FINAL TRANSCRIPT

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SIG - Q3 fiscal 2011 Results Announcement Signet Jewelers Ltd Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. You are currently awaiting the arrival -- and we are starting today's Signet Jewelers third-quarter results conference call. For information today's conference is being recorded.

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

Terry Burman - *Signet Jewelers Limited - CEO*

Thank you, operator. Good morning and welcome to the conference call for Signet's third quarter of fiscal 2011. I am Terry Burman, Chief Executive, and with me is Ron Ristau, our CFO.

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 review, Ron will give the Safe Harbor statement and review the financial performance. Please note that we will not be commenting on the fourth quarter during this call. Ron?

Ron Ristau - *Signet Jewelers Limited - CFO*

Thank you, Terry. During today's call we will in places discuss Signet's business outlook and make certain forward-looking statements.

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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 Jewelers' annual report on Form 10-K filed with the SEC on March 30, 2010, which can be found on the Company's 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 this information to the most directly comparable GAAP financial measures, please refer to the Company's release dated November 23, 2010, available on the Latest News section of Signet's website.

We are delighted with our third-quarter results reflecting the ongoing success of our competitive advantages and strong balance sheet. In particular, total Signet same-store sales were up by 7.2%, led by the 9.7% US comp store growth. This performance drove an increase in operating margin of 390 basis points and a return to third-quarter profitability.

Following these results we have raised our outlook for free cash flow to the high end of our previous guidance, that is $225 million to $275 million, before prepayment of the private placement notes and the resultant $47 million make-whole payment.

Total sales for Signet increased to $641.8 million in the third quarter of fiscal 2011 compared to $611.4 million in the third quarter last year. Total company comparable store sales for the quarter increased by 7.2% versus a decline of 1.8% in the prior year.

In the US, sales increased to $497 million, primarily reflecting a comparable store sales increase of 9.7%. In the UK, sales declined to $144.8 million reflecting a comp store sales decline of 0.6%, currency fluctuations, and the impact of space.

Year-to-date sales were $2.1669 billion compared to $2.0768 billion in the year-to-date last year. Total company comparable store sales for the year-to-date increased by 5.8% versus a decline of 3.4% in the prior year. In the US, sales increased to $1.7372 billion primarily as a result of a 7.5% increase in comparable store sales.

In the UK, sales declined to $429.7 million reflecting a comp store sales decline of 0.5%, currency fluctuations, and again the space impact. Reductions in store space lowered total reported sales by 1.2% in the third quarter and by 0.9% in the year-to-date.

Now, as you have seen from our release, we have made an adjustment for an immaterial accounting error in this quarter. The deferral period for extended service plan revenues and direct costs was extended. We have sold these plans for many years in our US division and they have been very successful, representing over $1 billion in sales since they were introduced.

This accounting change has no impact on free cash flow and an immaterial impact on the income statement. In the quarter, the accounting change has reduced sales by $0.9 million and diluted earnings per share by $0.01. Year-to-date it lowered sales by $8.6 million and diluted earnings per share by $0.06.

The cumulative impact to shareholders' equity on October 30, 2010, is $98.8 million with further balance sheet adjustments primarily to deferred revenue and deferred taxes. We estimate that the impact on sales and diluted earnings per share for fiscal 2011 would be about $14 million and $0.07, respectively.

Full details of this are in our press release and in the 8-K filing, both of which are available on the website. Also for your convenience, Signet has furnished on the website information on a quarterly basis for the period from the first quarter of fiscal 2010 to the second quarter of fiscal 2011 to reflect the correction of Signet's unaudited condensed consolidated balance sheet, unaudited condensed consolidated income statement, and unaudited condensed consolidated statement of cash flows.

This is for informational purposes only and is being provided to give investors and analysts additional information. There has been no change to Signet's previously reported consolidated operating results, financial condition, or cash flows. This quarterly information will be included in Signet's respective applicable future filings for comparative purposes. If there are any questions, please call either Tim Jackson or myself.

