differ materially. We urge you to read the risk factors and cautionary language in Signet Jeweler's annual report on Form 20F, filed with the SEC on April 1st, 2009. And other filings made by the Company with the commission which can be found on the group website at www.signetjewelers.com.

Additionally certain financial information used during this call are considered to be non-GAAP financial measures. For a reconciliation of those to the most data compatible GAAP financial measures refer to the Company's release, dated September 9th, 2009, available on the news section of the Company's website.

The key feature of the half year results is we made further good progress in executing our strategy for this year. Our objective is to enhance our position as the strongest middle market specialty jeweler by focusing on profit and cash flow maximization to further strengthen our balance sheet and reduce business risk. In the year to date we have maintained profitability and significantly increased cash flow in an extremely challenging economic environment. Simultaneously, we believe we will be able to gain profitable market share in a consolidating sector, by continuing to develop our established competitive advantages in customer service and staff training, supply chain expertise and merchandising,

including the development of differentiated products and our ability to use national television advertising, and the size of our budget to support our brands. These factors will also leave us best placed to take advantage when the market does recover.

Group same store sales fell by 5.3% in the quarter and by 4% for the year to date. This reflects a little slower performance in the second quarter in the US compared to the post-Valentine's period in quarter one. Sales strength in UK for the second quarter were unchanged from the first. The impact of space change in the US, added about 1.5% to sales as a result of the store openings last year. In the UK space had a positive impact of 3.9% in the quarter and 3.2% year to date, largely attributable to the timing of the refit program.

As a result, total sales for the group at constant exchange rates fell by 3.2% during the second quarter and by 2.2% to just under $1.5 billion for the six month period. The strength of the dollar against sterling had a major adverse impact on reported UK sales. Q2 was again profitable, generating income before tax of $38.5 million and earnings per share of $0.32. Excluding the $10.5 million relisting cost in fiscal 2009, and the constant exchange rates, operating income was a little down in the second quarter but at $99 million for the year to date, ahead of the prior year. Current year to date income before tax benefitted by $10 million due to the change in UK vacation policy but refinancing costs of $53.4 million were incurred. The impact of exchange translation was not material in either the quarter or year to date results.

The 26 weeks' tax charge was $26 million, and the tax rate for fiscal 2010 is now expected to be 32.5%, compared to expected rate of the first quarter of 36.5%. This reduction reflects changes in inter-group financing arrangements and a favorable resolution of certain prior year past issues. Earnings per share for the 26 period -- 26 week period were $0.63, up 18.9% from the prior year of $0.53. Operating margin was up in the quarter by 40 basis points reflecting the benefit of improved merchandise margins in both UK and the US. The leverage benefits of cost reduction to the US offset the deleverage impact in UK. For the 26 weeks, operating margin was up 80 basis points, again reflecting improved merchandise margins in both divisions as well as the greater impact of US expense savings in the first quarter.

Let me turn to progress towards our fiscal 2010 financial objectives. For the year to date US gross merchandise margins are 60 basis points ahead of last year and 50 basis points up in the UK. For the year as a whole we continue to anticipate gross merchandise margin in the US will be at least level with that of fiscal 2009, with the benefit of mix and some softening in diamond prices offsetting continued upward pressure in gold costs.

For the UK as the weaker pound has an increasing adverse impact during the fourth quarter on the cost of gold and diamonds, we anticipate fiscal 2010 margin will be a little below last year. In the second quarter US expense savings excluding inflation, bad debt and volume impact amounted to approximately $17 million, resulting in half year savings of $49.5 million. A little ahead of plan towards achieving our targeted full year $100 million savings. A small amount of additional savings will be reinvested in national TV advertising during the fourth quarter.

Looking at the balance sheet objectives, capital expenditures in the first half amounted to $17.5 million and we remain comfortable with our full year objective of $55 million. We remain firmly committed to our long held criteria of a 20% IRR on our five year DCF basis for capital spend. As a result until we gain greater visibility for projections, both new store openings and refits are likely to remain well below long-term trends.

Group inventory at the half year is $147 million down on last year at constant exchange rates. We have successfully realigned our inventory during the period and now expect to achieve an additional $20 million saving to our targeted $100 million reduction of the group. While maintaining the capacity to invest in merchandise initiatives which we believe will deliver on return on investment. Net debt August 1st, 2009 was $200.5 million, down by more than half from the compatible figure a year ago. Gearing -- that is the ratio of net debt to shareholder funds on August 1st, 2009, was 11.8%.

