Signet Jewelers Ltd at William Blair
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Corporate Speakers

- Ron Ristau, CFO, Signet Jewelers
- Tim Jackson, Investor Relations Director, Signet Jewelers

INTRODUCTION

Jack Murphy, William Blair: Good morning, it's Jack Murphy. I'm the e-commerce and hard-line retailing analyst here at William Blair. Let me welcome you today to our conference. We appreciate your attendance. I'm pleased to welcome today, Signet Jewelers. A leading specialty jewelry retailer that operates stores under various brands including Kay and Jared in the United States as well as, H. Samuel and Ernest Jones in the U.K.

We're excited to have with us Ron Ristau, the Chief Financial Officer of Signet, and Tim Jackson, who heads up the IR effort.

Before we turn things over to Ron, let me remind you that a complete list of research disclosures or conflicts of interest can be found at our website, williamblair.com. And with that, I would like to turn things over to Ron.

PRESENTATION

Ron Ristau: Thank you, Jack. Good morning, everybody. Before I start the presentation, here are just a few brief words about Signet. We originally started business as a U.K. listed company and we first entered the U.S. jewelry market in 1997, purchasing a small company called Sterling Jewelers.

We made a transformative acquisition of Kay Jewelers in 1990 and it has since come to become the largest U.S. jewelry retail company. At the same time, our shareholder base has gradually moved to the U.S. In September of 2008, when more than 50% of our equity was owned in the U.S., the primary listing was moved from the London Exchange to the New York Stock Exchange. We are now officially a company that files 10K's and Q's and reports using U.S. GAAP with the SEC as our primary regulator, this is part of background.

As a result, our two leading brands, Kay and Jared are very well known here in the U.S., but Signet is not. So, we are continuing to build our research coverage and welcome the opportunity to discuss the company here with you this morning. So, I hope you enjoy the presentation.

Okay, before we get started, here's our Safe Harbor statement I would reference you to. During today's presentations, 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 risks and other factors in cautionary language in the annual report on form 10K, which was filed with the SEC in March of 2010, and we also draw your attention to this slide.

Okay, so as I said, we operate the world's largest specialty jewelry company. Our group sales in 2010 were $3.2 billion. 78% of our business is done in the U.S. and 22% in the U.K. In the U.S., which accounts for the 78%, Kay is the number one brand that targets the middle market and targets people with the household income of between $50 and $60,000. Sales there were about $1.5 billion and we have 923 stores in 50 states. Jared, which is an off mall category killer concept, had sales of 722 million and we have 178 stores in 35 states. Jared is a leader in the upper middle market; it targets consumers with a household income of between $95,000 and $100,000. So, the two stores are targeted at different segments of the middle market.

In the U.K., we have the two leading brands in the U.K. market. H. Samuel is the market leader, and is targeted right at the middle market in the U.K. H. Samuel has sales of about 247 million pounds and 347 stores. Ernest Jones is targeted at the upper end of the middle market in the U.K. It has sales of approximately 209 million pounds and 205 stores, just as way of background.

Our strategy is to continue to enhance our position as the strongest middle market specialty retailer, taking advantage of capacity reduction, and weakened competition while continuing to invest in our sustainable competitive advantages, and I'm going to take you through those as we go through the presentation.

Recognizing that we're in a challenging environment, we have reduced our business risk by focusing on improving our store productivity, gaining market share rather than growing space with the current time, enhancing an already strong balance sheet, ensuring our financial flexibility, which is a major operating advantage in this sector, since many of our competitors are financially weak, and we have kept tight control on merchandising margin costs and inventory, and have produced very outstanding financial results which I will take you through. So, we therefore believe that the company is very well positioned for recovery in consumer spending, when or if it comes, work to compete in a more challenging environment, if economic growth continues to remain slow.

In fiscal 2011 we do not give earning guidance but we do provide some guidance on cash flow. We had an original target when we started the year, of free cash flow of between $150 to $200 million. We increased that in our conference call after the second quarter, to $225 to $275 million, as we've had better than planned net income on the year to date basis and continued tight management of our working capital positions. Our capital spending this years is expected to be approximately $80 million and under our current bar and agreements we will not have any share holder distributions in the year 2011.

