TRANSCRIPT

SIG - Signet Jewelers Ltd at Barclays Retail and Restaurants Conference, New York
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Jessica Schoen: Good morning everybody, we're going to get started. It's my pleasure to welcome Signet Jewelers here this morning to the Barclay's Retail Conference and we're very happy to have them with us today.

My name is Jessica Schoen; I work on Bob Durble's team. As many of you know Signet is the world's largest specialty jewelry retailer. It has its Kay and Jared formats in the U.S. and its H. Samuel and Ernest Jones formats in the UK.

Today we are very pleased to have Mike Barnes and Ron Ristau, Mike is the CEO who joined the company in December 2010, came from Fossil, where he was President and COO. And Ron, he is the CFO and he joined the company just earlier of 2010 and he came from the New York Company.

So how we're going to run it here today is I'm going to start with some questions and then we're going to turn it over to you guys to ask any other questions that you may have.

So to start, I -- one of the things we think about when we think about Signet, is the success you've had with the branded and differentiated merchandise. I was wondering if you could talk about some of the further growth you see in that area and also some of initiatives we should think about for 2012.

Mike Barnes: Sure, yeah thank you very much by the way and thanks to all of you for coming today. I don't know if this is working or not, but everybody can hear me okay? The branded and differentiated merchandise is very important to our business and it has become more and more important over the years.

You know, brands are becoming a much more important part of this business. This has been a business that has historically been a non-branded business through most of the history of the jewelry store business, but it is something that is changing, it is changing very fast.

If you look at our business this past year in exclusive and differentiated brands, we did about 26% of our business in the U.S. in that category and that was up from 22% or 400 basis points from the prior year. And if you go back three years it was 19%, so we've had big gains in the branded business over the last couple of years and that's what I think that we can expect to see continue as we move forward. And it's a world where people have loyalty to brands, they believe in brands and it's something that is going to continue for the foreseeable future.

Jessica Schoen: And indications in 2012 that we should think about adding to this branded business?

Mike Barnes: Well we've got -- that's a great question. We've got a lot of brands that are still in the early innings. If we look at some of the brands, both in bridal and non-bridal categories, for instance in bridal, we have Neil Lane, which just got rolled out all U.S. stores in the fourth quarter last year, so it's still a very early story. What we are doing is, we are working on new merchandise, new SKUs, line extensions into different categories for some of these brands, but we're just getting started really and we have a long way to go.

Now we do have some new tests of new brands that we're working on in the spring. And generally, what we'd like to do is test in the spring, and then when we find the success we're roll it out in the fall and have it ready for holiday. So nothing that we would speak of yet, because we're still in test mode, but we do have some things in the works right now.

Jessica Schoen: All right, I've noted that you have significantly increased your investment spend to support your stores from an IT perspective over the last couple of years. So could you describe some of the business opportunities that you're pursuing there?

Mike Barnes: You want to hit that Ron?

Ron Ristau: Sure, this year we said we were going to spend in total, between $145 million and $165 million, and capital supporting our store program where we'll spend anywhere between 95 and 105 million. And we've also significantly increased our commitment to IT and internet development cost, where we'll spend in the neighborhood of $40 million this year, so we're looking at $40 million, $45 million, up from about $25 million this year.

And a key initiative that we have identified within the company -- when Mike arrived here at the company and we really did a strategic view, was to understand that we were underplaying the importance of the internet and social media and the development of the business.

So we have ramped up substantially, we have, last year, re-launched all or our major websites, we experienced about 37.5% gross in our internet base sales as a company, which is pretty strong. And we expect to have an internet capability and social media capability second to no one in the industry by the time we are done. So this year our total investment in IT again, is about $40 million, just to give you a benchmark that is significantly above both Blue Nile and the total capital spending of the Zale Corporation for last year.

So these are big investments and we believe it helps us to develop a, what has been an area of our company that could be developed much further. So it's a very important initiative for us and we're very excited about it.

Jessica Schoen: All right great. I was wondering if you could also talk a little bit about where you're operating now versus peak margins and what you think the future drivers will be to push that beyond the peak level?

