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SIG - Q3 Fiscal 2012 Signet Jewelers Ltd Earnings Conference Call

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PRESENTATION

Operator

Good day and welcome to the Signet Jewelers Q3 results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Tim Jackson. Please go ahead.

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Tim Jackson - *Signet Jewelers Ltd. - Director, IR*

Good morning and welcome to the conference call for our third-quarter results. I am Tim Jackson, Investor Relations Director. With me are Mike Barnes, CEO and Ron Ristau, CFO. The presentation deck we will be talking to is available from the webcast section of the Company's website, www.signetjewelers.com.

Before I hand over to Mike, I will give the Safe Harbor statement. During today's presentation, we will, in places, discuss Signet's business outlook and make certain forward-looking statements. Any statements that are not historical facts are subject to a number of risks and uncertainties and actual results may differ materially. We urge you to read the risk factors, cautionary language and other disclosures in the Annual Report on Form 10-K that was filed with the SEC on March 30, 2011. We also draw your attention to this slide. I will now hand over to Mike.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Thank you, Tim and good morning, everyone. We are very pleased with the record results in our third quarter, which reflects the on-going success of our business driven by our competitive strengths. For the quarter, totaled Signet same-store sales were up 10.6%, led by the US with a 13.9% comp store sales increase, while the UK comp was slightly down at 0.5%. So the comp growth momentum seen in the first two quarters was continued into the third quarter.

Some other key highlights include operating margin of 6%, an increase of 310 basis points from the prior year; income before taxes at $42.1 million, up $30.1 million from $12 million. Diluted earnings per share were $0.30. That is up $0.23, a more than threefold increase over the prior-year comparable period.

Also, I'd like to note reflecting the continued confidence we have in the strength of our business model, our ability to invest in growth initiatives and our commitment to build value for long-term shareholders, the Board has authorized a $300 million share repurchase program effective from January 16, 2012 for the 24 months following through January 15, 2014. It is also intended that the Board will announce the details of the fourth-quarter dividend when we release our holiday trading statement, which is currently scheduled for January 10.

Now let's look at the results in a little more detail and we will start with the US division. Total US sales were $563 million, up $66 million, an increase of 13.3%. Kay had another outstanding quarter and increased same-store sales by 13%. That is on top of 8.6% growth achieved in the third quarter of fiscal 2011. Average selling prices, excluding the charm bracelet category, rose by 8.7% with customers trading up due to merchandising initiatives, as well as the higher prices due to commodity costs.

Jared, again, performed extremely well with comps up 18.3% following a 14.3% increase last year. That was an outstanding two-year comp number. There was a substantial increase in Jared non-bead average selling price reflecting both mix and price increases. In addition, Jared average unit selling price was favorably impacted by approximately $76 as a result of a one-time watch promotion, which had an 8.3% impact on same-store sales at Jared.

Overall, US same-store sales increased by 13.8% compared to an increase of 9.7% last year. Net operating income was $56.4 million, up $30.7 million, which was a 119.5% increase. And finally, the US division's operating margin increased by 510 basis points to 10%.

At the continued core of our success is the in-store experience. We have remained very focused on training all our team members ahead of the holiday season so that we can continue to give our guests best-in-class service. We have been particularly focused on the bridal category to support some of our merchandise initiatives such as Neil Lane Bridal and the Tolkowsky diamond, along with our longer-term bridal brands. We drew upon much of the knowledge we gained over the past year in which we had a major research project that was focused on bridal.

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We have also been introducing customer-assisted selling systems into selected Kay stores. This is a great example of our ability to build on the experience we have gained from operating said system in Jared for a number of years now.

Leo continues to remain our leading bridal brand and is now complemented by a number of other exclusive brands. In particular, as I mentioned, the Neil Lane brand and Tolkowsky diamond, both of which we have been rolling out over the last 15 months. Neil Lane is now in all of our stores in the US and the Tolkowsky diamond is in over 600 Kay stores. We continue to be very pleased with their performance and these brands are helping to contribute to the growth in average selling prices. The strength of these exclusive brands may be resulting in a shift away from more generic loose diamond sales. Overall, the bridal sector is a major contributor to our performance and is showing good growth.

Our non-bridal exclusive and differentiated brands continue to outperform, including Charmed Memories, which remains strong and was mostly a non-comp business in the third quarter. Le Vian is another standout brand and has an average selling price substantially higher than our overall average. These brands help to create a unique store destination and provide our great store teams with powerful selling propositions. In the fourth quarter, we expect to benefit from initiatives we have taken in support of the development of these brands, including the rollout of great new designs within these ranges and expanded advertising support.

In particular, as we moved into the fourth quarter, we began our national television advertising for the holiday season. We are significantly increasing spend for both Kay and Jared, reflecting a greater number of impressions for both concept brands. Our ability to support both our store concepts and our merchandise brands on national television is an important competitive strength. In fact, I have already seen a number of the ads air on some of the channels that I watch and they are terrific. I hope you all have an opportunity to see them as well over the coming holiday season.

Turning now to the UK, we continued to operate comparatively well in a challenging marketplace and continue to outperform the nonfood retail sector as a whole. Total sales were $147.5 million, up $2.7 million, an increase of 1.9% with same-store sales down 0.5%. Watches and the bridal category, including gold rings, continued to perform well. Average selling prices, excluding the charm bracelet category, were up by 6.5%.