When you take a look at Signet, the historical returns have been very, very strong. From 2001 to 2007, our average operating margin was 12.2%. Like many other companies, we were impacted by the slowdown in calendar 2008, and have started to see some recovery. We do not believe there's been any substantial structural change to the business, and over time we expect that we can return to historic performance levels.

In order for that to happen there are two main things which must occur. One, the recovery of credit performance. We do run our own credit card portfolio, and I will take you through some of the details of that. Two, increases in store productivity enabling us to gain some operating leverage on the expense structure. So, with these two things together, we believe we can return to our historic level of returns.

I'll take you through the highlights on a year-to-date basis, and I think they are quite exciting. Same store sales were up 5.2%. Total sales reached $1.5 billion. Operating income was up 50.3% to $148.8 million. Our operating margins in the first six months of the year increased 300 basis points. Our diluted EPS were up 69.8%. We generated positive free cash flow of $240 million, and importantly, as of July 31, 2010, we moved to a net cash position of $231.4 million, vs. a year ago we were in a net debt position of approximately $200 million. So that's a $432 million swing, and we are very proud of our accomplishments in that regard.

Let's talk a little bit about the U.S. division. It is clearly the market leader, nearly twice the size of our nearest competitor which is Zales. I'm sure everyone is familiar with the operating difficulties Zales has experienced lately. We have a consistent record of gaining share in the specialty retail sector. The market has undergone an accelerated rate of consolidation of stores over the last 2 1/2 years.

Since 1999, our share of the specialty market has increased from 5% to approximately 9% as we ended last year. And since then, we've done nothing but grow our share. Furthermore, as I indicated, many of our remaining competitors are under operating and financial pressure. Last year we increased our market share for the 50 basis points and we were able to further reinforce our sustainable competitive advantages, at a time when many competitors were simple struggling for survival. In the near term, as I said, our primary drivers of performance will be our ability to build store productivity by capturing more market share and improving the receivables performance.

The total specialty jewelry market in the United States is approximately $28.3 billion. The Kay and Jared shares indicated approximately 9.1%. The bridal category, which represents 45% - 50% of our business and is a very important competitive strength for our company, is a $13 billion market that encompasses engagement bridal and anniversary rings. Kay and Jared shared that market, as again 9% to 10%. We have many initiatives aimed at increasing market share in this key category, because we believe this is where we can leverage both our competitive strengths in merchandising with our ability to grant people credit. Oftentimes, with people in the bridal category, granting them appropriate credit is very important for the purchase because they're young in their

careers and they need credit in order to make those purchases. We're there to provide it in an intelligent manner.

Just to give you a brief background on what's been going on with the industry, over the last couple of years, we can see that many competitors have actually gone out of business, we see, Whitehall, Shane, Finley Specialty, Friedman's Jewelers, all of these companies have been liquidated over the last several years. Zales continues to close stores; even we have closed a few stores.

But, we generally have grown from 2004 to 2009; I'm one of the few people growing our store base in this time frame. So, as this consolidation continues, having the number one market share, we believe that much of that business starts to come over to us.

Why does that happen? It really happens because of our competitive advantages, which I think are very, very important for you to understand. The number one competitive advantage we have is excellent customer service and store experience, the quality of our people, the amount of money and time we invest in staff training, and our incentivation programs that drive people's performance in the stores, all leading, leading industry. With superior merchandising we are the leading middle market supply chain in expertise and in our merchandise systems.

In addition to that, we also have a record of developing differentiated product ranges that drive footfall to our stores, uniquely. We've developed a number of brands, represented by 20 percent of our business, where the brands are only sold in Kay or Jared stores and they are not sold outside of our store base, giving people another reason to come to our stores, uniquely.

Our marketing sales ratio is well above average. We're the only people doing national advertising at a large scale. This, combined with our leading brands, gives us significant lead in terms of advertising budget and top of mind with consumers.

Both Kay and Jared have the critical mass to advertise and national advertising is the most efficient and effective marketing challenge for middle market jewelers. In addition, our campaigns are also best in class, which further reinforces the advantage, I'm sure, everyone's familiar with, 'Every Kiss begins with Kay,' and, 'He's gone to Jared,' campaigns, which have been very, very successful campaigns for us.

We have very, very high quality real-estate, having applied, very, very strict investment criteria, consistently, over time. We do not take stores unless we have an actual prime location, which has served us well because quality of the real-estate in our fleet we believe is second to none. That's very important when you have economic stress as we've been having lately, and it has served us very well.

