FINAL TRANSCRIPT

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SIG - Fiscal 2010 Full Year Results Signet Jewelers Ltd Earnings Conference Call

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PRESENTATION

Operator

Good day and welcome to the Signet Jewelers full-year results conference call. Today's conference is being recorded. At this time I would like to turn the call over to your host today, Mr. Terry Burman. Please go ahead, sir.

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

Thank you, operator. Good morning and welcome to the conference call for Signet's full-year results for fiscal 2010. I am Terry Burman, Group Chief Executive; and with me is Walker Boyd, Group Finance Director.

Before I go through our operating performance, Walker will give the Safe Harbor Statement and review the financial performance for the year.

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

Thank you, Terry. 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 ask you to read the risks and other factors and cautionary language in the Company's annual report on Form 20-S filed with the SEC on April 1, 2009, and other filings made by the Company with the commission, which can be found on the Company's website at www.signetjewelers.com.

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Additionally, certain financial information used during this call are considered to be non-GAAP financial measures. For a reconciliation of these to the most directly compatible GAAP financial measures, please refer to the Company's release dated March 25, 2010, available on the latest news section of the Company's website, at www.signetjewelers.com.

Fiscal 2010 was a very challenging year on both sides of the Atlantic, with the worst economic environment seen for many years. Against this background sales were little changed at constant exchange rates. Profitability increased with income before tax of some $241.8 million, an underlying increase of 14%, and earnings per share up 16.6% on a like basis. Underlying performance is a non-GAAP measure and excludes the following nonrecurring items -- in fiscal 2010, a $13.4 million benefit from a change in policy related to vacation entitlement in the US, and in fiscal 2009 a fair value impairment of goodwill of $516.9 million and costs of $10.5 million associated with the change of domicile and move of primary listing.

Results we've announced today are above the expectations given in our January trading statements, reflecting a number of factors. Most significantly, a better than anticipated sales performance in the US in January, an improved gross merchandise margin outcome for the quarter, a continuation of more stable bad debt performance seen in the vendor in December, some benefit from expenses and a favorable outcome from the year-end inventory count.

Free cash flow, that is, cash flow from operations and investing activities, improved to $472 million in the year from about $51 million in the prior year, and this reflected a year-end net debt decline of a similar amount. We have exceeded our expectations and strengthening our balance sheet with interest cover of 8.1 times and gearing -- that is, net debt to shareholder funds -- of 0.4% at the year end.

Looking at sales, in the US same-store sales were little changed for the year, as a result of a strong fourth quarter, when comps increased by 7.4%. For the year, the impact of store space was slightly positive, resulting in total sales being up 0.8%. In the UK same-store sales fell by 2.4% with the fourth quarter down 1.5%. Reflecting a lower level of turnkey closures from store refurbishments, space added 2.3% to sales. The movement of the average exchange rate from $1.75 to $1.59 resulted in an adverse currency impact of 9.2%. Group comp store sales were slightly down with total sales at constant rates up 0.6% but down 1.6% on a reported basis.

Underlying group operating margin increased by 110 basis points to 8%, primarily reflecting the benefit of the US cost-saving program. In the US underlying operating margin was up 190 basis points to 8.7%. Gross merchandise margin increased by 40 basis points, and the impact of the cost-saving program was mainly responsible for the improvement in expense leverage.

In the UK, underlying operating margin was down 110 basis points, primarily due to de-leverage at the cost base. The Group operating margins of 8.4% remained strong in relation to the jewelry sector.

Looking at the detail of the cash flow, net income adjusted for non-cash items increased by $34 million to $294 million with a significant inflow of some $250 million coming from working capital in the existing operations. The reduction in working capital was significantly more than our objective at the start of the year, largely as a result of lower US inventory levels, where additional opportunities were identified during the year. Benefit was also gained from the growth of differentiated merchandise, which has a faster inventory turn and has enabled us to reduce inventory levels in some fashion jewelry categories where the turn is slower.

Working capital investment in new space also saw a reduction of just over $28 million during the year. Capital expenditures, both in respect of new space and refits, saw a meaningful reduction totaling $44 million against $130 million in fiscal 2009. As a result, free cash flow, that is, net cash flow before financing activities, improved to $472 million from $51 million in the prior year.

As a result of this strong cash flow, year end net debt was substantially eliminated, being $7.9 million; that's with no shareholder distributions during the year. Consistent with the terms of our amended private placement agreement, since the year end we have made a prepayment at par to note holders of $50.9 million, leaving $229.1 million outstanding. We've also agreed a change

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with our past year's banking group that our borrowing facility be reduced to $300 million, down from $370 million, the change effective 19 March. These changes continue to give us considerable financial flexibility while somewhat reducing our financing costs for fiscal 2011.

I'd now like to hand over to Terry to go through the operating performance.

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

Thank you, Walker. I'll now review our fiscal 2010 operating performance, and I'm starting on slide 12.

During calendar 2009 we outperformed the US specialty jewelry market and gained profitable market share. We would expect the preliminary estimate of $27.2 billion for the specialty jewelry market in 2009 to be revised down, increasing our share when the final figure becomes available. Over the last decade our share has nearly (technical difficulty) the largest share gain of any specialty jeweler. Zales lost a further 70 basis points of share in 2009, and Tiffany was also down. Blue Nile, which was established in 1999, has seen its market share remain little changed over the last three years.

The accelerated sector consolidation is highlighted by the liquidation of Finley, Friedman and Whitehall. This reflects a much wider capacity reduction within the mid-market sector, which we are well positioned to capitalize on. Data has also recently been released by Berkshire Hathaway, which owns Helzberg, Ben Bridge and Borsheim's, and is the fourth largest specialty retail jeweler. Their total sales were down 12% last year, and Helzberg and Ben Bridge combined reported a pre-tax loss.