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Now let's turn back to our business results. The operating income improvement was $24.4 million in the quarter and $74.7 million year-to-date. This was primarily driven by the performance of the US division which increased profits by $23.7 million to $25.7 million in the quarter and by $71.8 million to $174.8 million for the year-to-date. The UK division improved by $2 million in the quarter and $5.6 million year-to-date and unallocated costs were up $1.3 million in the quarter and $2.7 million year-to-date.

In the quarter income before tax was $12 million, up $25.3 million, and diluted earnings per share of $0.07 were up $0.17. Year-to-date income before tax is $140.8 million, up $80 million or 131.6%, and diluted earnings per share are up $1.10 or 124.5%. The impact of exchange translation on net income was not material in either quarter or year-to-date results.

The tax rate in the third quarter was 50%; however, the tax rate year-to-date is 32.5% and this is anticipated to be the rate for the full year. Please note in the fourth quarter of fiscal 2011 our unallocated costs will increase, mainly due to CEO transition costs. These are currently estimated to be $7 million to $9 million, primarily reflecting amounts due our new CEO from his previous employment which he has foregone.

Importantly in the quarter, gross margin improved by $30.6 million in the third quarter and 350 basis points as a percentage of sales. This was primarily due to three factors.

First, an improvement in gross merchandise margin of 70 basis points with the US up 90 basis points and the UK unchanged. The US benefited from price increases, lower average diamond inventory costs, and reduced price discounting more than offsetting the higher cost of gold. Second, the US bad debt to net sales ratio improved by 250 basis points and, third, leverage on store occupancy costs in the US.

Our SG&A expense was $201.5 million for the third quarter, little changed from last year. As a percentage of sales they decrease by 90 basis points compared to the third quarter of fiscal 2010. Tight expense control across the enterprise combined with leverage on SG&A more than made up for a non-recurring $5 million benefit to expenses in the third quarter of fiscal 2010 from the change in the vacation entitlement policy last year.

Our other operating income was $26.4 million in the third quarter, down $2 million on last year, a 50 basis point negative impact on operating margin. This reduction primarily reflected the adverse impact of amendments to the Truth in Lending Act.

Our net interest paid decreased by $0.9 million or 0.2% of sales in the third quarter reflecting the prepayment of debt that occurred in the first quarter of the year. Again income before tax increased by $25.3 million to $12 million.

Year-to-date our operating margins improved by $74.7 million or 330 basis points. In the components, gross margin improved $90.2 million or 290 basis points, primarily driven by the US division.

Selling, general, and administrative expense increased by $9.8 million with tight underlying expense control partly offsetting a non-recurring $15 million benefit to expenses in fiscal 2010 from a change in the vacation entitlement policy. Expense management added 80 basis points to operating management year-to-date.

Offsetting these improvements was a 40 basis point or $5.7 million decline in other operating income, due to lower interest earned on the US consumer receivables as a result of amendments to the Truth in Lending Act. Net interest expense declined by $5.3 million or 0.3% of sales, and income before income tax increased $80 million or 131.6% to $140.8 (Company corrected after the conference call) million.

In the year-to-date free cash flow was $157.4 million against $318.8 million in the comparable period in fiscal 2010 with the increase in adjusted net income offset by a smaller working capital improvement in last year. In the year-to-date inventory was up by $125.9 million due to the normal seasonal build ahead of Christmas.

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In the first six months of the year the US had been running behind our inventory plan and we indicated that we expected this to change as we made the investment necessary to support our US growth. At the end of the third quarter US inventory per average store is up low single digits compared to the end of the third quarter last year, continuing to reflect an improvement in inventory turn. In fiscal 2010 we reduced inventory by $86.5 million as part of our planned inventory realignment program.

In the quarter receivables were down $87.6 million, broadly similar to last year; the reductions reflecting the seasonal pattern of sales. Our net cash flows used in investing activities were $39.5 million, up from $30.3 million in fiscal 2010, and were nearer to a maintenance level of investment. As a result, net cash at the end of the quarter was $148.2 million compared with net debt of $160.7 million a year ago.