The key to the results in any fiscal year in the UK division really is the fourth quarter. It is the fourth quarter where we have the greatest opportunity to drive high operational leverage and profitability. Therefore, we are very focused on the seasonal sales in front of us and we have developed strong initiatives to help us drive the best possible results.

A major initiative is our continued drive to increase our differentiation within the marketplace with an emphasis on branded merchandise and new products in general. This holiday season, we have a record level of new merchandise providing our customers with a great reason to look at H. Samuel and Ernest Jones for their purchase needs as we move through the holiday season.

Exclusive branded merchandise include Love's Embrace, Tolkowsky diamond and Le Vian, which draw on our US experience, while others are specific to the UK market such as the Amanda Wakeley collection. While the exclusive ranges are predominantly in Ernest Jones and H. Samuel, the key focus is more on building on its market leadership and partnering with major international brands such as DKNY and Guess, amongst many others in the watch and jewelry categories.

In addition to product initiatives, marketing is a key focus for the fourth quarter. We are increasing television advertising for H. Samuel at a time when many UK advertisers are reducing spend. In doing so, we have garnered the support of many leading watch brands as well. And at Ernest Jones, we have more press advertising this year as press being a more effective medium for reaching the Ernest Jones customer. In addition, we have increased customer relationship marketing at both H. Samuel and Ernest Jones.

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I would also like to call out our two new stores in the Westfield Stratford City Mall, which we opened during the quarter. We are testing a number of new design concepts in these stores and we are very pleased with the initial trading results. As always, the in-store customer experience remains a priority and we continue to focus on staff training and development.

This year, as we have discussed, an investment priority for both the US and UK division has been sales-enhancing technology and many of our initiatives have come online in the third quarter. In the US, the most important are the major upgrades to both the Kay and the Jared websites in terms of their design, new features introduced and our search engine rankings. Of particular note, as a new feature with the launch of DESIGN-A-RING capability on the Kay website toward the end of the quarter, this is an example of our increasing ability to provide our customers with personalized jewelry through the use of emotionally-connected technology.

We have also enhanced our digital media capabilities in the UK division. For example, new features have been introduced on both the H. Samuel and Ernest Jones websites such as personalized jewelry. We have improved our social media capabilities, and I am pleased to announce we have just launched our first fully transactional iPhone apps for both H. Samuel and Ernest Jones. If you search in the App Store on your iPhone, you will find them to be an easy and fast download and of course, they are free.

E-commerce sales continued to be very strong and on a consolidated basis, we grew by over one-third for both the quarter and year-to-date. I will now hand it over to Ron to go through the financials in a little bit more detail. Ron?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Thank you. As Mike indicated, total sales for Signet increased 10.7% to $710.5 million compared to $641.8 million in the third quarter of last year. Total company comp store sales increased 10.6% versus an increase of 7.2% in the comparable quarter last year.

In the US, total sales increased 13.3% to $563 million reflecting comp store sales up 13.9% versus a 9.7% increase last year. In the UK, total sales increased 1.9% to $147.5 million, reflecting a comp store sales decrease of 0.5% compared to a decline of 0.6% last year, and the favorable impact of currency fluctuations, which more than balanced the 0.7% adverse impact of reduced space.

Now, looking at the analysis of the $30.1 million increase in income before taxes from $12 million to $42.1 million. Gross margin was $229.9 million, an improvement of $36.3 million. The gross margin rate was 32.4%, up by 220 basis points, primarily benefiting from the leverage of store occupancy costs in both the US and UK divisions. In addition, gross margin also benefited from an improved net bad debt to total sales ratio in the US division, which came in at 5.4% for the quarter, which was 50 basis points better than last year.

Total gross merchandise margin was down by 50 basis points and was impacted by higher cost of commodities and a one-time watch promotion in the US division, largely offset by price increases. The US gross merchandise margin was down 40 basis points; however, excluding the impact of the low-margin watch promotion, merchandise margin increased by 45 basis points. In the UK, merchandise margin declined 80 basis points as pricing only partially offset commodity inflation [fully].

SG&A expense was $219.6 million, up $18.1 million or 9% from last year. As a percentage of sales, they were 30.9%, an improvement of 50 basis points from last year and I will cover this in more detail on the next slide.

Other net operating income was $32.2 million, up $5.8 million on last year, primarily reflecting interest income on higher accounts receivable, which had a 40 basis points favorable impact on the operating income margin. The third quarter's net operating income was $42.5 million, an improvement of $24 million, or 129.7%. Operating margin was 6%, up from 2.9% last year in the third quarter, an increase of 310 basis points.

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I would like to point out that while comps and merchandise margins were impacted by the watch promotion, there was no significant operating income impact as margin on the watch promotion was largely offset by inventory reserves.

Net interest expense was $0.4 million, a decrease of $6.1 million, or a fall of 90 basis points as a percentage of net sales. This primarily reflected the benefit of prepaying our private placement notes last year. Income before tax was $42.1 million, an increase of $30.1 million or 250.8%. As a percentage of sales, that was 5.9%, an improvement of 400 basis points based upon excellent execution in all aspects of the business. I would like to point out that, for the year, we expect our tax rate to be 35.4%.