Our fiscal 2010 performance in the US was driven by three primary factors. First, we continued to provide superior customer service. This is based on committed staff that are continually trained and well motivated. Second, in merchandising, US management leveraged our size and expertise by continuing to develop innovative ranges to give customers compelling reasons to shop with us. Good examples were our differentiated merchandise with the extent -- of our differentiated merchandise, with the expansion of Open Hearts by Jane Seymour range and the launch of Love's Embrace. We also further developed the LeVian collection in the Leo Diamond selection. In Jared, we had a great success with the Pandora charm bracelet. By planning ahead and using our expertise in the polished loose diamond market in the jewelry manufacturing sector, we were able to provide engineered value items to appeal to a more cost-conscious shopper, and these also performed well.

And, finally, using our best in class systems and inventory management team together with our strong balance sheet to quickly respond to better-than-expected demand -- this is another example of the sustainable competitive advantage we have in the supply chain and merchandising functions.

Third, we focused marketing on national TV, which once more proved to be the most productive and efficient media. This was reinforced by innovative campaigns from Kay and Jared that featured major merchandising initiatives. We achieved our gross merchandise margin target. As always, there are many moving parts to this; but broadly, the impact of commodity cost was neutral, as were mix changes, and we gained some benefit in the first quarter from the wraparound of the price increases implemented in early fiscal 2009.

As Walker highlighted earlier, the US cost-saving program was an important initiative in fiscal 2010. We took prompt action at the start of the year to realign our cost base to the lower level of sales without weakening our competitive position. This was done quickly and meant that our staff could then focus on maintaining excellence in execution.

The accounts receivable portfolio performance reflected the economic environment with our credit standards unchanged. Net bad debt as a percentage to total sales rose to 5.6%, and 10.4% of credit sales, up 70 and 120 basis points, respectively. The monthly collection rate fell by 60 basis points to 12.5%, and the debt maturity remains at around eight months. Participation showed a small increase, to 53.5% of sales, with credit applications down a little. An increase in acceptance rates followed the introduction of revised authorization criteria for some applicants based on the historic performance of parts of the credit

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portfolio. This did not reflect a change in the risk profile from which the credit operations are managed and was part of the normal review process.

As a result, the approval rate increased by 210 basis points but still remains 90 basis points below the level in fiscal 2008. In the fourth quarter there has been some initial signs of stabilization in net bad debts. The provision of customer financing is essential in our sector of the market, and providing it in-house has become an increasing competitive advantage. A strong balance sheet means that we are able to continue to offer credit when alternative sources from the banks, either directly or from the provision of store cards to our competitors, remains constrained.

In addition to limiting the supply of credit, the banks are also charging retailers more in fees, further squeezing competitors' operating margins.

Looking at the performance of the portfolio on slide 15, in a longer-term context the last two years are clearly outside of the trend. This is in common with most other providers of credit. The level of bad debt returns were to return to the nearer long-term trend of between 2.8% and 3.4% of US sales, from the 5.6% level of fiscal 2010. There's the potential for an operating margin benefit to the US division.

In the UK the performance drivers were similar to those in the US. We continue to support store staff by focusing on training. The merchandising successful initiatives included the charm bracelet category and the expansion of value lines. We expanded customer relationship marketing with a reduced level of TV advertising for H. Samuel. While this was profit positive, it had an adverse impact on fourth-quarter sales.

Gross merchandise margin was a little better than our objective at the start of the year and was down only 20 basis points with price increases largely offsetting pressure due to higher gold costs and the weakness of the pound sterling against the US dollar. Expenses were slightly above target due to unplanned property rationalization costs in the fourth quarter.

Turning now to our operating strategy for the current fiscal year, starting on slide 18, in the coming year our strategy will be broadly similar to that of last year, although we do not anticipate a further realignment of costs and working capital, given our stable sales performance in fiscal 2010. We entered the downturn as the industry leader, and we aim to enhance our competitive position during it. As I have already discussed, we increased our US market share in calendar 2009. We aim to do so again in 2010 as further capacity has exited the marketplace, and many of the remaining firms are less able to compete due to financial pressures.

In addition, we remain focused on further enhancing our own competitive advantages within our existing store base to increase the gap between ourselves and others in this sector.

The economic environment remains uncertain. Therefore, we remain risk averse. Improved store productivity rather than increased space will be the driver of top-line growth. We will also maintain our balance sheet strength and financial flexibility, which are significant advantages within the sector with landlords and suppliers. In addition, our strong balance sheet also enables us to provide consumers with credit at a time of contracting availability. Also we are in a position to take advantage of any strategic opportunities that meet our demanding investment returns, should they arise. As always, profit and cash flow maximization remain a priority. Therefore, we will continue to keep a tight control of gross merchandise margin, costs and inventory.

Looking at consolidation within the US sector in a little more detail, of the top 10 mid-market specialty operators in 2007, three have liquidated -- Friedman's, Whitehall and Finley's -- and a fourth, Shane, has been in Chapter 11 for over a year. This is mirrored outside the top 10 with firms such as Christian Bernard and Fortunoff liquidated, and Robbins Brothers and Ultra both having been in Chapter 11. A significant number of other businesses have also ceased operating. In 2008 about 1800 net stores are estimated to have closed, while in calendar 2009 we have not had the high-profile closures of 800 stores by Friedman's and Whitehall, we believe that 750 to 1500 doors closed.

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Furthermore, as many more of them have operated larger stores as such as Finlay's, Shane, Robbins Brothers and Fortunoff, available sales may be greater. For calendar 2010 we would expect that we would again see a higher than normal rate of store closures.