Our strong cash flow generation has enabled us to put in place a more flexible financing structure and reduce our future interest payments. There are two elements to this. First, some amendments to our $300 million revolving credit facility which expires in June 2013. The most important changes being fixing the amount of the facility at $300 million, and the removal of restrictions on capital expenditure and shareholder distributions.

Second, the prepayment of the private placement note that takes effect on Friday of this week. This resulted in interest expense savings of $101.7 million over the remaining life of the notes. The prepayment involves a make-whole payment to noteholders of $47 million, including associated hedging costs.

The adverse impact on earnings in the fourth quarter of fiscal 2011 is estimated at $0.32 with the make-whole payment being marginally offset by a small interest savings. In fiscal 2012 the interest saving is estimated to benefit EPS by $0.13. With the prepayment of the notes their restricted covenants fall away.

I will now hand back to Terry.

Terry Burman - *Signet Jewelers Limited - CEO*

Thanks, Ron. Just before reviewing the business I would like to remind you of the other major announcement we made in the third quarter, the appointment of Michael Barnes as my successor as Chief Executive. Mike joins us at the beginning of December after more than 25 years with Fossil and there is a two month period during which we will transition the CEO role. We all welcome Mike to Signet.

Now looking at the US business, the primary driver of the improvement in the third quarter compared to the first six months was Kay with same-store sales up 8.6%. Bridal product and differentiated merchandise both performed very well. Kay's year-to-date same-store sales is now up 4.9%.

Jared, again, did very well in the third quarter with same-store sales of 14.3%. The year-to-date increase being 14.8%. As with Kay, bridal and differentiated merchandise were strong as was Pandora.

In the third quarter ASP, excluding the charm bracelet category, was up 6.6% for Kay, up 4.6% for the regionals, and up 6.9% for Jared. Overall, US same-store sales increased 9.7% in the quarter and 7.5% year-to-date. We are very pleased with this performance.

US sales were up 8.8% in the quarter and 6.8% year-to-date. While the economic environment was better than last year, it has remained challenging. Therefore, we believe that the main factors driving our performance were specific to Signet and its competitive strengths.

Operating income in the quarter was $25.7 million, up $23.7 million and year-to-date it was up $71.8 million, that is 69.7%, to $174.8 million. The operating margin increased by 480 basis points in the quarter and by 380 basis points year-to-date.

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We believe that our competitive advantages supported by our strong balance sheet were the primary factors driving our performance. These competitive advantages are our highly motivated and trained sales staff; our supply chain and merchandise expertise, such as our ability to source at highly competitive prices; and the development of differentiated product, a capability that has increased significantly over the last three years; by far the largest advertising budget in the jewelry sector due to our market leadership and well above average advertising to sales ratio combined with highly effective campaigns; our high-quality store locations; and our in-house customer financing.

In contrast, many competitors remain under financial pressure which we believe has continued to adversely impact their ability to execute operationally. Our strong sales growth, proactive management of merchandise margin, tight cost control, and a lower net bad debt charge to sales ratio were again a powerful combination in driving operating income.

This next graph on slide 13 shows the third quarter net bad debt to sales ratio and the collection rate for the last 10 years. The absolute level of the ratio in the quarter is no guide to the full year due to the seasonal nature of our sales and net bad debt charge. However, the change on the comparable quarter in the prior year is meaningful.

The third quarter US net bad debt to sales ratio improved by 250 basis points, reflecting both higher sales and an improvement in the receivable performance which was also seen in many of the other key indicators of receivable management. The average monthly collection rate was 10 basis points higher from the comparable quarter last year.

The next graph shows that the year-to-date net bad debt to US sales ratio and the collection rate for the last 10 years have both continued to improve. Year-to-date the net bad debt to total sales improvement is 160 basis points and the collection rate is 20 basis points higher than the comparable period last year.

Turning now to the fourth quarter and the full-year outlook, US division has had a good year-to-date but the economic outlook remains challenging. We believe that we are well prepared for the holiday season with well-tested merchandise initiatives, increased advertising spend and great campaigns, and most importantly highly motivated and well-trained store teams. Therefore, we believe that we have enhanced our competitive position within the sector during the last year.