There was a $270.2 million reduction in net debt in the 26 week period, rather normal seasonal increase and this reflects increased cash flow from operations of $130 million, up from $97.8 million last year. An inflow of $184.6 million from tight management to working capital compared to prior year's inflow of $47.5 million, a reduced level of investment of $13.2 million in US stores, and no distribution to shareholders. As a result of the progress on our financial objectives during the first half year, we now anticipate cash flows for the year as a whole to exceed our original target of $175 million to $225 million, and subject to develop in the economic environment, are likely to be in the range of $275 million to $325 million. The increase in projected free cash flow reflects the better than planned trading and a greater inflow from working capital including the benefit of some timing differences.

I will now hand you back to Terry.

Terry Burman - ***Signet Jewelers Ltd - Chief Executive***

Thanks Walker, looking firstly at the US business.

Total sales for the quarter decreased by 4%, to $552.5 million, and by 2.4% for the year to date. The average transaction price for the year to date was down again in both mall brands, by 7.3%, Jared by 9.3%. Excluding the impact of a new merchandising range reflecting consumer's trading down types of merchandise within categories rather than switching between store formats. For the mall brands, the fallen ASP was balanced by an 8% increase in transactions, reflecting a significant gain in market share. For Jared transactions were broadly similar including the benefit of new stores.

Same store sales fell by 5.5% in the quarter, a little more than for the post Valentine's period in the first quarter. Although there continued to be some adverse impact from clearance and going out of business activity, it was less prevalent than in the corresponding prior year period. For the quarter, operating income in the US was $50.4 million, similar to the comparable period last year. This included a benefit of $6 million, from the previously announced change in vacation policy. The improvement was driven by an increase in merchandise margin of 10 basis points over prior year, and a reduction in operating costs a little ahead of our plan. As a result year to date operating income increased by 10.2% to $106.8 million including a $10 million benefit from the vacation policy change.

The wider retail environment remains very challenging and the jewelry sector is not immune to the general economy. US government statistics for the first two calendar quarters record that specialty jewelry sales declined by 11.4%. Therefore, we have outperformed the specialty jewelry market in the year to date, driven by our mall brand same store sales being slightly ahead. Jared continues to be adversely impact by the general weakness in spending among households with above average income. However, we believe Jared also outperformed its sector in the market.

In contrast to many of our competitors we continue to use our strong balance sheet to support investment in new initiatives, and capitalize our established competitive advantages and to drive transactions. We remain highly focused on customer service with staff training, development and incentivization embedded into our culture and operations to give staff every advantage. We have been able to use our diamond sourcing expertise to maximize opportunistic buys in a softer diamond market which will bring additional value to our customers. Our differentiated merchandise ranges, such as the Leo diamond, Le Vian and Open Hearts by Jane Seymour will be expanded for the holiday season and enhanced by the rollout of our exclusive Loves Embrace collection across the division and Pandora and Jared.

We anticipate our promotional cadence will remain higher than in a more normal environment but campaigns will be carefully planned and targeted. As we announced earlier in the fiscal year we realigned our advertising spend to the lower sales level but have redeployed resource from radio and print to national television to mitigate the impact on one of our key competitive strengths. We will also reinvest some small additional cost savings to support our holiday TV campaigns, and still achieve our targeted $100 million expense reduction. As a result the anticipated impressions for Kay will be down mid single digits on last year and Jared will be up a little, maintaining our leading share of voice in the jewelry sector. Finally, we are taking advantage of the reduction in sector capacity that is taking place to gain market share.

In 2008 an estimated 1800 jewelry stores closed representing about 8% of space capacity or 5% of specialty sales. We continue to anticipate closures in 2009 to be in the range of 750 to 1500 stores -- a little less than in 2008 but still significantly ahead of historical levels. While it is impossible to track all the closures within the sector, a feature of the higher profile withdrawals has been the greater number of upper middle market closures this year compared to 2008. In addition, many of those competitors who remain in business continue to weaken as they are forced to make draconian cuts to expenses and inventory.

We continue to strongly believe that maintaining our in-house credit operation is a particular advantage in the current environment in which consumer's credit limits are being reduced or canceled. Relying on a third party provider for this important part of the offer to consumers brings an additional risk to sales. In line with our established practice of continuous improvement we have implemented a revised score card during the quarter. Analysis by our external providers showed an opportunity to amend one of our three score cards, which is resulted in an increase in approval rates for certain groups of customers. Early analysis of delinquencies are in line with expectations but we continue to closely monitor performance.