Now looking at SG&A in more detail as a percentage of sales in the third quarter, again, SG&A improved to 30.9% as compared to 31.4% in the prior year. The major reasons for the increase of $18.1 million in the third quarter were as follows -- an increase in net advertising investment of $3.7 million; a $1.5 million increase attributable to currency fluctuations; $1.1 million of the increase was due to higher 401(k) contributions; and $7.1 million of the remaining increase was the result of store staff costs, which, of course, flex with sales. And the balance primarily reflected increased investment in IP, credit infrastructure and incentive compensation expense. We believe our SG&A remains extremely well-controlled.

This next graph shows the third-quarter net bad debt to US sales ratio and the collection rate over 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 charges; however, the change on the comparable quarter in the prior year is meaningful. The third-quarter net bad debt to US sales ratio improved by 50 basis points from 5.9% to 5.4% reflecting both higher sales and an improvement in the receivable performance, which was seen in many of the other key indicators of receivable management. This is the eighth consecutive quarter that we have seen improvement.

On a year-to-date basis, our ratio stood at 3.6% versus 4.4% last year, an improvement of 80 basis points. We believe that we will continue to move towards the historical annual range of 2.8% to 3.4%. Our average monthly collection rate was 12.2% versus 12.1% in the prior year. This is a 10 basis point improvement.

Now turning briefly to the year-to-date results. For the year-to-date, total Signet same-store sales were up 10.2%, led by the US with a 12.8% same-store sales increase and the UK, up 0.4%. Gross margin was 36.5% versus 33.4% last year, an improvement of 310 basis points and our SG&A was 29.6% versus 29.7% in the prior year. Operating margin was 11%, an increase of 350 basis points. Income before taxes was $259.7 million, up $118.9 million, or 84.4% and diluted earnings per share are $1.93, up $0.83 or 75.5%.

Now looking at our cash flow, reflecting our seasonal build in inventory, increased receivable balances, which move in line with the US sales increases and our increased investment in capital projects, our year-to-date cash flow was $40.6 million as compared to $157.4 million last year. We continue to project free cash flow for the year will be in the range of $175 million to $225 million. We ended the quarter with cash of $349.6 million as compared to $414.9 million a year ago. This reflects the repayment of the $229.1 million of private placement notes in the fourth quarter of the prior fiscal year, offset by the cumulative cash generated since the payment.

Looking at our financial objectives throughout this year thus far, we believe we have made excellent progress against all of our financial objectives for fiscal 2012 and look forward to the successful completion of the holiday selling period. I will now turn it over to Mike for final comments.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Thanks, Ron. As noted, we are very pleased with the start of the fourth quarter. With the majority of our sales ahead of us, we are confident that the superior quality of our in-store experience, our well-tested merchandising programs and the exciting new advertising support mean that we are well-positioned for the remainder of the holiday season. I will now open the call for questions.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bill Armstrong, C.L. King & Associates.

Bill Armstrong - *C.L. King & Associates - Analyst*

Good morning, Mike and Ron. On the Jared watch promotion, I was wondering if you could just maybe give us a little more detail on that. What was the rationale for running that promotion? Were you overinventoried or was there a specific promotion that was in concert with a particular brand?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Yes, good morning, Bill. Thanks for the question. Let me put a little bit more detail behind that. What it was -- it was a one-time promotion that we had for Rolex watches and it was primarily executed within the third quarter. The bottom line is that we will be exiting our sales partnership with Rolex in the US during the spring of next year and really this was part of a joint selldown strategy to help facilitate that transition.

What has happened is that, as Rolex has repositioned their brand, including to even higher luxury price points, we really feel it is no longer optimally positioned for our core Jared customers. It is a great brand, of course, but our customers are really in the upper middle market and not in the ultra-high-end luxury consumer. Rolex realizes this as well, and hence they are making what they believe are the appropriate moves to reposition their brand accordingly.

This is not directed just solely at Signet, but it is really a core change in their thoughts regarding the proper channels for distribution for them. And this has been -- just to put a little bit more perspective behind it, it has really been an evolution as we have closed certain doors for Rolex over several years now. In fact, we have only carried it in about 30 doors during the current year.

And as I said, Rolex, they have been great partners over the years and they are going to continue to be great partners in working with us to service our customers going forward as they continue to provide the quality of service that they have become known for.

Bill Armstrong - *C.L. King & Associates - Analyst*

I see. And will that in turn open up any opportunities for other brands of watches within the Jared stores?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Yes, we have already been in discussions this year on how we could strategically realign our watch business to really better meet the needs of our core customer base. And we do have a lot of other long-term strategic watch brands that are great partners and we feel are a great fit for our Jared demographic. We have some certain focuses on them going forward and we are looking at the entire strategy for our watch business long term going forward.

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Bill Armstrong - *C.L. King & Associates - Analyst*

Got it. Okay. And then just one other question on the UK, gross margin was -- or the merchandise margin was down. I think you did have some price increases this year and you are putting in some more differentiated brands. Should we possibly expect maybe a turnaround and an improvement in merchandise margins as we go into the new year?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

I think it is always our goal to try to offset commodity price inflation with price increases. In the UK, we have been able to do that to a large extent, but not entirely. So our margins have been running slightly down throughout the year. As we move into next year, it will certainly be our intention to try to stabilize that a little more, but it depends on the strength of the economy and the level of how we have to meet competition whether or not we can totally pass through all commodity price increases next year. So it is a little premature to exactly commit to that, but it certainly is our goal as we move through our planning process and into next year to seek to try to accomplish that.

Bill Armstrong - *C.L. King & Associates - Analyst*

Understood. Okay, thank you very much.