Ron Ristau: Well our operating margins last year, which is a good news story, is that the U.S. division had reached 15.8% operating margin, which I believe is a record for our U.S. company. And the reason we were able to achieve that is number one again, all of our operating strengths we have as a company and importantly the improvements in productivity and the comp levels that we were able to generate.

So generating 11% comp in the United States division last year was a very good accomplishment and we are -- by driving through productivity as opposed to new stores, the flow through, through to our operating margins is very, very strong, we get very quick operating leverage and operating income goes up substantially, which is how we intend to grow the business this year.

While we are increasing the number of new stores from 23 to approximately 45 stores this year, it's still not the days when we were opening up 100 stores because there aren't that many opportunities within the real estate arena for us to take advantage of, even though we're willing to open new stores if good space becomes available.

So growing through productivity improvement, driving forward in our advertising programs, driving forward with our new branded product that Mike has been talking about, driving forward with the training and development of capabilities within our sales force; all of these things are combining so we continue to reach record levels of productivity in our Kay division and move towards exceeding the historical high levels of productivity in our Jared stores. So this is a very profitable way for us to grow and we don't, by any stretch of the imagination, believe that we have peaked in terms of operating margin.

Jessica Schoen: And, just on the historic expansion plan, when you think about those 45 stores, is there any breakdown on the format or any specific geographies we should think about as we think about that roll-out?

Ron Ristau: Well when you think about it this is the way it'll break out. We're going to be opening 45 stores primarily in the United States. We have nine Kay stores in mall, 25 Kay off mall stores because the opportunity in Kay that we've identified and been talking about for a while now, is growth off mall, where we have variety of successful formats via power centers or outlet malls or even lifestyle centers. These things have all been very successful for us, so we'll be opening up more off mall stores for Kay and then we'll be opening up 11 Jared stores this year.

So that gives you the total break out of 45. And just so you have a benchmark that compares to 23 last year, where we opened 10 Kay mall stores, 12 Kay off mall stores and 3 Jared stores. So it's a Jared opportunity, but Jared has to be in a very unique location with lots of drive-by traffic visibility for the road. Now Jared has to build as a destination onto itself as opposed to Kay, which drives off the mall and the walk-by traffic in the mall often. So we're very careful about where we put Jared's.

We'll have by the end of this year approximately 194 Jared stores and we've identified what we believe the ultimate demographic opportunity to be of approximately 300 stores, so … But that will take place over a number of years for sure.

Jessica Schoen: All right, I was wondering if we could discuss the overall specialty jewelry sector a little bit. You're coming off -- the industries coming off a very strong year and kind of just what you see going forward coming off that good year and what kind of consumer behaviors that you've noticed.

Mike Barnes: Well, you're right, it was a great year last year for the jewelry sector and we did very well, obviously, in that year. I think there's a big opportunity going forward still and the consumers have shown that they have a willingness to buy, if we give them a reason to buy. That's what differentiates us from a lot of other businesses that are maybe suffering at this point in time.

I think that we won't see necessarily the level of coming back, because I believe that we have recovered from the recession for the most part and it looks like the consumers behavior is that maybe it's going to flatten out a little bit; but I think that I think that if we give them a reason to come in and shop and buy that they will come and we've seen that with a lot of the brands that we have out there, we've had incredible results.

We've continued to see great sales growth, both on the fashion side and on the bridal side and I think we can expect that to continue. It's a trend that I believe can carry on for a number of years as long as we continue to be innovative, fashionable and give the consumer something new. What they're looking for is something different than what they have in a drawer back at home right now. So if we give them the reason to buy I think that they'll continue coming out.

Jessica Schoen: Now, what kind of competitive dynamic have you noticed? I know you talked a little bit about your investment in the internet and so maybe you could also include if that is the emerging of a formidable competitor?

Mike Barnes: Well the internet is something that Ron mentioned earlier, is very, very important to us. When I got to the company we were not driving that hard enough, that was one of the big take outs that I had and we kind of pushed the pedal down on that.