We now expect our US gross merchandise margin for fiscal 2011 to be at least at the level of fiscal 2010. We have seen softer than anticipated diamond prices, greater than planned benefit from price increases, and a lower level of discounts.

While full-year operating expenses are expected to be above plan, this is for positive reasons. First, due to the sales performance, year-to-date variable costs have been higher than expected and, second, we decided to increase advertising in the fourth quarter above originally planned levels. The expected full-year adverse impact of TILA remains at $15 million to $17 million with costs in the fourth quarter estimated to be $5 million to $7 million.

I also remind you that in fiscal 2010 we changed our vacation entitlement policy which had a $13.4 million non-recurring full-year benefit to expenses.

Now turning to the UK business. Same-store sales declined by 0.6% in the third quarter, which is very similar to the first two quarters, with H.Samuel down 1.6% and Ernest Jones up 0.4%. ASP in the quarter, excluding the charm bracelet category, rose in H.Samuel by 8.3% and in Ernest Jones by 7.8%. This primarily reflected price increases implemented to offset higher cost of goods sold.

Gross merchandise margin was unchanged in the third quarter and down 30 basis points in the year-to-date. A tight control of costs has more than offset a flat sales performance and a decline in merchandise margin, resulting in an improved operating result for both the quarter and the year-to-date.

In the third quarter operating loss was $1.6 million, a $2 million improvement over fiscal 2010. Year-to-date operating income was $1.7 million, a $5.6 million improvement.

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UK economic environment remained challenging and in terms of same-store sales, the business has held its own compared to the non-food category based on British retail consortium figures. Price increases have largely offset the significant pressure on merchandise margin but have been a headwind as far as sales are concerned. As a result, consumers have been responsive to value where our scale, supply chain expertise, and strong balance sheet give us a competitive advantage.

We believe we have also continued to strengthen our competitive position in other areas by focusing on customer service and staff training, offering our customers unique and exciting products with charm bracelets and rings performing well in both H.Samuel and Ernest Jones, continuing our marketing support through customer relationship marketing initiatives and an investment in the H.Samuel and Ernest Jones websites, and finally improving our in-store presentation of product.

Our outlook in the UK, as in the US, the environment is challenging. We have improved our testing of new product, more tightly focused our assortments, which combined with our scale and supply-chain expertise means that we believe we have strengthened our merchandise offer. Gross merchandise margin expectation for fiscal 2011 continues to be somewhat below fiscal 2010 level.

For both H.Samuel and Ernest Jones the level of customer relationship marketing activity in the fourth quarter will be up on the comparable period in fiscal 2010 and TV advertising for H.Samuel has been increased. We are also refreshing our websites more often over the Christmas season. Pound sterling operating costs are anticipated to be slightly lower than in fiscal 2010, in line with our previous guidance.

While at this time of year the focus is inevitably on the outlook for the fourth quarter, we believe it is important to step back and take a longer-term view. We are the market leader in a sector undergoing consolidation with many competitors facing significant operational and financial pressures.

We have a record of gaining profitable market share as a result of sustainable competitive advantages. These advantages are based on the quality of our sales people, excellence in customer service, and a great in-store experience; our ability to leverage our supply-chain leadership; the development of differentiated merchandise; our ability to advertise on national TV and the size of our budget; superior locations of our stores; and in the US our in-house customer financing capability.

In addition, we have industry-leading information systems and proven operational management. These are all underpinned by our balance sheet strength and financial flexibility. Therefore, we believe we are well positioned compared to our competition, whether the economy in the fourth quarter is good, bad, or indifferent. And more importantly that these advantages are there for the long term.

Operator, we would now be pleased to take any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Rick Patel, Bank of America Merrill Lynch.

Rick Patel - *BofA Merrill Lynch - Analyst*

Good morning, everyone. Can you update us on how the charm bracelet category performed versus the first half of the year? I am just wondering if the growth there was relatively steady or if you saw it decelerate.