An important driver over the last two years has been differentiated merchandise. This merchandise is in addition to exclusive but unbranded lines. In fiscal 2009 differentiated ranges accounted for between 10% and 15% of our US sales and increased to about 20% in fiscal 2009. Over the period we have demonstrated a unique ability in the mid-market to successfully implement these programs. This is based on a number of factors. First, our scale, which no one else comes near in the middle market -- we have over 1300 stores and sales of more than $2.5 billion. Our sales base is about double that of our nearest competitor.

In addition, apart from Zales, there are only two other mid-market businesses with over 200 specialty jewelry stores. Second, we have successfully integrated these ranges into our national advertising, so creating customer awareness while continuing to promote the Kay and Jared names. The only other operator that has historically had to scale these national television advertising has been Zales, and they cut back their spend dramatically last year.

Third, we have now built a process for development of concepts, the model for testing new ideas and the know-how to roll them out effectively.

And fourth, we have a strong balance sheet, so suppliers are happy to take a major commitment to us, as they know that they will get paid. As a result, we believe that we are now the go-to retailer for vendors who want to maximize the potential of their best ideas.

In addition to driving sales, differentiated merchandise helps us stand out from other jewelers in the mall. It makes us less vulnerable to discounting by competitors, and it gives us much greater control over execution. In fiscal 2011 we will continue to develop differentiated merchandise.

In particular, we will benefit from Love's Embrace for our full year, introduce further items within our established collections and develop and test new ideas to see which we might roll out.

With regard to merchandise margins, diamonds, which account for about 55% of our cost of goods sold in the US, have shown some signs of prices strengthening but are lower than in fiscal '09. Gold, which accounts for about 20% of cost of goods sold, continues to be volatile; but the underlying cost trend remains upward. Learning from our experience in 2008, we have therefore decided to implement price increases for merchandise where gold is a significant proportion of the cost. This merchandise accounts for about 30% of our US sales.

We continue to use our balance sheet strength to our advantage. For example, when pricing anomalies in the loose diamond markets occur, we are able to react immediately. Also, the prices we get from vendors reflect that they do not need to buy credit insurance when supplying us, and we are also able to get early attractive settlement discounts. In fiscal 2011 our target is to again at least maintain US gross merchandise margin.

Now looking at costs, we expect controllable expenses, which excludes net bad debt, to be broadly flat with some benefit from store closures largely balancing inflation. However, two factors will have an adverse impact; first, the nonrecurring benefit recognized in fiscal 2010 of $13.4 million arising from the change in vacation entitlement policies; and, secondly, we now anticipate the total net direct adverse impact on operating income in fiscal 2011 on amendments to the Truth in Lending Act will be in the range of $15 million to $20 million.

There may be further interact impacts to sales arising from changes in consumer behavior. We are not alone in facing this, and all retailers that sell merchandise paid for on credit face the impact directly, as we do, or indirectly in the terms they negotiate with a third-party provider.

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Our expectation for expenses will clearly vary with sales, to the extent they are above or below budgeted levels. In the US these expenses account for 12% to 15% of sales.

With regard to net bad debt, the primary driver of performance will, as always, be the economic environment. Closures in fiscal 2010 were about 20 fewer than earlier guidance, as a result of the improved fourth-quarter performance and also meaningful rent concessions on short-term leases. We anticipate that the trend of store openings and closings will continue in fiscal 2011 with a further 2% net reduction in our space. The majority of closures will again be regionals. The impact to sales is minimized, as nearly all are in malls, where there is also a Kay, which market to the customers as a closed unit.

Having seen no new store proposals that satisfy our requirements for over a year, we are now beginning to see some opportunities. Longer-term, we continue to see good growth potential, but we do not expect a rapid return to a significant level of new store openings, as there are currently few new real estate developments being planned and we would need time to rebuild our internal infrastructure to manage the process.

In fiscal 2011 new start CapEx will see a further decrease [than] last year. However, we are resuming a more normal level of store refits. In particular, we will be nearly up to date with Jared remodels by the end of fiscal 2011. We are also increasing to normal levels non-store investment, in particular, management information systems. Investment in projects such as credit collection decision engines, merchandising information systems and the Sterling Performance Matrix help us become more productive.

Overall, the planned CapEx for fiscal 2010 is in line with what we would regard as the current level of maintenance CapEx. In the UK as in the US, staff training and customer service remain a priority. In fiscal 2009 and 2010, many merchandising initiatives were in exclusive value lines. This year we will also focus on developing differentiated ranges. We will continue to develop customer relationship marketing where we have been pleased with the results to date.

The increasing gold costs combined with the weakness of sterling continues to put pressure on gross merchandise margin. The other major gross merchandise margin pressure is the increase in VAT from 15% to 17.5%. Unlike the US, value-added tax, which is a sales tax, is included in the ticket price and not added on when payment is made. Therefore, if the retailer takes no action, gross merchandise margin is squeezed.

As a result of these three factors we have increased prices on most items. While we will also continue to utilize our scale, expertise and balance sheet strength to seek savings, overall we expect UK gross merchandise margin to be somewhat lower in fiscal 2011 than in 2010.

Underlying inflationary pressure on expenses remains relatively benign, but there are some. However, we have identified some opportunities for cost savings, including store staff costs and property rationalization expenses. In addition, we are planning to close 15 stores, which will also lower costs. These will predominantly be lease expirations of H. Samuel stores with, at best, a marginal profit contribution. Footfall in these High Street sites continues to move to covered regional malls, where we are very well represented.

In total, we expect the overall sterling cost base to be slightly lower than last year.

In UK capital expenditure is expected to increase to about GBP13.5 million, while the number of store refurbishments and re-sites is planned to increase by five to 23, the major increase in numbers for much less costly store redecorations. This reflects the longer refit cycle of the remodeled H. Samuel's stores with the resultant need for minor remedial work rather than major refits. As in the US, we are meaningfully increasing MIS expenditure to support the business.