We've also continued to implement improvements suggested by our external consultants in collection strategies. For the year to date credit participation is broadly flat with approval rates up 130 basis points. As anticipated in the current environment, net bad debt to sales showed a further increase in year to date to 5% of sales, up 110 basis points on the corresponding period last year, partly attributable to lower recoveries.

As we derisk the business we are focusing on our strongest and most productive brands and formats. We expect to close approximately 75 stores in the current fiscal year, the vast majority being regionals, many of which are in malls where we are also represented by Kay. We anticipate net square footage to decrease by about 2% in the current fiscal year with the remaining closures occurring post the holiday season as short-term leases expire. The working capital benefit of these closures will therefore fall largely in fiscal 2011. Until we gain greater visibility on the

economic outlook we will be very selective in any new store openings. Therefore we anticipate a further space reduction of 1% to 2% in fiscal 2011.

Turning now to the UK business, total sales for the quarter were $158.3 million -- little change from the prior year at constant exchange rates. At reported rates they declined by 18.1% reflecting the continued weakness of pound sterling. For the year to date, total sale declined by 1%, at constant exchange rates, and by 23% at reported rates. The average exchange rate for the year to date was $1.54, in comparison to $1.98 in the prior year. H. Samuel same store sales were down by 2.5% for the quarter, with the average sale increasing by 9%.

Following similar patterns with our US brands, the more up market Ernest Jones brand saw weaker same store sales performance declining by 6.2%. The average sale was up by 4.7%. The increase in ASP reflected both price increases implemented to counteract higher input costs due to the weakness of sterling and higher gold cost and mix benefits. In the UK the operating profit of $1 million in the quarter is attributable to an improvement in merchandise margin of 70 basis points, timing benefits on the Ernest Jones refit program and tight control of expenses. The year to date operating loss of $300,000 compares to operating income of $5.8 million in the same period last year, a robust result given the trading environment.

Although there are no reliable statistics available, we believe that the UK jewelry sector is also experiencing consolidation from withdraw of independents. As in the US, we continue to implement initiatives designed to further enhance our competitive position. Improvements in staff training, customer service and product knowledge remain a prime focus. Over 25% of holiday sales are expected to be from new products tested during the year. We will increase the level of targeted promotions, with additional key volume lines. We have used our scale and buying power to work with vendors to deliver product at exceptional value to consumers while preserving a healthy margin.

In marketing, H. Samuel will remain the only jewelry brand with the scale to utilize national TV advertising, as we use our experience to improve the effectiveness of our spend. We will again increase the focus on customer relationship marketing techniques. These were successful last year and we have identified opportunities to expand them further.

As in the US, all store investment has to meet a 20% IRR over a five year period. For H. Samuel there is limited store investment currently taking place. The estate was substantially refitted to open format stores before the slowdown. Furthermore, the design of these stores has proved to be much more resilient to wear and tear than the old format. Ernest Jones we are only partially through the refit program. Therefore, we continue to refit the most productive stores that satisfy our investment hurdle, but the 16 refits this year are down on the 31 carried out last year.

Overall UK capital expenditure is expected to be about $15 million, down $23 million on last year. This level of expenditure is consistent with the objective of $55 million, for the group as a whole.

In summary, our strong and experienced management team has the ability to capitalize and improve the competitive strengths of the business. We believe that we are driving market share gains by focusing on the productivity of our existing store portfolio, and reducing business risk. We are maintaining tight control of the business, appropriately realigning expenses and inventory, but still responding rapidly to any change in consumer behavior utilizing our capacity to invest in initiatives we believe will give us an ROI. In contrast to many of our competitors, our strong balance sheet leaves us in an ideal position to take advantage of the accelerated consolidation in the current environment as well as the eventual consumer upturn.

We would now be pleased to take any questions that you have. Operator?

QUESTION AND ANSWER

Operator

Thank you. The question-and-answer session will be conducted electronically. (Operator Instructions) Our first question is from Jeff Stein from Soleil Securities. Please go ahead.

Jeff Stein - ***Soleil Securities*** - ***Analyst***

Good morning Terry. Few questions. Wondering if you could just talk a little bit more about the operational improvement that you are expecting relative to where you were at previously -- I'm referring to the free cash flow estimate. Looks like $20 million of the improvement relative to where you were comes from lower inventories, the rest operational. You did reference trading, I presume that's sales. Could we assume that you were looking for more than the 5% or so sales drop on a comp store basis that we saw in the second quarter?