And can you talk about how the charmed memory brand performed at Kay and whether you are seeing any cannibalization with Pandora sales?

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Terry Burman - *Signet Jewelers Limited - CEO*

Sure. Pandora's range of merchandise in Jared continued to perform very well all through the year. It has been strong and remained very strong.

In terms of charmed memories, we are very pleased with the results. It has just been rolled out to all stores in the last the rollout has been completed in the last 30 to 45 days. It's meeting our expectation.

We are pleased and we are not -- we wouldn't notice if there was cannibalization because we don't have a steady baseline, Rick, because of the fact that we just rolled it out to all stores. But it's meeting our expectations.

Rick Patel - *BofA Merrill Lynch - Analyst*

And then can you give us a little bit more detail on your marketing plans for this holiday, perhaps characterize just how much marketing expense will be up in the fourth quarter? And I am wondering if the incremental spend will be mostly on TV or whether you are looking at other channels of communication.

Terry Burman - *Signet Jewelers Limited - CEO*

We enhanced -- well, it will be up about -- from that which we originally planned, about $9 million. Because of our strong sales increase, our advertising ratio was slipping below our targeted levels.

As you know, we target 6.5%, 7% of gross sales for advertising and a couple years ago as we were reducing expenses it fell somewhat below that. With our strong sales it was falling even below last year, so we put some additional juice into the fourth quarter, about $9 million, which will keep our advertising expense broadly level in the US to the prior year.

And that will be spent on -- we increased some direct mail, we increased some Internet advertising. When I say Internet advertising, some messages to our customer base. And then most of that advertising, however, went into or the majority of it went into increased TV weights.

Rick Patel - *BofA Merrill Lynch - Analyst*

Thank you very much and good luck for holiday.

Terry Burman - *Signet Jewelers Limited - CEO*

Thank you.

Operator

Jeff Stein, Soleil Securities.

Jeff Stein - *Soleil Securities - Analyst*

Terry, you have been holding your selling space growth at flat to slightly negative for several years now. With the strength you are seeing in the business are you guys prepared to begin to think about ramping it up in 2011?

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Terry Burman - *Signet Jewelers Limited - CEO*

Yes, we increased -- yes, Jeff. We increased our targeted store openings in the US to 25. That should keep us at least level if we can hit that number in terms of space growth -- in terms of total space. It depends on how it mixes out between Kay and Jared.

As you know, developers have really reduced their level of development so it's more difficult to find locations, but we have increased the number of stores that we are planning on opening for next year.

Jeff Stein - *Soleil Securities - Analyst*

Got it. And any thoughts at this point in terms of the mix between -- if you could meet your target would it be more skewed to Jared or Kay?

Terry Burman - *Signet Jewelers Limited - CEO*

Well, in terms of units it would be more skewed to Kay but in terms of space, with Jared being about four times as many, you are talking someplace in the -- of those 25 someplace in the range of up to 10 Jared. I think it would be unlikely that we would find -- it will be between five and 10 Jared stores.

Jeff Stein - *Soleil Securities - Analyst*

Okay. And one additional question, Terry, in doing some store checks I notice that you have got I think a new line, Color Obsession by Swarovski, and I am kind of curious. This is a -- it's now in both Jared and Kay. It seems to be almost complementary in terms of trying to broaden that demographic in Jared with more lower opening price point product and I am wondering is this, in fact, kind of the strategy there.

Terry Burman - *Signet Jewelers Limited - CEO*

Well, that is another one of our differentiated ranges that we developed with Swarovski, a good brand name. It's genuine stones. They are -- they tested -- that program tested successfully in both Jared and Kay and our customers responded. As you know, when our customers pull merchandise from us then we are going to -- we are going to offer it to them.

It's really based on response. It's very fashionable merchandise. The Jared customers like it; the Kay customers like it. It's not part of a greater strategy to lower price points. It's part of our strategy of finding merchandise that customers like, find exciting, and hopefully differentiates us from our competition. And Color Obsession by Swarovski is one of those ranges of merchandise.