Our objective for free cash flow in 2011 is an inflow of between $150 million and $200 million. As we have previously indicated, we see limited scope for a further substantial reduction in working capital as sales stabilize in fiscal 2010. There is additional uncertainty from the impact of the amendments to the Truth in Lending Act on accounts receivable. If this changes consumers' behavior, for example, resulting in a lower monthly collection rate, there could be a negative impact on free cash flow.

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Group capital expenditure is forecast at about $80 million, and there will again be no shareholder distribution, in accordance with our strategy of maintaining financial flexibility as well as the requirements of our borrowing agreement.

So, in summary, we have had an encouraging start to the year, but the economic outlook remains uncertain, particularly in the UK. As a result, consumer expenditure remains constrained. In the US, same-store sales are up 7.8% in the first seven weeks with Jared performing especially strongly and the mall brands achieving a solid increase. We believe that our strategy is working and that we are benefiting from weakened competition.

In the UK same-store sales are little changed, an improvement from the 1.5% decline in the fourth quarter, with Ernest Jones driving the better performance. While higher value-added tax is unhelpful, the extent of the impact is unclear.

We would now be pleased to take any questions, operator.

QUESTIONS AND ANSWERS

Operator

(Operator instructions) Rick Patel, Merrill Lynch.

Rick Patel - *Merrill Lynch - Analyst*

Can you help us understand the magnitude of gold price increases both in the US and UK? And is this happening across all the brands?

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

The answer to your second question first, yes, it's happening across all the brands. If you take the US first, the SKUs that we have in the US, other SKUs that we have in the US, about 30% of them had price increases. And this is the merchandise that has a heavier gold component. So that merchandise would be lower in diamond product, colored stone product and merchandise that's primarily made up of gold. The magnitude -- it's in the mid-single digits on those products, average in the mid-single digits.

In the UK, it's a much broader increase in prices and a higher increase in prices. Both brands took part in this. You've got the pressure -- you've got the added pressure in the UK of currency. So, since gold and diamonds are both denominated in dollars, the weakening of the pound obviously has an impact on our cost of our materials. And that's the reason for a much broader increase. So the increases there are in the -- average in the high-single digits.

Rick Patel - *Merrill Lynch - Analyst*

And then just a question on your accounts receivable portfolio. Can you help us understand how much of a bad debt reserve you have? And do you anticipate making additional contributions to this reserve, this year, or do you feel like the trend is working in your favor?

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

We have a long-standing and very consistent policy of providing for bad debt, and that's that we do provide 100% for any account that is 90 days past due on a recency basis. So it's a very arithmetic calculation. As Terry said, the total amount charged

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for bad debt for the year as a whole represented by -- well, was 5.6% of US sales. In dollar terms that would represent -- let me just look it up. In dollar terms the charge to [T&L] for the current year would have been about $155 million. And as I say, that's calculated very arithmetically on the basis of 90 days past due. And we provide 100%.

So the provision for this year will be driven by that. As we indicated in the fourth quarter, whilst it's early to draw conclusions, there certainly have been some initial signs of stabilization both in terms of the bad debt rates, i.e., the amount by which we are providing, and also in other metrics, where we look at the agings of the receivables as they approach 90 days, at 30 and 60 days. So, as I mentioned, whilst it's too early to declare that there's a change in trend, certainly some encouraging signs of initial stabilization.

Rick Patel - *Merrill Lynch - Analyst*

Given your balance sheet is so strong, any thoughts on a buyback this year?

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

No. As Terry mentioned, I think we went into this current strategy that we evolved at the beginning of calendar 2009, we regarded as a two-year strategy in terms of strengthening balance sheet, making sure we've been able to run the business appropriate to the economic circumstances. And whilst in the first year of that two-year project we clearly have outperformed that expectations, we do see uncertainty still in the general economic environment. And therefore, we would not intend to have any -- we will not have any shareholder distribution, certainly, prior to the end of this fiscal year. And in fact, that was -- because it was our strategy, we also agreed to that with our lenders.

At the end of this fiscal year we do have -- have restricted, but we do have an ability to resume shareholder distribution, whether it be by buyback or dividend. And that clearly is something the Board will need to consider as we go through the coming fiscal year. But clearly, a number of factors will impinge on that consideration. One, clearly, will be the performance over the holiday season. Also, at the end of that year, what is the general outlook, what are the opportunities in terms of potential resumption of space growth and the other, more strategic opportunities. So it's something the Board will consider basically towards the end of this fiscal year.

Operator

Ben Spruntulis, Citi London.

Ben Spruntulis - *Citi London - Analyst*

Just on the gross margin, could you give a little bit more color on the outlook in the US in the year ahead? And, secondly, just on your bad debt experience in the fourth quarter, are you able to put a number on roughly what the (inaudible) sales was in the fourth quarter, and whether you think that is potentially representative of what we could see in the year ahead?

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

Okay. In terms of the outlook for the US gross margin, as I said, we've taken the price increases. I think I've given you, in response to Rick's question, I've given you a pretty good feel for how much we've increased prices and on how much of our merchandise. We've also said that we expect to at least equal last year's gross margins, and that's our intention.

The wild card here -- there's two wild cards. One is merchandise mix. We are not expecting any dramatic movements in that. We've planned for whatever movements we think that we'll get there. But, should we get a significant change in merchandise

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mix, for instance, with Jared significantly outperforming the mall stores, if that occurs, Jared is on lower gross merchandise margin -- not a lower gross operating margin, however, because they leverage expenses, we leverage expenses better in Jared. So I would expect some impact on gross margin or pressure on gross margin with Jared outperforming, but not pressure on operating margin.

The big wild card here are commodity prices. And we can tell you what we see on the ground, and that is diamond prices have firmed somewhat in the qualities that we purchase, but they are below our buying levels -- I'm sorry, our cost levels of 2008. They are above our cost levels of 2009 but still remain below our average cost of inventory.