Operator

Rick Patel, Bank of America.

Rick Patel - *Bank of America-Merrill Lynch - Analyst*

Thank you, good morning. Can you provide some color on which categories customers have been most willing to accept higher prices for? And can you also highlight some areas where you've had some pushback to higher prices whether it is for entry-level merchandise or certain fashion categories?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

I would definitely say, and I think this is partially reflected not only in increased commodity costs, but also certain trade-ups that we talk about from time to time, that some of the -- quite frankly, some of the higher priced merchandise, and especially a lot of the branded merchandise, both inside the bridal and outside the bridal realm, continue to be opportunities for us to gain higher prices on.

I mentioned a little bit about the Neil Lane that has now been fully rolled out in the US, which does carry some higher bridal prices. The Tolkowsky diamond, which is an ideal cut diamond, it also carries higher prices. And I think that a lot of the branded businesses are less resistant than some of the more core businesses to price increases.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

And just to add to that, I would say that we monitor this very closely by SKU whenever we put in a price increase. And part of the art of our merchants is the excellent way in which they protect customer value so that we have seen very, very rare instances of resistance to price because we always try to make sure that our prices reflect the value in the current marketplace.

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Rick Patel - *Bank of America-Merrill Lynch - Analyst*

Can you also give us an update on the charm bracelet category both for Pandora and Charmed Memories? Recently, another middle-market jewelry company and also an online retailer both started selling charm jewelry. So I am curious if you guys think this category is getting crowded and if so, your plans to either maintain or increase market share in the future.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Sure. Basically Charmed Memories, which was mostly a non-comp business in Q3 last year, did very well for us. It was a great business. And Pandora, by the way, had another great quarter for us as well. The business was very, very strong. It is kind of a tale of two countries. Quite frankly, in the UK, as we mentioned, it is a tough business model over there anyway, but the charm and bead business has slowed down for us in the UK a little bit more. In the US, we have continued to see strength in both Charmed Memories and in Pandora at Jared with a little bit more of a slowing in the UK on that.

Rick Patel - *Bank of America-Merrill Lynch - Analyst*

Thank you very much and best of luck for holiday.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Thank you so much.

Operator

Robert Drbul, Barclays Capital.

Robert Drbul - *Barclays Capital - Analyst*

Hi, good morning. First question is -- on the ASP increases that you experience in the businesses, is there a portion that you could attribute to price increase versus the mix or the move to private brands? Is there a way you could break that down for us?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

It is somewhat difficult to break out. We do that internally. I would say that the majority of it is driven by pricing from a perspective of giving you some color around it. Although, of course, we are seeing trade-up in our bridal categories as we move through the introduction of Neil Lane and Tolkowsky and Leo. These are more expensive products and we do find that the consumer is trading up and more willing to pay for perceived quality of product without too much resistance. But I would categorize it for you broadly that the majority of it is due to the price increases that we put through.

Robert Drbul - *Barclays Capital - Analyst*

Got it. And within the buyback authorization, could you just maybe develop a little bit more around the approach of the buyback? Is it going to be more price-sensitive or just at current market prices, you will just use the authorization? How should we think about that?

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Mike Barnes - *Signet Jewelers Ltd. - CEO*

Well, first off, the buyback has been approved by the Board, but we can't start it due to the normalized blackout period we have until January. So we will take a little bit of time on putting together our strategy on how to execute that in the best way in the interest of the shareholders.

Frankly, we feel like it was the right thing to do. It was a good addition to the dividend that we had already instituted. And we think, because of our strong business model and the fact that we have identified what we believe is an appropriate balance sheet kind of on a go-forward basis, that it gives us an opportunity to buy back the stock in the interest of the shareholders over time.

As far as putting pricing and parameters around that, obviously, we are not going to go public with what our parameters are. We would just say that we are looking to buy stock when it is -- when we do feel like there is a good opportunity to increase value to the shareholders and when we feel like the stock may be underappreciated.

Robert Drbul - *Barclays Capital - Analyst*

Great. And then my last question is so I think merchandise margins were up in the second quarter and I think they were down largely in the third quarter. Just can you help us understand the differences sequentially around that specific statistic?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Sure. The merchandise margins in the third quarter would actually be up if we take out the impact of the watch promotion on the US division. So in other words, that is a swing of 85 basis points due to this watch promotion, which, as it turned out, was a low -- high-volume, but low-margin activity.

The other thing that occurred in the third quarter of this year was that, particularly in the US, we were up against some price increases taken in the third quarter of last year, which we did not repeat this year because we felt our products were well-placed. We received a benefit from that in the first and second quarter and it is slightly less of a benefit in the third quarter of this year. We still believe that our gross margin -- merchandise margin management has been excellent. We will more than achieve our goal of maintaining parity or even a slight improvement on the year and think that our prices are very competitive in the market right now.

Robert Drbul - *Barclays Capital - Analyst*

Great. Thank you very much.

Operator

David Wu, Telsey Advisory Group.

David Wu - *Telsey Advisory Group - Analyst*

Hi, good morning, everyone and congrats on a solid quarter. First question, you mentioned that you are pleased with the start of this quarter. Is it fair to assume that the comp so far in November is maintaining a similar pace as the third quarter?