Terry Burman - ***Signet Jewelers Ltd - Chief Executive***

You can assume that we were -- that their original plan to start up the year was worse than the sales level that we're currently experiencing. Our margins are a little more favorable -- in addition our margins are also a little more favorable. That's obviously improving our cash flow and our expense reductions are a little more favorable. But the primary issue is that sales are better than we had originally planned for. And that's the key reason that the cash flow number has been -- has been increased. There is also some benefit from some other working capital improvements versus plan.

Jeff Stein - ***Soleil Securities - Analyst***

Okay.

Terry Burman - ***Signet Jewelers Ltd - Chief Executive***

It's not just the inventory on the working capital. There are some other issues in there.

Jeff Stein - ***Soleil Securities - Analyst***

And so would it be -- are those material items? So in other words inventory is $20 million, do the other items aggregate to another $5 million, $10 million?

Walker Boyd - ***Signet Jewelers Ltd - Finance Director***

I would say they are probably slightly more than that Jeff. There is two key areas. One is top-line sales have been a bit better than planned. So also have our extended warranty sales which clearly gives us a cash flow benefit more than it does give us a profit benefit. The revenues are -- the majority of the revenues are deferred over the period of the likely liability. We do get our higher cash flow benefit than we do get profit benefit. That deferred income goes into working capital. You have a benefit there.

As I mentioned in my discussion we have some timing benefits, obviously with profits, probably running higher we would have anticipated. Our year end accruals for things like field and home office bonuses, are also likely to be better than originally anticipated. That clearly is one of the timing benefits that I referred to. You are going to get these factors and another couple of less material issues. I would say that the impact on other working capital excluding inventory is certainly more than the $10 million you suggest.

Jeff Stein - ***Soleil Securities - Analyst***

Got it. Okay. Could you talk a little bit about the incremental ad spend that you are planning for the back half of the year. Are you far enough in that you could give us a little bit more detail on what you're planning to spend on advertising? Or at least how much more than you originally planned?

Terry Burman - ***Signet Jewelers Ltd - Chief Executive***

We know that some of the -- we are evaluating our advertising based on greatest ROI. And we believe our greatest ROI is from our TV advertising for Jared and Kay. So, we worked hard to redeploy from other spends -- eliminating some and reducing others, but not eliminating all other types of spends. We made better progress on that than we -- there was more opportunity there than we thought we had.

We also -- as I said earlier -- did ahead of our $100 million pace of reducing expenses. We felt that it was appropriate to protect our advertising, reinvest some of that better than planned expense reductions -- some of it -- into increased advertising to further protect our Christmas sales. In the -- at the end of the year -- we expect to maintain our 6.5% to 7% gross spend of advertising as a percent of sales.

Jeff Stein - ***Soleil Securities - Analyst***

Okay. Gross spend. So, that would be before co-op?

Terry Burman - ***Signet Jewelers Ltd - Chief Executive***

Yes.

Jeff Stein - ***Soleil Securities - Analyst***

Okay. Great, thank you.

Terry Burman - ***Signet Jewelers Ltd - Chief Executive***

You're welcome.

Operator

Our next question is from Ben Spruntulis from Citigroup. Please go ahead.

Ben Spruntulis - ***Citigroup - Analyst***

Good morning Terry, good morning Walker, one question from me. I'm interested -- given the broad range of possible outcomes for your fourth quarter revenues -- can you give us an update of your current buying plan and secondly what scope there is within your supply chain to increase stock levels [if demand hasn't improved].

Terry Burman - ***Signet Jewelers Ltd - Chief Executive***

That would be a great challenge to have -- to be able to have the -- we would welcome it -- to have the sales outpace our inventory. I call your attention to a couple of things, first of all our -- in jewelry, our inventories turn pretty slowly. There is a lot of stock on hand for us to meet excess demand.

The other thing I would say is we just have great planning systems and great planning teams. So between now and Christmas period, we will be doing projections down to the SKU level based on how merchandise is turning. And how consumers are responding to that merchandise and projecting out through Christmas total sales by SKU. To the extent we get a run on any individual SKU or product category or product program, we don't have to wait until the customer -- until the bigger sales last two weeks before Christmas. We will get a read on that, we will react accordingly during the October and November periods. We also have the ability to pull forward merchandise that's being accumulated for our -- for the Valentine's period after the first of the year.

So we have a lot of flexibility, but again would call your attention to our planning systems. We've invested very heavily over the last decade in planning systems for our inventory management team. And I just -- I think they're the best in the business. And they're a fantastic team. They've been challenged before by fast running products. They've always responded and helped us maximize our sales during the peak periods. I have every confidence that we are going to be able to meet any demand -- that excess demand that should face us.