Gold prices are gold prices; we can make an assumption about that. They seem to have recently stabilized around $1100, trading plus or minus $20 or $30 to that. But I'm not going to speculate on what's going to happen to the goal prices.

So we've taken the actions in the US. Your question was about the US. But we've taken the actions in the US and the UK to run a reasonably stable gross merchandise margin around the Group. We've had to take price increases to do that because of currency and higher gold prices. But that's our strategy, that's our strategy and our outlook for gross margin.

Walker will comment on the bad debt.

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

Looking at the bad debt as a percent of sales quarter on quarter really isn't meaningful because, obviously, because of the seasonality of the sales you do get some differences as a percent of sales that are more driven by that seasonality. So what we tend to look at is bad debt percentages compared to the comparable quarter in the prior year. And as we saw in the first three quarters of the year relative to the prior's comparison, we saw net bad debt coming at about 1.1%, or 110 basis points higher than the corresponding quarters.

As we say for the year as a whole, that increase was narrowed down to around about 70 basis points. And I think, arithmetically and, I assume, by the numbers that says bad debt percent to sales in the fourth quarter of fiscal 2010 was broadly similar to the prior year. Clearly, there is some help there because sales were also beginning to increase.

Now, looking forward, does that mean that we can look forward in the new year a more stable percent to sales? As we said, the fourth-quarter performance would certainly be encouraging to us that that might be a reasonable expectation. The first seven weeks of the new fiscal year is a very short period, but some indications that that percent to sales stabilization is continuing. And also, as I mentioned, other metrics that we tend to look at, which are the roll rates from 30 and 60 days are, as we said, giving some initial encouraging signs of stabilization. But clearly, what happens for the balance of the year is, like sales, going to be very much driven by consumer confidence.

Ben Spruntulis - *Citi London - Analyst*

In terms of how you recognize bad debt charges, is it through SG&A costs that we see that charge? And therefore, within your cost guidance in the year ahead, have you assumed stabilizations of bad debt charge?

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

No. When we said in the text that we would expect controllable expenses in the US to be broadly flat excluding the impact of the holiday entitlement and (inaudible) impact, we did note that that's excluding bad debt because there we give some guidance on expenses that we can have some control over, but that comment was excluding bad debt because, as we say, that's much more driven by consumer behavior.

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Operator

Anthony Lebiedzinski, Sidoti.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

I was wondering if you could just comment as to how much of a benefit lower inventory shrinkage was for the quarter and for the year?

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

To be honest, year on year, the net impact was very small. Our inventory shrinkage was a little -- was virtually unchanged year on year. As far as the fourth quarter is concerned, it was probably -- it was a benefit in the very low single million dollars. The main reason for the outperformance in the fourth quarter compared to our expectations that we gave in January was the better sales performance on both sides of the Atlantic compared to our expectations that we had at the beginning of January.

So an inventory -- carrying a little bit -- a little bit better than we had anticipated was worthy of note that was a relatively small contribution to that outperformance compared to the sales performance in January.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Can you give us an idea as to the timing of store openings and closings throughout the year? I know it's still early, but for calendar 2011, would you expect the store growth to be a bit higher?

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

Well, the chart that we had in the presentation really outlines our best view at this time in terms of store openings. The openings will happen -- there's only about eight or nine openings, but they will happen spring/summer/early fall is when they are targeted. Most of the closings will occur after Christmas, so most of those closings will occur in January.

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

And what that means is effectively the closings in the fiscal year that's just ended will actually have a bigger impact in the new fiscal year. So -- because, again, most of them were towards the end of the fiscal year. So the impact on expenses and working capital that comes from closures last year -- actually, the major impact then is in this coming fiscal year.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

With the introduction of Pandora to your Jared stores, I'm just wondering if you could comment as to how many new customers you think you have possibly gained because of this particular product and than just if you think that could be sustainable?

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

Well, is it sustainable? I think, well we've gained lots of new customers. It has been very helpful and [they're] going to start defining our exact sales and number of customers that are coming in off that range of merchandise. But I think the comments that I would make about it is we've seen a customer come into Jared who we haven't seen before but is very much in our

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demographic. And we are confident that if we can service them, give them good-quality customer service, show them the range of the products that we have available and make their buying experience a good, positive experience, that we can retain many of those customers as they look for their other jewelry needs besides Pandora.

So it has been a win-win for us in terms of the sales and gross margin that we've gotten from the sales of Pandora directly to consumers. But it's also a win in terms of bringing the new customer through the door, increasing our traffic counts and giving us the opportunity to resell those customers, establish them as diamond customers.

Operator

Jeff Stein, Soleil Securities.

Jeff Stein - *Soleil Securities - Analyst*

Question on expenses -- now, it seems, relative to the message that you were sending back in January out of the ICR Conference that you guys were going to initiate some merit pay increases and raise your ad spending and that your expense leverage point was probably going to increase more to 2% to 3%. It sounds to me like the message is changing a little bit and that you are reeling in expenses again and that now they are expected to be flat. It seemed to me earlier that it looked like they were going to be up.

So I'm wondering, was I incorrect in terms of my perception? Or, have you just kind of redone your budgets?

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

Well, we've finalized our budgets. But it's really not much different than the message. So there's a few moving parts here. One of the reasons expenses are flat is because we've got a reduction in space. So with that 2% reduction in space -- I know I said it's all coming, or most of it is coming in January. But, as Walker pointed out, we've got the wraparound from last year, last year's closures, that will help reduce expenses.

That's the reason that expenses are going to be flattish, but that's the underlying expenses. And you've got to remember that we excluded from that the vacation allowance and the impact of the credit card -- the Truth in Lending Act. The underlying expenses being flat, when you factor in the TILA and the vacation expenses on top of it, that's what requires a low single-digit sales increase in order to create operating leverage. So we've got to get over the hurdle of those non-comps, vacation pay and Truth in Lending Act impact.