And we've been investing a lot and growing that business and we're seeing it jump in strong double digit terms of growth, both in the U.S. and in the UK. I mean we've had double digit growth in the UK, which has been a very difficult shopping environment. It has been one of the worst times for retail in that country that they've seen in probably 30 years at least and we're continuing to do pretty well and out-performing the rest of the retailers in the British Retail Consortium over there and the internet's been a big part of that. So we think that there's a huge opportunity to continue growing that business as we move forward over a number of years.

Jessica Schoen: Now what about the other brick and mortar competitors in the U.S. and how you see that environment?

Mike Barnes: Well, it is an environment that has continued to consolidate to some extent, not at the level we saw during the recession, back then we saw some major competitors go completely out of business. We saw consolidation of a lot of the independents at that time. But I think that you'll continue to see that consolidation.

I think that the strategic advantage that we have by driving the branded initiatives we're working on is going to make that happen even faster in the future because over the last 50 years or so the independents have been able to compete because it was mostly a non-branded business.

We could buy diamonds, they could buy diamonds, we could buy gold, they could buy gold, but now we've got brands out there that are exclusive to nature; things like Neil Lane on the bridal side that we talked about. We have a differentiated range on Levian fashion jewelry that the others can't really carry. We've got Tolkowsky Diamonds, which is fairly new still and not completely rolled out and doing very, very well.

Tolkowsky happens to be the name of the gentleman that invented the ideal cut diamond and he literally mathematically invented the cut. So it's a great brand, it's got a great marketing strategy behind it. So I believe that's going to make a lot of the competitors think twice about where they're going in the future and what they're trying to do. And we've seen some of the competitor's even step up and say, "Yeah, now we want to get into brands."

So it's something that is going to happen because success breeds success. People want to imitate whatever successful and I believe that the success we've driven through these branded initiatives is something that people are going to try and do. But with the competitive strengths that we have, including the ability to go out and put these brands on national television and really drive them, that's something that our competitors don't have the ability to do right now. And I believe that all these competitive strengths added up will help us continue to gain market shares as we go forward.

Jessica Schoen: All right, why don't we take a couple questions from the audience?

Speaker 1: [Tape gap 00:14:10] Can you talk a little about pricing with -- [tape gap 00:14:16].

Ron Ristau: Well pricing, what we've said is we will continue to stay on our game of trying to maintain our gross merchandise margins by pricing, meaning that we must pass on to consumers commodity price increases. As many of you may be aware, if not I'll just run through quickly, we run on an average costing system and our inventory turns quicker than one time of year, but let's for discussion purposes, just say it's approximately one time a year. So that as prices increase of decrease, we can see that coming at us with a lot of lead time, we then price our goods accordingly in order to maintain our margins across an annual fiscal period.

Okay, we like to price once per year, we generally do it in the period after Valentine's Day and before June, like before Mother's Day, because we have to coordinate a lot prices in store and of course with the growth of the internet and the catalog business that we have all these prices have to get lined up. So pricing is not an insignificant activity and we will continue to look at those prices and make sure that the margins are maintained at a minimum.

Now, when we're doing that we also have to make sure that we maintain a price range for our consumers so that people don't have sticker shock when they come into the store because obviously as you know, diamonds -- the prices of diamonds and jewelry, particularly last year, gold was going up. So even though now the price of gold is down to what one might say is a more reasonable level, I wouldn't describe it as reasonable, but it's more reasonable than $1,900 an ounce, that still will take some time to work through our system. So we're dealing with the cost from last year so we'll have to price accordingly relative to setting our goals for this year.

But we maintain these ranges, so you may find in any one range a price range which goes from an opening price point of say, maybe $90 or $100 all the way up to thousands of dollars. And the consumer can choose what he or she wishes to buy depending on upon the choice of how much money they have to spend and how important the purchase is to them. So they always have enough in our stores that whatever price point they can afford.