Like I said we would welcome that challenge.

Ben Spruntulis - ***Citigroup - Analyst***

What are your lead times like then. What point in the -- through the fourth quarter -- coming up to the fourth quarter -- do you need to make the decision to go out to your suppliers and obtain more stock?

Terry Burman - ***Signet Jewelers Ltd - Chief Executive***

It would be misleading to give you our average lead times. It's really by product.

As I said, we will be following the rate of sale of each of our products in October and November. And we can project how our Christmas will -- what our Christmas sales to be based on those trends.

We also have stock that we can bring forward -- Valentine's we require support on certain product lines in case we have excess inventory demands. There's too many moving parts to characterize this -- what is our average lead time for products. To make special arrangements during the Christmas period in the fourth quarter to be able to bring product forward. It doesn't relate to our normal lead times.

Ben Spruntulis - ***Citigroup - Analyst***

Good problem to have if you have it. Thank you.

Terry Burman - ***Signet Jewelers Ltd - Chief Executive***

Yes, it is. If you look at the last two years where sales surprised us on the downside, and we wound up 1%, 2% over inventory, that will give you -- obviously it's going the other direction -- but gives you an idea of our ability to react -- the ability and the skill of our planning teams -- about these trends and to react to them right in the season. So they helped us well control our -- to keep our inventory very well controlled during the downside and then in past years where we had increases that were ahead of our projections, they reacted well and kept us in good stock.

Ben Spruntulis - ***Citigroup - Analyst***

Very helpful, thank you.

Terry Burman - ***Signet Jewelers Ltd - Chief Executive***

You're welcome.

Operator

Our next question is from Bill Armstrong from CL King & Associates. Please go ahead.

Bill Armstrong - ***CL King & Associates - Analyst***

Good morning. Couple of quick questions. The UK you had a 70 basis point gross margin improvement. Wondering if you could elaborate on how you were able to achieve that?

Walker Boyd - ***Signet Jewelers Ltd - Finance Director***

I think the main factor in terms of we tracked slightly better than anticipated in the second quarter and our UK gross merchandise margins is clearly one of the major events in that second quarter is the summer sale. As we went through that we used less discounting than we probably would have originally anticipated. Therefore I think the factors that drive or will drive the UK merchandise margin in the fourth quarter are still

the weakening of the sterling against the dollar and therefore an increased impact on gold and diamond costs. In the second quarter we have utilization of our discount budget which was less than anticipated. And hence we have ended up with a slightly better gross merchandise margin.

As a result of that, that's why we have changed slightly anticipation per UK gross merchandise margins for the year. If you recall at the end of Q1 we said they would be somewhat lower than last year on the basis of a better than anticipated performance in Q2, we now think probably closer to last year, but still down a little bit.

Bill Armstrong - ***CL King & Associates - Analyst***

Okay. And the vacation policy -- that was a $6 million benefit for Q2?

Walker Boyd - ***Signet Jewelers Ltd - Finance Director***

Yes. We said at the beginning of the year that it was basically it would be about $13 million no incurring benefit for a year as a whole. It does come through in the first three quarters, but no -- the unwinding of our normal accrual which is what happens as we have changed the policy because people take more holidays in the second quarter then it come through more disproportionately -- in the summer months than the rest of the year. We are anticipated by the end of the quarter -- third quarter -- that the annual benefit that we anticipate -- the benefit we anticipate for this fiscal year will be about $3 million in the third quarter bringing us to the $13 million for the year as a whole.

Bill Armstrong - ***CL King & Associates - Analyst***

Okay. So that was looks like a $0.05 a share in Q2?

Walker Boyd - ***Signet Jewelers Ltd - Finance Director***

Yes it would be in that region.

Bill Armstrong - ***CL King & Associates - Analyst***

Okay. And was that in -- is that in gross margin or SG&A?

Walker Boyd - ***Signet Jewelers Ltd - Finance Director***

It would be in SG&A.

Bill Armstrong - ***CL King & Associates - Analyst***

SG&A, okay great. Good quarter, thank you.

Walker Boyd - ***Signet Jewelers Ltd - Finance Director***

Thank you.

Operator

(Operator Instructions) Our next question is from John Baillie with Societe Generale. Please go ahead.