Jeff Stein - *Soleil Securities - Analyst*

Got it, okay that makes more sense. So in terms of your inventory, your working capital plan for the year, I'm not quite sure. It sounds like we shouldn't expect big reductions, but should we expect increases, or are you guys internally modeling your working capital to be relatively flat?

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

We are modeling it to be flat.

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Jeff Stein - *Soleil Securities - Analyst*

Okay. And --

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

When you say working capital, our inventories. Receivables will work off a different model. They work off of our collection percentage and our credit sales percentage.

Jeff Stein - *Soleil Securities - Analyst*

And just one housekeeping -- estimated depreciation/amortization for the year?

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

We wouldn't expect much change, so we would expect it to be -- broadly, from the group as a whole -- to be, broadly, about the $100 million mark. So again, we would expect that CapEx is $80 million. We've got a slightly lower CapEx compared to the depreciation.

Operator

James Pan, GEOX S.p.A..

James Pan - *GEOX S.p.A. - Analyst*

First a couple comments and then a big picture question. First thing, I want to thank you, Walker and Terry, for guiding us through this situation over the last 36 months -- a tremendous job in cleaning up the balance sheets and picking up market share, and not just surviving but doing better than surviving and going forward.

And the second comment is, as a shareholder, I'm a bit concerned about -- that you guys are actually going to be exiting the stage soon. I would just hope that you guys have a change of heart and that you guys stick around a little longer. It seems that you set the Company up to do well in the next two or three years and it would just make me feel more comfortable as a shareholder if you guys shepherded us through there and continue to build value on a per-share basis. Those are my two comments.

The question I have is, it seems -- with the maturation of Jared stores and the taking of market share, that eventually we should get our return on capital up to our average of around the high teens, maybe even the low 20s, hopefully. What kind of revenue level on a Company-wide basis do you think we need to achieve that, given our current infrastructure?

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

Well, first of all, thank you for your comments about the last year and the last couple of years. They are very much appreciated. And thank you for your confidence in Walker and me. That's also very much appreciated.

I don't want to lose sight of the fact that there's a tremendous bench strength behind us. We've got discrete management teams in each market, the US and the UK, very experienced at running our businesses in each of the US and the UK and very responsible for the strategy and the execution that helped us achieve all of these good numbers that Walker and I have the pleasure to announce.

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So, again, we appreciate your comments about us, but let's remember the strong and experienced management teams that we have in each division, who deserve a huge amount of praise for their work over the past couple of years, facing a very difficult economic environment.

In terms of your comments about the maturation of Jared, Jared maturation -- because you're right; it is an immature store base, should help us. But the issue about driving operating margins and return on capital is around store productivity. And to the extent that we can drive store productivity, we can drive up our operating margins and our return on capital. And that's the issue for all of our brands, not just Jared. Jared gets a little turbocharged because of the maturation factor.

Now, that customer pulled back more harshly beginning about September or October of 2008. They are coming back more strongly as they anniversaried that pullback. So that is a good boost to our store -- hopefully, will remain a good boost to our store productivity as those customers return to normal spending patterns. But the issue for all of our brands, to drive our company back to the around 20% return on capital figures and around those 12% operating margins is going to revolve around two issues. One is driving store productivity back up to pre-recession levels and then also bad debts in the US returning to a more normal run rate of that 3% to 3.5%.

If those two things happen over a period of two to three years, there's no reason that I can think of that we can't get back to a normalized operating margins and return on capital.

Operator

Rod Whitehead, Deutsche Bank.

Rod Whitehead - *Deutsche Bank - Analyst*

Could you just flesh out in a bit more detail the nature of the savings in both property and staff in the UK which you are planning to deliver this year?

Secondly, on the balance sheet, you are now in a situation where it's not ideal with all this cash sitting on the balance sheet, but also a lot of the medium-term bonds. Is there any prospect of being able to pay off some of those bonds earlier, over and above the $50 million that you have paid off recently?

Finally, on advertising in the US, would your plan be for that to reduce as a percent of sales further in the year ahead, or are you going to be pushing home your current advantage against the competition?

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

Going to your first question, in terms of the expense savings in the UK, in respect of the staffing I think we continue to look at improving our scheduling, i.e., certainly looking in terms of larger stores. We believe there are some opportunities there, given the volume the movements that we've seen in the last year or so because, clearly, look at comps in the last year. We have seen a reduction in volume, so I think it's appropriate that we do some realignment of store hours in much the same way as we did in the US last year.

With regards to property rationalization, much more effectively acknowledging that in this year just ended we did have a couple of costs in the fourth quarter where we had some onerous leases that we have now exited from, and therefore we will be able to [complete] these costs in the new year. So it's not so much savings on costs going forward we intend to make there; it's we wouldn't expect these somewhat unusual costs that have occurred in the fourth quarter to occur in the new fiscal year.

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As far as the bonds, the private placement holders, are concerned, we do make offers at par and in line with the agreement for repayment, and we made such an offer in line with the agreement at the end of -- at the beginning of February, we made the offer. And as we've said, the acceptance there was that level of $50.9 million.

We will make a further offer at the end of the new fiscal year, again at par. And again, there's no obligation on behalf of the noteholders to take that [over] (inaudible). We do have the capacity to either redeem in whole or in part, by way of a make whole offer, and that clearly would require us effectively to make the private placement holders whole in relation to the discounted value of their future interest payments. The cost of that make whole, therefore, is driven pretty much by the level of discount, and that is driven by 10-year treasuries. So, to the extent that 10-year treasury rates increase, then the cost of the make whole comes down, and therefore it does potentially become more attractive.