Jeff Stein - *Soleil Securities - Analyst*

Got it. Thank you.

Operator

Jennifer Davis, Lazard Capital Markets.

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Jennifer Davis - *Lazard Capital Markets - Analyst*

Hi, guys. Congratulations on a great quarter.

Terry Burman - *Signet Jewelers Limited - CEO*

Thanks, Jennifer.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Terry, I know you don't really want to talk about Q4 but I am going to ask a little bit about your expectations for merchandise margins. I think you said that you expect US gross margins to be at least at last year's levels, but they were up 80 basis points year-to-date. So does that mean for the fourth quarter you are expecting them to be flat to slightly down?

Terry Burman - *Signet Jewelers Limited - CEO*

Well, there is a lot of room between at least at last year's level and what it could be. We were very pleased with the success of our ability to buy right in the quarter, the customer's reaction to our price increases, and some programs that we had to reduce discounting in our stores.

A lot of this, Jennifer, as you well know, a lot of gross margin has to do with how our merchandise mix mixes up. Bridal being strong has helped our year-to-date and third-quarter gross profit margins also. I think we are going to have to wait and see, but we have certainly improved or raised our gross merchandise margin guidance.

And I think saying any more than that -- I don't want to be any more specific than that. You can do the math and you obviously have, but yes what we have said would conclude one to believe something as you just stated.

Jennifer Davis - *Lazard Capital Markets - Analyst*

All right, thanks. And then, Terry, you also said that you were seeing softer diamond prices kind of at your quality level, correct?

Terry Burman - *Signet Jewelers Limited - CEO*

We experienced them in the third quarter. We are starting to see again in the fourth quarter some sign -- late in the third quarter and in the fourth quarter we are starting to see some signs of prices firming up again.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Okay, great. And then one last one. What percent, and sorry if you said this and I missed it, but what percent of your mix is now differentiated product?

Terry Burman - *Signet Jewelers Limited - CEO*

Well, it was 20% last year. It's running higher this year and we will give you an update on this on our Christmas trading statement on January 11 to see how all of this mixes out. But it is -- differentiated merchandise is running meaningfully higher than it was last year.

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Jennifer Davis - *Lazard Capital Markets - Analyst*

All right, great. Good luck. Thanks.

Operator

David Wu, Telsey Advisory Group.

David Wu - *Telsey Advisory Group - Analyst*

Good morning, everyone. Congrats on a solid quarter. I just have two questions.

First, can you just talk about how your e-commerce business performed during the quarter and whether it's still doing a good job in terms of driving traffic into the stores?

And just secondly, as we look out longer term, do you still believe you can get back to the historical operating margins around 13% over time, just assuming continued comp growth and lower bad debt? Thank you.

Terry Burman - *Signet Jewelers Limited - CEO*

Thanks, David. Our e-commerce group has been very robust, well into double digits; has been all year. We continue to expand our offerings on our website and continue to expand the functionality on the websites, both in the US and in the UK.

In terms of our historical operating margin, yes, we firmly believe that we can recover to that 12%, 13% average range that we used to -- that we used to hit solidly. As we have said all along, the two issues there are really average store sales and the bad debt recovering to previous levels. We are making progress on both year-to-date. And if we can continue to make progress over a sustained period of time, then we are confident that our operating margins can return to previous levels.

David Wu - *Telsey Advisory Group - Analyst*

Excellent. Thank you.

Operator

Anthony Lebiedzinski, Sidoti & Company.

Anthony Lebiedzinski - *Sidoti & Company - Analyst*

Yes, good morning. The increased free cash flow guidance is that mostly a function of increased profits that you expect or is it also more because you expect better working capital management or perhaps lower CapEx?

Ron Ristau - *Signet Jewelers Limited - CFO*

Primarily related to operating income.

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Anthony Lebiedzinski - *Sidoti & Company - Analyst*

Got it, okay. And also, within the quarter how much of the SG&A increase came from higher incentive compensation?