John Baillie - ***Societe Generale - Analyst***

Good morning gentlemen. A couple of questions looking forward if and when buying begins to grow again -- how will the cost be to trend up again or have you taken out costs that can remain out of the business? And, secondly, working capital as well, when we see sales growth again, have you changed the amount of inventory you need to carry in the business or will you have to build inventory again to meet higher sales levels?

Terry Burman - ***Signet Jewelers Ltd - Chief Executive***

In terms of the cost, there are -- we approached costs -- based on we didn't want to go through several rounds of cost cuts in order to get where we want. We went very deep in our cost cuts.

Along with our normal policy, some of these costs will be built back into the business as sales start to grow. For instance we have a policy of keeping advertising at 6.5% to 7% of sales. We think that that's one of our strengths, helps promote brand awareness, business intent, purchase intent, and in a more robust sales environment get an ROI off of greater advertising. We would build some of that back in. Store staffing -- we traditionally billed store hours at a lesser rate than the sales increase. We obviously get some productivity out of it.

On the reverse of, that we also cut store hours at a lower rate than sales were decreasing. That should give you a feel for that. There is a whole host of miscellaneous expenses, many of which would remain out of the business, some of which we might build back in. Much of the expense -- many of the expense cuts we took were a dismantling our store growth support teams. Those would obviously be dependent -- rebuilding those teams would be dependant on our growth strategy. So you got a real mixed bag of some expenses going back into the business and some not going back into the business. Clearly a surge in sales will -- would come. If we achieved a surge in sales, we would achieve some operating leverage in there because we would get the sales before we started building back in any expenses. Hopefully that answers your question.

John Baillie - ***Societe Generale - Analyst***

On working capital, do you think you can run with a lower level of inventory in the business or -- will that go back up again when sales return?

Terry Burman - ***Signet Jewelers Ltd - Chief Executive***

Again, we believe that we've got the right balance between sales and inventory. Our inventory turn and our gross margin return on investment -- as you see with a $120 million reduction in inventory across the group, it's less of an inventory reduction than the amount of -- than the percentage of sales that were reduced last year and are coming out this year.

Again, we increase inventory at a slower rate -- a lower rate than the sales build. We also decrease it at a lower rate. Same thing would apply if we got a surge in sales. We would start building our inventories to respond to increased demand. I think if you look at our track record in terms of our inventories, we keep them in good balance, we don't get -- any inventory would have some obsolescence built into it. That's just the nature of the -- of retailing. But, never had a problem with it, always kept our inventories clean. We would expect the strategy of building or reducing inventories at a lesser rate than the sales are going to continue.

John Baillie - ***Societe Generale - Analyst***

Can I ask about -- you talked about the differentiated merchandise and some tests and designs have gone well. [inaudible] material that might be for Q4 in terms of [inaudible] ranges.

Terry Burman - ***Signet Jewelers Ltd - Chief Executive***

In the US the biggest one would be the Loves Embrace campaign -- program, which we tested over Mother's day, developed a campaign much like we did for Jane Seymour. We will be rolling it out across all of our store formats. We are optimistic based on the tests this would be another excellent merchandising program for us. It will be supported by a strong advertising presence.

We've also broadened the Jane Seymour range -- consumers continue to respond to that very well. I'm very pleased with the response, so we have broadened that range. Again with test -- we will have tested items -- proven tested items to roll out into the marketplace. So those are a couple in the US.

Some of the newer items in the UK -- we've also got Loves Embrace that we are testing. We put in a program like is like Pandora, it's called Camelia in the UK, and we've gotten good response to that. That will be in all our Ernest Jones stores and some H. Samuels. The targeted promotions are working very well for us, so those developed products, valued engineered products are responding very well and we intend to continue pressing the bet on those -- on those kind of items.

John Baillie - ***Societe Generale - Analyst***

Thank you very much. That's useful.

Terry Burman - ***Signet Jewelers Ltd - Chief Executive***

You're welcome.

Operator

(Operator Instructions) As we have no further questions I would like to turn the call back over to Mr. Burman for any additional or closing remarks.

Terry Burman - ***Signet Jewelers Ltd - Chief Executive***

I would like to thank all of you for joining us in the Q2 results call. Before closing, I would like to remind you that our presentation at the Goldman Sachs conference tomorrow will be available by webcast, and there will be an opportunity to visit with management at the 34th Street Kay in Manhattan and at Jared near Newark on October 21st. Please note the change in the date for the October event. Again, thank you for participating and goodbye.

Operator

This will conclude today's conference call. Thank you for your participation ladies and gentlemen. You may now disconnect

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