And it's something that we continue to monitor, to be frank, at the moment. Although it may seem, at least to some extent, inefficient to have the long-term borrowings on the balance sheet offset by cash, I think we still believe, in this uncertain world, that that's not necessarily a bad thing. But certainly, assuming a level of stabilization going forward, then, at some stage, assuming treasuries increase, as they are predicted to do so for the next 12 months, then assuming a more stable economic environment and also reduction in the cost of make whole, then, yes, at some stage it will be in the Company's interest to make such a redemption either in whole or in part. I wouldn't expect, in the immediate future, at least until we see some increase in the treasury costs, in the treasury rate.

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

In terms of advertising, Rod, we consider our advertising to be a significant competitive advantage. We target, in the US, about a 7% spend. That's gross number before co-op credits. In fiscal 2008 and 2009, our spend drifted up above 7% because of worse than expected sales. In 2010 we got better-than-expected sales, and our advertising expense was actually under the 7% level, more like around the 6% level.

Over time, we would -- we will be increasing our advertising budget this year, and over time we would expect our advertising expense to return more to that gross 7% level. And that's as long as our greater share of voice and our winning advertising campaigns continue to be effective and give us a return on investment. So far, they have, and they continue to do so. And, based on our consumer surveys that we've done after Christmas, our brands continue to get stronger due to our advertising because of -- we are showing better brand name recognition, better likability, better visit intent, better purchase intent, greater intention to revisit our stores.

So we think we have the right formula. We intend to continue to press the debt and work off that -- and work back towards that 7% gross spend.

Operator

John Baillie, Societe Generale.

John Baillie - *Societe Generale - Analyst*

You mentioned the words strategic opportunities during the presentation. I was wondering really if, is that something we should expect to materialize in 2010, and thus I was wondering, in particular, whether Zales' problems are going to [show] up some strategic opportunities, whether it's buying Canada or buying some outlet stores.

Secondly, if you could give some guidance on where you think the differentiated product [will go into Zales] in 2010, up from the 20% that you quoted for the last 12 months?

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

Right. Well, let me make this clear. Our primary focus in 2011 is on driving profitable market share within our existing business. And I think we've shown over the last decade -- you saw that from the market share chart -- that we're successful at gaining profitable market share, as we've almost doubled our share to about 9.5% last year, over the last 10 years. We intend to continue to invest in our competitive advantages like advertising, like training our staff, developing new, differentiated ranges and enhancing our real estate.

With regard to acquisitions, I can't speak about any one or another or what opportunities may surface for us. But I can tell you that any opportunity that presents itself will be looked at through the prism of our internal rate of return requirements. We've got to hit our metric. If those opportunities present themselves, then we will evaluate them and see if they are in the strategic interests of business to pursue.

But our primary focus continues to be on increasing profitable market share through productivity gains through our existing business.

Your second question --

John Baillie - *Societe Generale - Analyst*

On the differentiated product and where we can expect that to go to, and maybe a little bit of highlighting what the difference in margin is on that product with the mainstream.

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

There's a little difference. It's a little better margin. We can better control the buying costs. Because of the significant volume that goes through those programs, we get some economies of scale. There's less discounting pressure because competitors don't have the merchandise. So there's a little gross margin enhancement.

But you can't put those prices to a level where they are inconsistent with your pricing architecture. Otherwise, the consumers will not be responding to them as well as they do. So some marginal positive impact, but it's not a game changer.

In terms of the sales mix that's going to be the differentiated product, we are working to drive that higher. So we are using all -- we will be expanding our existing ranges, and we will be testing -- we are in the process of developing several new programs that would add to our differentiated merchandise offerings. But let me be clear; this is not a rush towards differentiated merchandise. It's a rush to satisfy consumer demand. And in the end, the consumers will determine just how high those differentiated ranges can go. But it is our intention to attempt to drive the percentage of differentiated merchandise higher.

The other thing I would point out to you is we do have -- when we talk about the percentage of differentiated merchandise that we have, we're just talking about specific merchandise programs that we have that are across a range of categories -- neckwear, rings, earrings -- that make up a whole program. We are excluding from that individual styles that we have that are unique to us. And that could add another 5% to 10%, depending on how you define those ranges, to our differentiated categories.

So you should understand that there's more to it than just -- the exclusive products would add to our differentiated ranges, if we started including those.

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Operator

David Jeary, Investec.

David Jeary - *Investec - Analyst*

A couple of questions, if I may. One regards the impact of the space move you've highlighted for the forthcoming year; and obviously, the sales of last year, given the rollover effect, the impact that could conceivably have, the contributions turnover, rather than just the pure physical impact because, just looking, sort of roughly at the numbers last year. If I remember rightly, your square footage is down roughly 1%, but the contribution to sales and space change was positive 0.6%. And I just wonder if you could give a bit more insight into the 2% space reduction you've highlighted for this year back into turnover.

Secondly, when did you implement the price increases you talked about in the UK and the US? And partly related to that, in terms of the US like-for-like, you've sort of got a flying start. What are your views or thoughts at the moment on prospects for the US in terms as far as potential like-for-like for the coming year, please?

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

I'll deal with the question on space. I think the fact that for the year as a whole in the US we have a benefit from net new store space of 60 basis points is a reflection not so much on closures, but more on openings. Because, remember, within that number would be the non-comp sales we would have in the early part of fiscal 2010 from stores that we were opening in fiscal 2009. And remember, we did have some more, consistently more, new store openings in that year.

So, although year end to year end, our net space is down 2% in the US, we do get a benefit in the year in terms of contribution to sales from non-comp for these store openings that we would [indeed had] in the previous fiscal year. And that's what drives that apparent anomaly.

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

In terms of the price changes, they occurred between February 15 and March 15 in both businesses. They come in phases, so those are largely completed now. And in terms of sales, watch this space. We've updated you to -- we've updated you right through to last Saturday. So you know what we know, at this point.