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Mike Barnes - *Signet Jewelers Ltd. - CEO*

Yes, I think that is a fair characterization. I would say they are broadly similar just like I did last quarter and then that happens to be the case. So we feel very good about the start that we have had to the fourth quarter. We think that our positioning is as good as it has ever been, that we have great marketing initiatives behind our products and our store concepts and we are looking forward to the remainder of the holiday season.

David Wu - *Telsey Advisory Group - Analyst*

Great. And with regards to the credit program, can you talk about how credit sales performed in the quarter, how the approval rates have been trending and if you are planning any special credit promotions this holiday such as interest-free promos?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

We are not planning any special credit programs for the fourth quarter. We believe we have an excellent offering throughout the year. We do offer, of course, interest-free programs, but they are the same programs that we offer all year long to people. We don't do anything special for holiday nor do we provide any additional incentives with our credit for sales in the fourth quarter. We believe our programs are well-designed and our merchandise is certainly value priced so that the consumer gets a great deal.

Our in-house consumer participation rates remained relatively consistent in the third quarter and we are very pleased with all of the statistics as it relates to credit and really our consumers are behaving in an excellent manner. They continue to make payments in excess of minimum requirements. They are paying large down payments. People are acting very responsibly with credit. And one of the reasons that our credit files are building is that the bridal category, which, of course, is a very important component of those sales is credit, continues to be very strong for us.

So the credit is really, really in good shape. Probably -- and our internal records, better than it has ever been and just continues to perform excellently. Hats off to the people who run our credit operation because they have been doing an excellent job managing it as we have continued to recover.

David Wu - *Telsey Advisory Group - Analyst*

Great. And then you also mentioned higher ad spending this holiday season. So should we expect an increase on a marketing and sales basis for the fourth quarter?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

As we have stated, we have been targeting 6% to 6.5% in the United States as far as an advertising marketing spend on a yearly basis, and that is up from last year slightly. And we have invested more in the national television advertising. Not only did we have inflation there, but we have invested additionally to get more impressions this year for both Kay and Jared than we had last year. So we think that our advertising is well-positioned and it is going to really help us drive sales.

David Wu - *Telsey Advisory Group - Analyst*

Excellent. Thank you very much.

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Operator

Jeff Stein, Northcoast Research.

Jeff Stein - *Northcoast Research - Analyst*

Hey, Mike, I had a question for you with regard to who you are kind of going after in the bridal business. If you look at the demographics, it would seem to me that you have got a lot of younger consumers out there that are probably delaying marriages. They don't have a lot of money coming out of school. It is tough to find jobs.

And yet you guys are kind of raising the bar and going, it seems to me, after a higher income demographic with some of your new private brands. So I am wondering is this a strategy that might come back to haunt you a little bit further down the line as the demographics potentially could begin to work against you?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Thanks for the question. Actually I think that you look at the broad offering that we have, both branded and in our core businesses or better known as non-branded businesses perhaps, that we really have not moved away from our customer. We have just given more choice and a branded opportunity to our customers.

You know, the amazing thing is if you look at the -- take Neil Lane for example. One of the highest or one of the best-selling price points we have in that entire line is over $6,000. So I truly believe that what we see is the consumer is just looking for something different. They want something more innovative, more fashionable, more stylish and they're willing to pay even more for it which I think is a great thing.

But it's not necessarily that we are losing those customers. I think a lot of them really are trading up and I have seen that throughout a lot of businesses over time, even in the very tough times back in the recessionary days. Consumers are just looking for something that is very much differentiated from the sea of products and the sea of sameness that they have seen out there, and I think that is one area that the branding initiative really helps us with.

But we have plenty of opportunity and we look at our merchandise planning and our lines kind of as being on a grid. We offer everything in many different price points, it's very broad and it gives the consumer an opportunity to really figure out which features are most important to them -- is it price, is it brightness, is it an ideal cut diamond, etc., and that allows them to make the right choice. And that is really all we are doing is trying to give the consumer the ability to choose what is right for them.

Jeff Stein - *Northcoast Research - Analyst*

Great, thank you for that. And one additional question if I may. You have indicated historically, at least for this year, that your private label penetration is about 22%, up from 19% last year, about 300 basis points. But I am wondering if you could drill down a little bit within the bridal category, which I think is about 50% of your sales. Can you talk a little bit about where your private label penetration is just in bridal alone compared to the prior-year?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

First off, just to make sure that we are very clear here, the 22% was last year's fiscal 2011 penetration for exclusive and differentiated brands against -- and that was up 300 basis points from the year before that, which was fiscal year '10. This year, what we have said is that, A, overall, we expect to see that penetration continue to grow based on what we've seen, but we have not delivered quarterly penetration numbers on that. And certainly we will give a comparison since we have given that out on an annual basis.

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Bridal, we have not broken out specifically what the penetration is on the branded goods, but if you look within the marketplace and some of the comments that we have said, we have rolled out, over the last 15 months, two major programs, being Neil Lane and Tolkowsky diamond and we have stated that Leo continues to be our largest selling branded program. So clearly, we would expect to see a lot of growth in the bridal category as well, but we haven't put any number to that yet.

Jeff Stein - *Northcoast Research - Analyst*

Got it. Thank you.

Operator

Jennifer Davis, Lazard Capital Markets.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Hey, guys, congratulations on another great quarter.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Thanks, Jennifer.