Ron Ristau - *Signet Jewelers Limited - CFO*

Well, our SG&A expenses were relatively consistent with prior years but we are paying more incentive. It is a great thing for us to do because it's being driven by the performance of the Company. And it's not having a meaningful impact on the expenses as a percentage of sales -- not having a meaningful impact.

Anthony Lebiedzinski - *Sidoti & Company - Analyst*

And as far as the stores that you plan for next year, could you give us a sense of the timing of when you expect to open those stores?

Terry Burman - *Signet Jewelers Limited - CEO*

It will be back-end loaded. There will be some plan for the spring quarter but it will be back-end loaded.

Anthony Lebiedzinski - *Sidoti & Company - Analyst*

Okay, thank you.

Terry Burman - *Signet Jewelers Limited - CEO*

I know that other retailers have talked about incentive compensation and we certainly paid a lot of incentive compensation in the fourth quarter last year because we had, like in the US, we had over a 7% same-store sales increase. We would be thrilled to pay additional incentive compensation this year, because that will mean that we have gotten meaningful increases on top of meaningful increases.

So that is an expense that we love to pay. We have been paying more all year. It's the way our system works is (technical difficulty) quarter (technical difficulty).

Anthony Lebiedzinski - *Sidoti & Company - Analyst*

Okay. And lastly on the tax rate for the quarter here, any particular reason why it was so high?

Ron Ristau - *Signet Jewelers Limited - CFO*

No, it just reflects year-to-date adjustments on the rate and it's a low basis year. I would focus you on the rate year-to-date, which is 32.5% and is more in line with what we are anticipating for the full year.

Anthony Lebiedzinski - *Sidoti & Company - Analyst*

Okay, thank you.

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Operator

Rod Whitehead, Deutsche Bank.

Rod Whitehead - *Deutsche Bank - Analyst*

Hi there. Add my congratulations to the results. A couple of questions.

There is a quote up on Reuters quoting you, Terry, as saying as you are seeing less discounting in the fourth quarter so far. Don't think you said that, but do tell me if you did. But you have in the past commented about the kind of level of promotional cadence you are planning on as set out in your brochures and so forth. So perhaps you could comment on what you would like to say on that issue.

Secondly, in terms of charm bracelets in the UK, firstly, should one assume that Chamilia is having less of an impact than Pandora is for Jared? And secondly, can you remind me, I know Ernest Jones has had Chamilia for a while but how long has H.Samuel had it?

Terry Burman - *Signet Jewelers Limited - CEO*

Let's see, I haven't spoken to Reuters today so I am not -- I don't know what they said.

Rod Whitehead - *Deutsche Bank - Analyst*

Well, it's just quoting the conference call clearly.

Terry Burman - *Signet Jewelers Limited - CEO*

Quoting the conference call. Well, in terms of our level of discounting, it is broadly similar to last year. There is some nuances in there but our level of promotional activity, when you mix it out to margin, is not going to have a meaningful -- should not have a meaningful impact on our gross margins compared to the prior year.

That is all subject to how our merchandise mixes out, how the customers respond to it. But based on our plan we wouldn't see it as having a meaningful impact.

I think in terms of the marketplace in general, (technical difficulty) we have been here before. We have seen this picture before. Jewelers have figured out that in this more inelastic category that some promotion is appropriate but over promoting doesn't add to the bottom line.

Charm bracelets in the UK, the question you asked specifically was Pandora having a bigger effect on Jared then Chamilia is having on the UK business as a whole. Is that how I understand your question?

Rod Whitehead - *Deutsche Bank - Analyst*

Yes, yes.

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Terry Burman - *Signet Jewelers Limited - CEO*

I would have to -- we are going to have to get back to on the actual level of impact. Tim, if you would do that please. But let me say this, both Chamilia in the UK and Pandora in Jared are having a meaningful positive impact on each business and Color Obsessions -- I am sorry, charmed memories, if it continues to hit our plan, is going to have a meaningful, positive impact on Kay and our regional brands.

Rod Whitehead - *Deutsche Bank - Analyst*

Thank you. Sorry, the final one was has H.Samuel had Chamilia for a full-year yet or was that more recent than Ernest Jones having it?