Importantly, the in-house consumer financing where we provide credit to customers, our credit system is designed to facilitate one thing and that is the sale of jewelry. It is not run

like a bank credit card. It is conceptually very different in its design and execution. It is designed to quickly give people credit and then to get paid rapidly.

Our credit portfolio has an average outstanding balance of approximately $1,000. We collect on average anywhere between 12.5% and 14.5% of the outstanding balances on a monthly basis, so that people are paying us back very rapidly. We have designed the system with higher minimum payments to eliminate credit risk or to minimize credit risks, and our aim is to really grant you credit and then have you pay us back, so that we can then grant more open-to-buy to purchase additional jewelry.

It is not a credit program driven by an increasing outstanding balance from $5,000 to $10,000 to $15,000. That's not the program. That's not how it works. The average has been $1,000 for a number of years, pretty close to 10 years, so that's the way it works. Of course, we believe we have, because of our ability invest and expertise the leading information systems in the sector, which give us a competitive edge at every turn.

I talked about the differentiated ranges. I just wanted to briefly run through a few of them to give you an idea of what they are, so you're clear about what I mean. We have the Open Hearts collection, which was designed by Jane Seymour. This is a very, very interesting and unique collection available only in our stores, a very successful program. We followed that up with a line of merchandise called Love's Embrace, which again is a unique design with the diamond encompassed by circles indicating love's embrace. It's very, very popular with consumers.

Leo Diamonds, which are in a sense a very brilliant diamond that has Le Vian, where we are the primary distributor of Le Vian in our stores. We have many, many unique designs that he does only for us even though they are designed and sold somewhat in the department store channel.

So, these things are very important for us, because they are again unique and available only in our stores. We find these to be very efficient programs. They lend themselves well to national advertising support. We also find that they're more efficient from an inventory and GMRI perspective because since the skews are more totally focused than say a commodity jewelry purchase, we get somewhat faster currents in these businesses. So, from all perspectives, these are very, very strong businesses and we continue to come up with a number of ideas to drive this forward.

One interesting phenomenon that we have, is that since we are the best manufacturing/ distribution supply chain in the business, if you're a designer and you have ideas where you're going to go in order to drive new merchandise programs forward at scale. I think we are probably the most logical choice for people and we find that many people just come to us with a consistent flow of ideas, which we find very encouraging for the future.

Year-to-date in our U.S. division, these are the sales and you can see year-to-date Kay has experienced same store sales of approximately 3.5%. We do have a small component of regional brands, which grew 2% and our Jared division accordingly grew 14.9% on a

comp store sales basis, leaving U.S. division results to be up 6.6% for the first 6 months of the year.

I would point out that Jared did experience the biggest downturn in comps last year, as people in the upper middle market really pulled back much more dramatically. So, we are getting a benefit as people in that area start to spend again. So, operating margin was 12.4%, up 330 basis points, and our operating income reached 154 million, up 44.6% in the first 6 months of the year.

Receivables portfolio, which I gave you some of the statistics as to how that works. This is what we saw. The receivables portfolio performance and this represents the first 6 months of the year, year end, year-over-year, so you've got a sense as to what this chart does and what you can see is the consistency of the performance over a number of years.

You stretch that back over a 10 year period and look on an annual basis and I'll show you that slide in a minute our rate of bad debts to sale was approximately 2.8 to 3.4%, and it stayed in a very narrow range over the 10 year period. We did experience, like everyone in the credit business, some diminishing of performances as we went into 2009 and fiscal 2010, but importantly, we've seen that start to turn around as we've gone through the first 6 months of 2011. It's starting to go back towards the historical levels, which we find very encouraging and we'll see how rapidly that occurs, but it seems as if it is has peaked and turned around and gone the other way, which is very, very encouraging.

When you look at it on a full year basis, which is this chart, you'll see that consistency of performance that I've talked about. It did reach a high of 5.6% of sales in 2010. That was the worst that the bad debt performance got and it has again now improved over the first 6 months of the year by approximately 130 basis points, and we're hopeful that that will continue.

I talked about how we would return to historic levels of margin. This chart, I think, is a very good indication of what the impact of bad debts was on the company. So, you can see that in 2000 and - it doesn't have the dates on there. My apologies. This is 2010. The operating ratio was 9.2%, 5.6% of that was the negative because of the bad debt.