Jennifer Davis - *Lazard Capital Markets - Analyst*

A quick clarification, first of all. The watch promo, I think you said it boosted comps 8.3% at Jared. What was the impact on ASPs?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

$76 I believe it was.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Yes.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Just let me give you the numbers just so you have got them. It's 8.3% in Jared; it's about 3% on US and 2% on total.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

That is comp.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Comp.

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Jennifer Davis - *Lazard Capital Markets - Analyst*

Right, okay. Great, thanks.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Just as it moves up the chain, $76 in the Jared ASP.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Got it, got it. Thanks. And then is Tolkowsky in all of the Kay stores that you think it can be in? I think you said it is in a little over 600 out of the 900-ish.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Yes, it is around 600 doors right now. As we always do, we test before we invest. So we will continue to roll it out as appropriate. We will see how the latest rollouts are doing. I can say that, overall, we have been very pleased with the results that we have seen from Tolkowsky. So we will just take it a step at a time, but I wouldn't necessarily say that the number of doors is limited at that number, no.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Okay, great. And then can you talk a little bit about the delta between the comps at the regional brands and Kay? Is that -- I mean the merchandise is similar, so do you think that that is largely attributable to the advertising, the national advertising at Kay or is there anything else that kind of factors in there?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

That is far and away, as we have discussed, the largest factor quite frankly. When you look at it, they have the same opportunity for the merchandise. It is the same great training and people development that we do in all of our divisions and eventually, it all reports up to the same management team. So really the biggest difference there is the national advertising, which has helped us build a very powerful national mall-branded store.

Jennifer Davis - *Lazard Capital Markets - Analyst*

All right, thank you. Outstanding. Okay, lastly, in terms of the UK, I understand that you have done like everything in your control. You are well-prepared for the fourth quarter, but how do you feel about the consumer there? I guess how do you feel about what is not in your control?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

I think the consumer is having a very difficult time there and obviously, we are pleased that we are outperforming the other parts of the non-food retail sector, but it is a tough business environment and there is no way to dodge that animal. It is just there and it is part of the microenvironment we have to deal with it. The best we can do is position ourself for the best possible results and position ourself to try and take market share even more as we move forward and that is what we are doing. And

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again, as I mentioned earlier in the remarks, the fourth quarter is a very important part of that and we focused ourselves pretty clearly on initiatives for that.

Jennifer Davis - *Lazard Capital Markets - Analyst*

All right, great. Thanks and best of luck for holiday.

Operator

Rod Whitehead, Deutsche Bank.

Rod Whitehead - *Deutsche Bank - Analyst*

Hi there. Clearly, the strength you've had so far this year very much driven by bridal. What are your -- I mean obviously it is a different customer at Christmas; it is a gift giving customer. What products in particular do you think will be key to driving the performance over that period?

And a second question, just coming back to the Rolex clearout, you mentioned that you'll exit completely by spring of next year. So does that mean you have got further inventory? If you have, have they given you extra inventory because you can work out from what you have given that the sales of Rolex in the quarter were $14 million, which, at a full selling price, must be close to your annual sales of Rolex?

And the final kind of question on that is it looks as if -- again, from the numbers you have given -- that the Rolex product was sold on about a 25% gross margin, which presumably means about 25% off normal selling prices. Why did you choose to kind of sell at such a huge discount because I am sure you would sell that stuff anyway?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Well, okay, I am going to go all the way back and try to remember your first question.

Rod Whitehead - *Deutsche Bank - Analyst*

Sorry.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

That's okay. Thank you very much. Bridal has been very strong for us this year, but I wouldn't say that it has inordinately driven our business. We have really seen a very broad-based growth and that is why I always point out that even the non-bridal ranges that we have, both branded and non-branded, have done well for us.

And on the branded side, some of the callouts that we have had in the US market is that beads have continued to do very well for us, the charm category. A lot of the fashion merchandise, even at the higher end such as the Le Vian brand that I mentioned earlier, has continued to do extremely well for us throughout the year and we have a lot of great merchandise initiatives. The guys down in the merchandising department have done a fantastic job of making sure that all of our brands and non-brands have been well-loaded with new merchandise and fresh merchandise as we have moved throughout the year and again, well-positioned for holiday.

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So I am not concerned about that. I think what will drive holiday are the normal gift giving suspects that we normally see out there. One thing I didn't call out, not to focus just on the watch promotion that we had, but our watch business has been very good, actually both in the US and it has been good in the UK as well as far as the category goes. So there is a lot of opportunity for us to drive holiday sales in the fourth quarter and we feel pretty good about that.

In terms of the watch promotion, we had various different price points within that watch promotion depending on what our goals were on creating sales and what our inventory positions were, etc. and we feel like we appropriately priced the merchandise for the results that we wanted to achieve.

As I said, the biggest part of that watch promotion was conducted within the third quarter, and I would expect to not see the same type of impact on a go-forward basis as we continue to kind of finalize that business over the next couple of months. But really we are only a few months away from spring, so it is really a matter of just getting in and doing the right thing in a very controlled way with the brand as well.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

We are going to run out of inventory before the fourth quarter, so it will be pretty much over at that point. They are not shipping in additional inventory for liquidation purposes.

Rod Whitehead - *Deutsche Bank - Analyst*

That's a shame. Okay, thank you.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Yes, I know.

Operator

Ben Spruntulis, Citigroup.

Ben Spruntulis - *Citigroup - Analyst*

Thanks very much. Good morning, Mike. Good morning, Ron. Could I just start with a question on the US? You kindly shared the underlying gross margin in the US from the impact from the Rolex watch (inaudible). Could I just clarify the impact that had on your US same-store sales in the quarter?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

3%, approximately 3%.