David Jeary - *Investec - Analyst*

Can I come back to Walker? Walker, thanks for the run-through back and extrapolating that forward. Can you help me work that logic through into next year, therefore, where you've got the 2% [fall] and then netting off impact of openings, potentially, from years before?

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

Now we would expect to be more in line with the space change because the benefit -- that benefit we got this year to non-comp sales from a higher level of openings at previous year -- clearly, now that is more normalized because our openings this year will be slightly less than last year, but it's a much more comparable number. So I would expect the impact on total sales from space to be closer to the year-on-year space reduction. So I would look at a small reduction on sales being driven from space rather than that anomaly we saw.

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I would still expect it to be slightly less because, clearly, by definition we are closing what would typically be underperforming stores. So you would always expect the impact on sales to be marginally less than the impact on space because of that underperformance. But there wouldn't be as wide a gap because now, year on year, our openings, our non-comp openings are much more similar.

David Jeary - *Investec - Analyst*

Would a good start point, Walker, be reversing the 60% sort of crystallization of space gains in your opening space, just to apply the reverse logic of that?

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

You need to repeat that; I didn't quite catch what you said.

David Jeary - *Investec - Analyst*

I just wondered if it would be a sensible start point to use the reverse logic of the broad extrapolation when you were opening space with about 60% of the space [rise] translated into a sales contribution every year, i.e., roughly down 1.3% rather than the [2% of] space that you are talking about.

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

I think, by and large, because when you look at the majority of our closures are in the regionals, and if you look at the productivity of regionals, they are, as it happens, round about 60% of the productivity of a Kay store. So, in terms of giving you a reasonable arithmetic calculation, then, yes, I think that's a decent assumption to take.

David Jeary - *Investec - Analyst*

Great, thanks, Walker.

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

I heard your chuckle; I wasn't trying to be cute in terms of your sales question. I'm optimistic about our ability to take market share, I'm optimistic about our ability to drive improvement through our competitive advantages and, other things being equal, to drive productivity through our stores. I think we've got a lot of competitive advantages. I think that we are exercising them very well, implementing them very well. And I think the numbers speak for themselves in terms of our market share and our share of wallet with how we compare to other retailers.

But I'm not going to get into a prediction situation here. I'm not going to get into predicting sales because the economy is -- we believe that the economy is still very uncertain. So we are not immune to the wider economic environment. Like I said, I'm confident that we can gain profitable market share from not just our competitive advantages but from other stores leaving the marketplace and from weakened competitors.

David Jeary - *Investec - Analyst*

Would it be fair, though, to say from your comments, though, you sounded a little bit more cautious on the UK than you are on the US? Or would that be an unfair interpretation?

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

My personal view of the broader economic environment is more upbeat about the US than it is about the UK. I think that there are -- well, if you just look at the trends in the broader economy and listen to -- as you know better than I do, listen to the politicians about potential further tax increases and some concern about employment levels there because of public-sector spending, I think one would be likely to be more optimistic about the US than they are about the UK.

Operator

(Operator instructions) Jeff Stein, Soleil Securities.

Jeff Stein - *Soleil Securities - Analyst*

I've been looking through the release; I couldn't find the comp store sales increase for Jared versus the mall-based change for the fourth quarter. Do you happen to have that number?

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

We are shuffling papers and looking for that right now. Did you have another question? We'll get back to that.

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

If you look on page 7 of the release, you will see comp store sales between Kay, the regionals and Jared. I think that was your question.

Jeff Stein - *Soleil Securities - Analyst*

Okay, yes, okay. And (multiple speakers) $150 million to $200 million of (technical difficulty) so I'm wondering what is the big delta in that range? Is it top line? And if so, can you just frame it in terms of what kind of range in comps that free cash flow range would indicate?

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

Jeff, I'm not -- could you try your question one more time?

Jeff Stein - *Soleil Securities - Analyst*

Sure. $150 million to $200 million of free cash flow is your forecast. What is the big delta in that range?

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

We give that range because there are clearly many, many moving parts. The comps or potential comps in both the UK and the US are clearly one of the main drivers. I think the other thing that adds additional uncertainty in the coming year, as Terry mentioned in his discussion, is that this year we are faced with more uncertainty because of -- what will be the reaction of consumers to the Truth in Lending amendments? You can [add US] cash flow might be improved because if it's more difficult

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to get credit under the amendments than do we -- does credit participation go down? Which is a possibility, and that would be helpful to cash flow.

On the other hand and, I think, more likely is that under the terms of the act, the certain clauses of the act, it seems to me there's an encouragement that consumers can take longer to pay with reduced penalty compared to the period prior to the act. And therefore, that would argue that there's a distinct possibility that the monthly collection rate will go down. And therefore, when we give that range, we are trying to take account of these uncertainties not just in respect of the economy as it relates to what will happen to the top line. As I mentioned, additionally this year we are faced with more uncertainty because we go in, like everybody else, into uncharted territory because we don't know how the consumer will react to the Truth in Lending Amendment Act.

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

To put it in shorthand, since inventories are going to be -- or we are saying that our intention is for inventories to be flattish, the two big deltas are going to be -- the two big variables are going to be receivable balances and profitability.

Jeff Stein - *Soleil Securities - Analyst*

What about tax rate? What is your thinking there?

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

I think our thinking is that, by and large, our tax rate for the new year will be plus or minus the same as this current year. Obviously, again, (inaudible) one of the determining factors is not just overall profitability, but also the geographic split between that. So, with that uncertainty, we would expect the tax rate to be broadly unchanged in the new year compared to the year just ended.

Operator

As we have no further questions, I'd like to turn the call back over to you gentlemen for any additional or closing remarks.

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

Thank you all for participating. We appreciate your joining in and joining us. Our next scheduled update is our Q1 sales and results, which are scheduled for May 27. Thank you again for your participation.

Operator

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

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