So, as the bad debt returns to historic levels, that's the number one driver of the operating margin return to historic levels. Then, during the recession, what we did was we reduced our expense base, so that we also will benefit from leverage on increased sales, which is another thing, phenomena, you're seeing as to why the operating income is going up so rapidly as we come through the first six months of the year. So, we're very, very encouraged by this performance. That's really the story about how the operating margin recovers to a historical level. It's no more complex than that.

Okay. Let's talk briefly about our UK division. In the UK, we're very proud of the performance of our UK division. It is a number one and number two specialty jewelers in the UK market. It is the market leader. It is 1.7 times the size of its nearest competitor. We operate the number one and two specialty jewelry websites in the UK. This business

has had high historic operating margins and return on capital. It generates very good cash flow. They are tightly managing costs and merchandising margin in what is arguably a tough environment.

The UK business environment is generally, I would describe it even as a little tougher here than in the US. They do have some head winds, which they're fighting. We do believe they're doing a very good job of effectively scaling the business given what they are faced with.

When we talk about sustainable competitive advantages like in the US, we go right to the training and development of our staff. Since this is a personal selling business, somebody must show you the jewelry, take it out from behind the case, and convince you that it is a good purchase.

So, therefore, staff training and their ability to execute and close a sale is very important. Our staff training has been recognized by the National Association of Goldsmiths in the UK. We have scale and direct sourcing supply chain capability and merchandising expertise like we do in the US.

Approximately 15 million names in our marketing database for consumer relationship marketing. The shopping trend in regional malls continues to be favorable, as we have located more and more of our stores in regional malls. In the UK, the development of that type of business is probably a little bit behind what it is in the US, but we've repositioned our stores very favorably. Of course, we use U.S. best practices and they get access to the exclusive merchandise that we develop in the US. We've been launching some of that merchandise in the UK also.

Our physical performance in the UK year to date has been with comps run approximately flat, down 0.4%. Our operating income there was about $3.3 million, which is up $3.6 million from what it was the previous year, so we're really encouraged by that performance.

I will say the UK is even more seasonal than the US. They earn virtually, for all intents and purposes, all of their operating income in the fourth quarter during the Christmas season in the UK. So, it is a little more seasonal than it is in the US. We're looking forward to an interesting Christmas season.

One important point to point out about the UK Christmas season is that they're faced with value-added taxation, which we don't have here in the US. Value-added taxes will be going up in the UK from 17.5% to 20%. The government, however, has made that decision to enact those laws in January. So, hopefully, this becomes an incentive for people to buy during the Christmas season, but we never like to see the evaluated taxes go up.

This just points out the historic operating margin in the UK. It actually at a certain point in time was higher than that of the U. S. An average has been approximately 13%. It has

encountered difficulties during the recession with some head winds, but we're optimistic that it can get back to historic levels, although it may take longer in the U. S. because of the operating environment. The key driver there is store productivity. It's all about store productivity in the UK and driving up sales per store. That's how it gets back.

So, in summary, let me just recap the Signet strength, and then we'll take all of your questions. We are market leader in a sector which is undergoing rationalization. Many of our competitors are under operating and financial pressure. We do have a record of gaining market share as a result of our competitive advantages.

That's based on the quality of our sales people, the excellence of our customer service, and a great in-store experience, our ability to leverage supply chain leadership, the development of differentiated merchandising, our ability to advertise on national advertising and the size and scope of our advertising budgets and reach, the superior location of our stores, and in the U. S., particularly, our in-house consumer financing capabilities.

We're financially strong and have significant financial flexibility. This year we will have positive cash flow, ranging between 225 and 275 million, as I said at the outset. Importantly, one key thing that we've executed and it's now well underway, is our management transition.

There has been a change in both the CEO and the CFO. I'm new to the company, and I became the CFO in June of this year. Recently this week we announced that Mr. Mike Barnes, who is currently the COO and President of Fossil, will be joining us on December 1st and will take over as the President of Signet. He will be replacing Terry Burman, who has had a very long and distinguished career with the company, and will be retiring in January of 2011. So, we'll miss Terry, and we welcome Mike into the Signet family.