Ben Spruntulis - *Citigroup - Analyst*

3%, fantastic. And when you have referred to, on the call, happy with underlying trends in Q4, when you said similar to Q3, you are referring to an underlying Q3 trend?

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Mike Barnes - *Signet Jewelers Ltd. - CEO*

Yes, we were referring to the comp store trends that we have seen.

Ben Spruntulis - *Citigroup - Analyst*

The underlying trends?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

No, the total company trend.

Ben Spruntulis - *Citigroup - Analyst*

Okay, fantastic. And a follow-up on the UK, the operating margins in the UK fell by around 340 bps in the quarter, but gross merchandise margin was only down around 80 bps. Are there any other sort of investment that has gone into SG&A that has led to that operating margin decline?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

We are dealing with small numbers, but we have done a couple of things in the third quarter. We have increased advertising spend a little bit in the third quarter to try to continue to hold the line in what is a very difficult market there. We have got some increase in our store staff costs just driven by overall inflation and rises in the minimum wage. And last year, we had a one-time benefit of a property transaction, which was worth about $700,000.

So those are the main things going on, a little bit more in IT and a little bit more in some long-term share-based compensation costs, which is just driven by the way the program is designed, but these are all small changes. They have produced an operating loss, which was greater in the third quarter. But as Mike pointed out, we have been playing and continue to play for the fourth quarter, which is where we earn virtually all of our operating income in the UK division. And I have spent considerable time and effort working with the merchants and teams there to try to get as strong an offering as we can in the fourth quarter, which is where we are going to win or lose the whole year.

Ben Spruntulis - *Citigroup - Analyst*

That is very clear. Thanks very much.

Operator

Anthony Lebiedzinski, Sidoti & Co.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Good morning. Just a follow-up on the question in regards to the Q4 trends. Are you seeing similar trends in the US and the UK or just wanted to get a little more clarification on that comment in regards to current trends?

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Ron Ristau - *Signet Jewelers Ltd. - CFO*

Yes, I don't think we would want to be -- we don't provide guidance. We wouldn't go into that level of detail. I think it would be suffice it to say that as a total company basis, we are very pleased with the trends and there is nothing -- I would just say the total company trend is great.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Okay, thank you. And just wondering about the credit participation, it was up again over here in the third quarter. Just wondering if you could provide a little bit of a breakdown between bridal sales versus non-bridal sales when it comes to credit participation.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Sure. Well, I will go somewhat -- I will meet you halfway on that, so to speak. The credit participation on bridal is higher than the Company average, there is no question about that, because we feel that the bridal offering is really a wonderful place where the intersection of our credit strengths, our pricing and our merchandise offering all come together to offer the consumer a great deal. And oftentimes, the bridal customer is a young person in their late 20s who is still establishing themselves from a credit perspective and our programs are very much orientated towards helping that consumer make the purchase that they desire and our credit programs strongly support it. So we do see distortion of more credit for bridal than we do in the overall business. But for competitive purposes, I wouldn't go into the exact percentage, but suffice it to say it is significantly more than the Company as a whole.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Okay. And as far as store growth for next year, I know you gave some comments during your Analyst Day. Is there anything further that you could perhaps add or are you still looking at the same type of store growth that you had communicated with the investment community?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Yes, we are pretty much in the same levels and just to repeat it, basically our expectations in the US are that we would open from 40 to 50 new stores next year and probably six to eight of those would be Jared-type concepts. The remainder, of course, would be Kay and a lot of those would be off-mall concepts.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Okay. And as far as store closings for next year, any number you can give out?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

No, it will probably be in the range of -- I would rather not give it out, but it is probably in the range of around 30-ish, 30 to 35 stores. I could be off on that as we finish -- it always depends upon how the businesses evolve over some time and into the year. And it is always a number that moves around depending upon the performance of stores and the deals that we can cut with landlords and so on, but they are probably in that rough range.

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Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

All right, thank you.

Operator

Ike Boruchow, JPMorgan.

Ike Boruchow - *JPMorgan - Analyst*

Hey, guys, congrats on a great quarter. Ron, I guess I will ask you about the -- the CapEx budget for this year obviously came up quite a bit as you guys were catching up on some remodels. Can you give us any color on next year? I mean is the business fully caught up? Are there more stores to remodel? Just how to think about capital spending?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Well, we are not prepared to speak about that yet in total, but I would give you a couple of comments on that. Number one, we are going to be doing more new stores. Number two, our IT investment programs are multiyear programs; they are not just a one-year program. That is true of both our core operating systems development, as well as our Internet push, which Mike has really pushed on this year. So those are multiyear initiatives.

And in addition to that, what we would have to watch out for is the anniversary dates on some of our stores. So some of our -- there is a large universe of our Jared stores, which are coming up on 10-year anniversaries and of course, as market leaders, we want to continue to remodel those stores robustly to make sure they have the latest and greatest store designs and selling techniques available to them.

So all of those things will serve to keep capital spending at a fairly high level. So I wouldn't expect it to change that much. It will obviously change somewhat, but these programs are ongoing and will require capital over some period of time.