And that's a very important point in jewelry, because people always say, "Well how can jewelry stores -- no other businesses can price." Couple of things, number one, we always have a price range, number two, is that it's a relatively infrequent purchase and it often has an emotional tie or component to it. So people don't know the prices of jewelry the same way they know the prices of gasoline at the pump or the prices of Corn Flakes when they walk into the supermarket. It's a relatively infrequent purchase and the price points are always there no matter what the level of inflation is.

So we've been doing this successfully for many, many years, as long as the company has been in business and we expect this to continue into the future. We would hope though, that the price of commodities would start to slow down, because what's actually best for us is a slow increase in commodity costs [inaudible 00:17:20], there's some stability. Markets that are wildly fluctuating are not good for anybody, including us. So we hope that things calm down. That's our approach for this year.

Speaker 2: So when do you expect those peak commodity cost to cycle through the gold prices?

Ron Ristau: Well the peak in commodity costs last year came in the third and fourth quarter, okay. So I would guess that the peak of commodity pricing for us will roll through in the third or fourth quarter, because it takes, in round numbers, it takes about 12 months for those price increases to work their way through.

And what I'll just point out to you again, when you look at our margins, what I said is we price against an annual time frame to maintain our gross merchandise margins. So if you do that what's going to happen, if you think of the movement in cost as a upwardly slopping line, the margins will tend to be a little higher when we set in the initial pricing and then we'll come down a little bit in the quarter. So by quarter, the margins can fluctuate a little bit, but across the annual period we're looking to maintain. So, you should all be aware of that, that's how it works.

Mike Barnes: One other thing that I would add about pricing and cost is that we're very fortunate in our business that our products have an underlying value to them. People know that gold is worth more than it was a couple of years ago and expect it to go up, so they're willing to pay for it, because they know it always has that value; unlike some other areas that as inflation creeps in. In the apparel world for instance, a suit has no underlying value, you wear it and then one day you're going to get rid of it, throw it away or donate it to a charity or something, but there's no underlying value to it.

And what we have done is we've created a program in our stores where people can actually come in and they can trade in their jewelry to us at any point in time. If it is a piece of jewelry that they've bought from one of our stores, we will give them 100% value of what they paid for it, no matter when they bought it, it could have been five years ago or longer, 100% trade in value of what they paid for it and they can trade up. As long as they buy something that's at least twice as much, they'll get 100% trade in value on it.

And that's really huge, that gives people the opportunity to realize that they're investing in something and they can kind of invest as they can afford to. So if they can only afford to spend $500 and then a couple years later they want to trade it in and get something for $1,200 and then they can trade it in again and get something for $2,500. So it gives them the opportunity to realize that there is an underlying value to what they're purchasing from us in terms of diamonds and gold and they can come in they can continue to upgrade and have a larger value in the future as [gap in tape 00:20:11].

I guess fortunately, our merchants are not as good at lowering prices as they are at raising them, because they're a little bit slow there, but the reality is, as Ron said, it's takes about a year for any cost input to go through the system with our average costing methodology. So it would take a pretty sustainable drop for a sustainable time period. And then or course, we would just have to look at it competitively, if prices come down they come down, just like they go up.

But the reality has been over many, many years that it's been a long term rising price of gold and diamonds and we don't see anything that's going to change that. Obviously, there could be a short term drop in the price of either one and it has happened. Diamonds came down pretty substantially during the recession, but went right back up [gap in tape 00:21:09] ended when people started recovering.

So it would take a long term sustainable drop to have any real impact. If that happened we would deal with it competitively. We'd make sure we were pricing correctly, but we really don't see that happening in the future. As Ron said, what we think and hope will happen is that there will probably be a more sustainable but hopefully slower growth rate in commodities for the future, because that has been the pattern over many, many, many years. [Gap in tape 00:21:42].

Speaker 3: I was wondering if you could comment on your share repurchase plans and whether you'd consider taking out debt from that at any point in time.