We would also point out that we have very, very strong divisional management teams which have considerable bench strength. Our U. S. division is led by Mr. Mark White. Mark has an outstanding career and over 30 years of jewelry experience, and Robbie Anderson in the UK provides very, very strong leadership there.

So, we would now be pleased to take any questions that you have. So, please feel free to let me know what's on your mind. Yes, sir?

QUESTION AND ANSWER SESSION

Questioner 1

Ron, can you talk a little bit about the importance of your operating margin [??]. Can you go through your [??] there? What have you done in the past, and what have you done now because of the unprecedented pressure and the consumer review? Does it go to collection

at a certain point in time? Do you try to collect yourselves? And do you ever reduce your exposure on your debt house?

Ron Ristau

I think that's a very good question. What I would point out is when we experienced difficulty in the credit portfolio; we feel that the difficulty in the credit portfolio was caused by sudden and rapid changes in unemployment. Because as it changed, what happened was, we found that we had experience that was spread throughout the portfolio. So there's no one particular attribute or type of person that was causing problems. It was really spread through people who previously had excellent credit and through no fault of their own became unemployed and had difficulty paying their bills. So, that was the experience that we had.

We did not significantly change anything about our credit operations or our credit scoring or anything else of that nature. We took a hard look at it to make sure that we were comfortable with it. We were comfortable with it and felt that as things recovered to a more normalized basis, and so today, even though unemployment is clearly unacceptably high by any standards, it's more stable. So, that our existing credit models are more effective at isolating who we should and should not grant credit to, and the models have become mathematically predictable again. I think that's probably the experience of many credit card companies, but we are very comfortable with our credit scoring.

We are continually looking at ways to make adjustments that make it more effective, but we have not made any substantial adjustments to that. What we have seen is that the consumers are much more aggressive at repaying their loans. They have gone back to paying more than the minimum payments, because in clothes and jewelry the psychographics are a little different than many purchases. If you are going to buy your wife or girlfriend an engagement ring, she really doesn't want you to have debt on that ring. So, there is a strong incentive and it is a little different than buying a TV or a couch or something that doesn't have an emotional connection to that purchase.

So, we found that people are taking it a little more seriously than they do other purchases, and that again speaks to our experience being focused on jewelry and being able to grant credit to people who want to buy jewelry and making that decision with a little more serious and careful thought than somebody who is trying to grant credit for everything.

Questioner 2

Do you ever take that to collection?

Ron Ristau

We do take it to collection. Yes, I'll explain our process. Our process is that we record a bad debt when our account becomes ninety days past due on a recency basis. So, ninety days, you become written-off. That doesn't end the collection process. What happens is,

the collection moves to a secondary tier in our collection process and is a much more intensive collection effort that goes on in order to try to get that money back. Up to and including, in some cases repurchase...

Tim Jackson

Repossession.

Ron Ristau

Getting back to jewelry, because we do retain a security interest. It happens in a minor number of cases but it can happen. Once we go through a process when then also sell off residuals to other companies and they'll go through it. So, it's a very rigorous process once it gets 90 days past due.

Yes sir?

Questioner 3

Let's talk a little about your capital plan. Your business generates cash flow and you are going to be buying stock and dividends with a piece of the capital.

Ron Ristau

Yes I think we have what is considered as a high class problem, but it is a problem none the less. The company is cash flow generative right now and where we stand on real estate is that we were growing the company's square footage historically by about 10% per year when we were aggressively opening up the Jared chain. That was driven by real estate development that was going on back in the good old days.

That activity has substantially slowed us so real estate development has slowed. We're ready, willing, and able to open up stores if we can find great locations. But since the activity has slowed over all there just aren't very many available right now. So the company will be cash generative for a while.

What we have said to people is that it is a board level decision. After Christmas our board will be looking at how we can create shareholder value and what we should be doing with cash. What would be an appropriate level of distribution and stock buyback? We have not made any decisions as to what we are going to do but we are aware that we are not in the business of warehousing cash so that we need to make some decisions. It will be after Christmas. Right now we can't do anything because we are restricted by our private placement notes that remain outstanding.

Questioner 4

What have you recommended to the board?

Ron Ristau

Oh, I can't go into that. I think that what I was saying, what the company has said about this, is that historically the company was a dividend payer. The dividend was discontinued in 2008 because of the recession and also the move to the New York Stock Exchange.