Ike Boruchow - *JPMorgan - Analyst*

Okay. And then, Mike, when we think about -- I know it is a little premature, but when we think about your new buyback program in conjunction with your comments at the last Analyst Day, it sounds like you guys have a $300 million roughly cash cushion target. But if the business continues to run at the pace it is running, I mean you could fully exhaust that repurchase program next year and still be well within your targeted cash cushion. Is there any comment on how you plan to use that $300 million? Do you need to spread it out over two years? Could you accelerate it? Just anything there?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Yes, we really haven't gone into any details as to how we would execute the plan yet and there is a lot of reasons for that. But the cushion that you speak of is kind of a moving target as well. Number one, it is not a hard and a fast number. Obviously, there may be times where you are a little below it and times when you are a little bit above it. But we kind of couch that in terms of like a 7% to 9% of net sales. So as our business continues to grow, that number would change over time as well. But right now, it is somewhere in approximately the $300 million range as you pointed out.

Clearly, we are going to execute that buyback in whatever is the best fashion that we have determined in the interest of the shareholders. So we do need to give a little bit more time and think it through. It could be done rather quickly or it may take a little bit of time. We will just have to see what the market looks like at the time when we get there.

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Ike Boruchow - *JPMorgan - Analyst*

Okay, congrats, guys. Thanks.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Thank you so much.

Operator

John Baillie, Societe Generale.

John Baillie - *Societe Generale - Analyst*

Hi, good morning, gentlemen. Great set of results. I mean just on the merchandise, the gross merchandise margin, just wondering if the differential on the exclusive product is widening as you build upscale and roll it out? Is there really quite a gap now between that and the rest of the product range?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

No, I would describe the gap -- we have always described the gross merchandise benefit of the branded product as slightly higher than the overall commodity lines that we carry and that is, of course, fully absorbed after any costs that we incur for the line. It is not really widening significantly. I would say it is relatively stable because it too is affected by increases in commodity pricing and so on. So I wouldn't say it is widening. I wouldn't say it is widening.

John Baillie - *Societe Generale - Analyst*

So it would be incorrect to assume, as it really builds up above the 22%, that there is scope to squeeze more out of it?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Well, again, when you are looking at these type of lines, the manufacturing cost is actually the lowest cost of the gross -- of the cost that we incur, so labor is really relatively insignificant in comparison to the commodity cost, which is really where you are driving your margin from. So again, I would describe it as relatively stable, not growing more than it had been.

John Baillie - *Societe Generale - Analyst*

Okay, thank you. And can you say how much the number of accounts on the credit side -- what is the growth in the number of accounts coming through at the moment, what's sort of the run rate?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

The growth in number of accounts? I would say the growth in the number of accounts -- the average receivable balances remain relatively consistent at approximately $1000 or a little bit more. But if you simply take that number and look at the growth in receivable as it relates to our US sales, it has moved back to how many new accounts we would have picked up. So I believe --

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what is the growth rate in the accounts receivable for the quarter? I would simply take that number and that is the number of accounts it would have increased.

John Baillie - *Societe Generale - Analyst*

Right, okay. The net other operating income, certainly, the growth rate is quite above the sales growth at this moment in time. So quite a bit of momentum going into Q4. I mean have you been able to push up any of the APR rates on it or really is that stable?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

No, we have not really pushed up the APR. The APRs were set last year and have been relatively stable. Any differences that have occurred have occurred because of the level of receivable increasing. That is primarily the number one reason that that income is up.

John Baillie - *Societe Generale - Analyst*

Okay, thank you very much.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

When you really get into it, it is a time and people are standing and so on, but that is the number one driver.

John Baillie - *Societe Generale - Analyst*

Thank you.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

That growth rate is about 13.4%. I just didn't have it at my fingertips.

Operator

(Operator Instructions). David Jeary, Investec.

David Jeary - *Investec Bank - Analyst*

Yes, good afternoon, gentlemen. A couple of questions from me, if I may. Can you remind me or describe to me the shape of the Q4 comparative last year in the US? It was obviously the toughest of the year and I just wonder whether that really kicks off beyond Black Friday or whether it was roughly the stable level across the quarter.

And my second question is just really on the pricing of some of the branded merchandise that you are selling in US and UK and about the pricing and whether there is any differential over and above translation rates on that pricing or whether there are incremental costs that you incur because there are smaller volumes going through the UK for example just to get a bit of a feel on that branded merchandise what differential pricing and margins there may be.

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Ron Ristau - *Signet Jewelers Ltd. - CFO*

Well, let me just first off take the first question on the comp store sales. It was 11.4% in the US in the fourth quarter of last year. And while we don't really go into the weekly or monthly trends, obviously, the most important months of the year are in November and certainly December. December is it. That is where the lion's share of all sales are generated in the quarter in both the US and in the UK. So you can't generate that comp unless your December comp is in that level or higher.

David Jeary - *Investec Bank - Analyst*

Okay. Indeed, that is what I was looking for really to see whether it was higher or lower.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Well, you have got to drive it in December. It is almost like your November and January, not that they don't count, but December is the ball game.

David Jeary - *Investec Bank - Analyst*

Absolutely. Okay, thank you.

Operator

As there are no further questions in the queue, that will conclude today's Q&A session. I would now like to turn the call back to Mr. Mike Barnes.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Thank you and thank you all for joining the call today. We really appreciate it. Our next scheduled results call is going to be our holiday sales report and that is expected to be on January 10 and we all look forward to speaking to you again then. Have a great holiday.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Have a great holiday. Thank you.

Operator

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

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