Terry Burman - *Signet Jewelers Limited - CEO*

It's more recent than Ernest Jones but they have had it for a full year.

Rod Whitehead - *Deutsche Bank - Analyst*

Okay, thank you.

Operator

(Operator Instructions) John Baillie, Societe Generale.

John Baillie - *Societe Generale - Analyst*

Good morning, gentlemen. John Baillie from SG. A couple questions, one on just on Kay if you could give a bit more color to the performance. You mentioned the bridal performance. Can you quantify it a little bit to say how strong the bridal market or the overall experience was and its impact?

Terry Burman - *Signet Jewelers Limited - CEO*

John, are you saying specifically in Kay? I didn't quite catch that. Our bridal?

John Baillie - *Societe Generale - Analyst*

Yes, sorry, specifically in Kay. I think was that really where the bridal performance came most strongly. Is that right or maybe it was as good in Jared?

Terry Burman - *Signet Jewelers Limited - CEO*

It was across all brands; very good, solid performance. We have had it all year in the bridal category and we are working on enhancing it.

We have got the Neal Lane, the exclusive Neal Lane program. That has started off well. It's in about 350 stores now, Kay and Jared, and then we are continuing to expand our Tolkowsky cut, which is an ideal cut diamond. The Tolkowsky family invented the ideal proportions of diamonds.

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We have got that brand exclusively in our mall branded stores and we are expanding the number of stores that that is in. So some of these differentiated products now moving into our bridal area, which as you know is 45% plus of our sales, we look for -- assuming that they continue to perform well and we continue to expand them, we look for continued opportunity in the bridal range across the business.

John Baillie - *Societe Generale - Analyst*

I mean is it moving above -- I mean has it moved above 50%? Are we getting -- is there a step change in the mix?

Terry Burman - *Signet Jewelers Limited - CEO*

There is a movement in the mix. There is a definite movement in the mix in terms of step change as we continue to roll out these programs. They have the potential there to create a step change, but we are going to have to -- we are just going to have to see how they perform over a sustained period of time.

John Baillie - *Societe Generale - Analyst*

And just secondly, on bad debt which we are now four quarters of improvement, I mean should we be expecting the scope for further improvement in the next quarter because you do run up against a slightly tougher comps at this time?

Terry Burman - *Signet Jewelers Limited - CEO*

Well, it's our hope that we can continue to drive the bad debt percentage down to previous long-term levels. We have had, as you recognized, four straight quarters of improvement. We are starting to comp against some better trends in the fourth quarter versus the fourth quarter of last year. So on a year-over-year basis, yes, we have got a tougher challenge in the fourth quarter, but against our long-term sustainable performance we have got a ways to go to get back there.

I think one thing that we are seeing that is encouraging is the big banking credit card issuers are seeing lower delinquencies, higher collection rates. They are seeing some very -- they are seeing some favorable trends and that is a good thing for us.

John Baillie - *Societe Generale - Analyst*

And, finally, I mean just on the balance sheet. Year-end will have a few hundred million of net cash. Presumably you won't feel the need to sit on that and we should expect a return to dividends or share buybacks, is that a fair assumption?

Terry Burman - *Signet Jewelers Limited - CEO*

Well, we will comment on that. Let's get Christmas under our belts and see exactly where we stand. Then the Board is -- shareholder distributions are high on the list of issues that the Board will be considering once we evaluate our Christmas results and our balance sheet position.

John Baillie - *Societe Generale - Analyst*

Okay. Thank you very much.

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Operator

Ladies and gentlemen, as we have no further questions I would like to hand the call over back over to you, Mr. Burman, for additional or closing remarks.

Terry Burman - *Signet Jewelers Limited - CEO*

Thank you, operator, and we want to thank all of you for taking part in this call. Our next scheduled call is on January 11, 2011, when we will review our Christmas season performance. In the meantime I wish everyone a very happy and enjoyable holiday season. Thank you and good bye.

Operator

Ladies and gentlemen, this will conclude today's conference call. Thank you for your participation. You may now disconnect.

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