The company is, and Terry has said on many occasions, that if the company decided to re-implement the dividends it would most likely be along the lines of a U.S. retail company which would be at a little bit lower rate than a European company.

We have a new C.E.O. coming on board. What do we think the future growth prospects are? Where would we being applying capital as an alternative and then making an intelligent decision of what works best while maintaining the financial flexibility of the company that has served us so well. So more news to come.

Yes sir?

Questioner 5

Can you comment on the price of gold compared to your pricing?

Ron Ristau

Well, we certainly wish everybody would stop investing in the G.O.B. Other than that the price of gold has been going up rapidly and has gone up for a number of years. The company policy relative to gold price increases has been to maintain pricing so that merchandise margins are maintained. So, all along, as gold prices have gone up, the industry has a very successful track record of raising its prices in order to maintain margins. That's what we have to do. We do engage in certain activities, we do hedge some at the corporate level against gold price increases, but all we can do is slow it for a period of time.

We do have the advantage that, because our inventory turns a little bit better than one time per year, and because we have an average inventory costing process, we can see these increases coming at us. So as we sit down to do our annual budgets for 2011, we'll take a view as to what the average price of gold will be, and we will price against that.

The reason that the industry is successful is that there is always a range of prices available for consumers to choose. An example that I think is illustrative is Love's Embrace. The price range on Love's Embrace might be from $80 to $1800, depending upon what the consumer wants to buy. So when we price, we're always very cognitive of maintaining opening price points so that, for whoever can't afford a price increase, there's always something for them to buy in the store.

But as we slide up, there are so many different scales of quality and the way diamonds and products are put together, that we are able to effectively price without consumers having sticker shock. That has been the history of the industry. So we would hope that gold price increases would slow; it's certainly much easier for us if they slow. But if they don't, we will react through pricing.

Questioner 6

Can you comment on Blue Nile or other people doing internet selling?

Ronald Ristau

Well, I can only comment on Blue Nile as it relates to us competing against them. I think it's a very interesting company. They've done very great things. Blue Nile competes primarily in the certified stone segment of the market - loose stones that are certified - so you can buy them with a certificate and people understand what they are.
There's a small segment of people who are comfortable doing that.

Blue Nile's market share has been around one percent of the market, and we've seen that very consistently over a number of years. Where we compete against them is in loose diamonds. Our reaction to them was to lower our loose diamond pricing, because what Blue Nile has done to the industry is raise awareness of certain prices. So we are not at Blue Diamond price points, but we are certainly competitive with them.

Along the way, we have also gone through a substantial effort to build our own internet capability. Our internet websites, and the functionality of our internet websites, is every bit as good as that of Blue Nile. We have Build-a-Ring, and we also have a virtual inventory of about 15,000 virtual diamonds available on our website that people can look at. They can actually look at them under a microscope, which is a proprietary technology called 'view within a loupe' or something. Then you can take that stone and have it sent to a store where you can walk in and then do it in perspective before you make a purchase decision. So, we've built our own internet capabilities.

We've tried to make our internet work with our stores, which we think is the best way for us to go. So, we think internet business is terrific. It's been growing for us at double digit rates and we expect it to continue to do so. So, we're not as great but we think we're better because we offer the added advantage of being able to pick up that stone in the store. We find, in our research, that the number one reason that people buy jewelry is because of the relationship that they have with the sales person in the store.

So, that's why we continue to invest in training our sales people and continue to make that we have excellent in-store customer experience because that's very, very important for our competition, for us from a competitive perspective. Yes, sir.

Questioner 7

Can you talk again about the [??] strategy again by market segment. Many people are focused on a growth in consumer fields again. And those retailers that have flexibility [??] strategy, as they continue their square footage growth, they're in a much better position for growth than others. Those that are hostage to mall development have problems. Can you talk about, are there any of your price points that are more focused on the end mall traffic because of the nature of them or do you have flexibility [??] .

Ron Ristau

Well, actually, I would say our businesses; we have about 43% of our business, by volume, outside malls.

Questioner 7

Right.

Ron Ristau

So, 57% is in the malls. So, Kay and Jared are a natural mall off, mall split. Within Kay, the majority of our recent development has been in off mall format. So, it's been in outlets and lifestyle centers and some strip mall development.

So, we think that we have pretty, our footprints, our case store, which is about 1,400 square foot store, fits in a variety of different venues and works well. So, whether it be in the mall or in a very, very good lifestyle development or outlet, they all work, they work well.

But, again, we want a premium location within those, those centers. Even off-mall development has slowed along with malls. So arguably, you need some of that development work to come back for it to be very effective. Because we are not going to take being in a wing of the mall that's not primary. We've seen people do that and the results haven't been good.

If you look at our strategy and where we put stores and we have a little book here, if you want to after presentation; we'll show you where we think the primary locations are. It's pretty much always in a corner. We want that corner location. You've seen the case to where the cases can be right out on the lease line. You get a double opportunity to capture customer foot fall. Because customer foot fall's very important and you have to have that store productivity be over $1,000 a foot, to be successful in a mall.

So, you're not fooling around here. I mean, it's a very, very high level of traffic that is necessary to run a successful in mall jewelry store. Be it as it may, Jared is off mall, and it's a free standing store. So, it requires development and the availability of paths that have adequate vehicular traffic and there are a lot of individual demographic criteria that we have in selecting those sites.

As soon as it starts going, we are there. The developers know that we are number one, they know that we have the money, they know we have the expertise, they know that we are successful. So, as things start to happen, we are first to the phone call, but things have to be happening a little more. Yes, sir.

Questioner 8

Can you quantify the impact of previously written off receivables? Going back through the company, have you been able to collect so far this year?

Ron Ristau

Well, I would say is that when we report our Bad Debt Expense, it is net of any recovery that we make. So, it is already netted in that number. There hasn't been... there is no substantial re-info that effected the number. It stays within a time band that has been consistent, if you will. When we say that our Bad Debt experience is improving, that is because of operation improvements in our Receivable portfolio, not because of any particular flow from Bad Debt Collections. Yes, sir?

Questioner 9

Your stock [???] in the UK market, the general outlook, the austerity program is likely to kick in over the next few years. Are you looking to reduce Payroll?

Ron Ristau

Yeah, what I said during the presentation is that the UK market is certainly facing some headwinds because of the economy. The public sector is a much larger piece of the economy over there than it is in the US. The government has announced a 25% austerity program that they are going to announce in October. Everyone anxiously waits to see what that will look like, and what the impact on employment will be in the UK. I think that we would generally say it's a more difficult market because of the influence of the government.

Be it as it may, we have to compete in the UK market. For us, we have to stay on our plan of making sure that number one; we have great merchandise for people, and making sure that we continue to stress the In Store experience. Do you have any other comments you would make about it? The only thing I can tell you is that, it is a much more challenging environment; there is no question about it.

Questioner 9

Going back to the US side, what percentage of your competitor base has shuttered?

Ron Ristau

Well, an estimate on that during the recessionary time frame was that approximately 10 to 12% of the stores that were outstanding closed in the 2008-2009 time frames. Our take on that is that the level of closure continues to be higher than normal, but we cannot really put a specific number to it yet until we see the numbers out of the government, which we will see at the end of the year. It is a phenomenon which continues. Because of the price of gold and all the various things that are going on, if you don't have competitive advantages and if you can't develop a line of good, better, best merchandising strategies, you are going to be under significant pressure because of everything else going on in the market. We would argue that people without skill, if we feel pressure, they're going to feel it exponentially. So it just gets worse.

Questioner 10

This is a follow-up to a question you answered regarding Blue Nile. In looking forward two or three years, what percentage of your sales, do you think, will be made through your own internet efforts [??].

Ron Ristau

Well, we don't put a specific number to it. I will tell you that the business is growing double digits. Significantly above the average of the company have been internet sales. We find people increasingly using the internet to shop and then come into our stores. We believe that our state objective would be to have internet functionality second to none.

So, the result of that will be an increased internet business, growing robustly. We'll see how it all turns out. We haven't really specific number. I will tell you we are very focused on growing the internet business. There's also been an increase in interest on the use of bridal websites and the marketing through bridal websites. So the internet continues to be an emerging and formidable force within the industry and we will be there and we intend to be number one in that. So that's all I can tell you.

Jack Murphy

We want to, again, thank Ron and Tim from Signet for joining us and we appreciate your attending this presentation. Thank you.

Ron Ristau

Thank you very much.