Ron Ristau: Yeah, we started our share repurchase plan in January, I believe it was January 16th and we've purchased about $12,000,000 over the couple of weeks before the quarter ended there. We have continued with the share repurchase plan and we'll be talking about that after we finish out the quarter in more detail, in terms of where we're at with it. But right now we feel like our stock is a great value and so that's why we initiated the plan and why we continue to execute it.

And as far as taking out debt, we feel like we went out last year in October and we kind of laid out what we think our balance sheet needs to look like and what we feel is appropriate. And we feel like being debt free and not being beholden to anybody from that perspective is a good place for us to be.

As far as cash on the balance sheet, we laid out that we think somewhere in the 8% of sales range is a fair amount for us to keep on the balance sheet. And we have committed to the fact that over and above what we think is an appropriate amount of cash, that we will deal with it, whether it be with dividends, which we initiated a dividend last year. We've raised it by 20% this year, and we'll continue to look at that and make sure that we deal with any access cash that we have. But I do not see us going into debt to [gap in tape 00:23:26].

Speaker 4: -- some other priorities as far as how you may use the cash as far as investing back into the business.

Mike Barnes: Well as Ron said, we have increased our investments this year. We're doing a lot of store remodels. We increased the number of new stores from 23 last you to approximately 45 we believe we will open this year. And we're making a lot of investments into technology.

And it's not just maintenance technology, that's very important to us, but we're also moving forward and we're really positioning our company to take advantage of what the new reality is in the world today. And you're seeing technology, not only on the web, but inside our stores. We have touch screens inside our stores to help our associates and our managers work with the customers and help them find what they're looking for.

This has several advantages, number one, we can use virtual inventory. So we have some vendors that allow us to utilize their inventories and through the technology of a touch screen, we can access that inventory and make sure that if we don't have something that the consumer's looking for within the four walls of our store, we can go outside of that and access a lot more of inventory and help them find what they need or what they're looking for.

The other advantage to that is that we're developing more customization in the business. So we have 'Build a Ring' at Jared, where you can go in and you can pick out your setting, you can pick out your stone. [Gap in tape 00:25:02], you can sort it down and filter it out by size, by quality, by the color of the stone; you can do it by price. So there's a lot of opportunity to make sure that we're getting what people need and want.

And we also have the ability to just customize jewelry online, where you can literally start building a piece of jewelry. If you want to make a bracelet, you can pick the base metal for it. Do you want silver? Do you want gold? And as you pick and choose and build the jewelry online the price changes right there in front of you all the time, depending on the base metal you chose. Is it 14k gold 18k gold, is it silver, what kind of stones did you put in it? And the price works for you and you can just play with it until you get exactly what you want, the design that you want and the price that you're looking for and then you can buy it. And we have the ability to deliver that product in two weeks, which is pretty much unheard of in this industry.

In the past, if you did customized jewelry, you usually had to wait at least six weeks to get something delivered. But we have a vendor that is committed to this program and is able to deliver within two weeks. So it really is a great opportunity for people. And that's where we're spending a lot of our money, is in new stores, it's refurbishing existing stores. We need to look like the market leader that we are and we're doing everything we can to make sure our stores stay up to that challenge; and then technology, not only in maintenance technology, but it new technology, because that is where the world's going in the future.

Ron Ristau: Just to follow up on that, but yeah, keep a little focus on this, but even in the UK where we've continued to invest and build some of these stores last year, but the population is moving from the old street stores into regional malls and we have some mall stores even a new one. What is it Stratford?

Mike Barnes: Stratford, it's a Westfield mall.

Ron Ristau: Most of them. Yeah, we need to -- these stores are incredible this one store could do anywhere from, let's call it $10 million to $12 million next year. So the new stores, and we're putting in the new stores as a continuing development of our store formats is a very, very important thing for us to be able to do, because it's all about the whole network, it's the internet, the stores, the social media approaches, it's how we build the entire selling network and they're all related and they're all feeding off one another and it's working very, very well for us. And a few people -- well no one, can afford to spend in our industry what we can afford to spend to drive these advantages home.

So leveraging that capital spending and making the right investments to drive continued return on investment where we look for 20% return on investment on these capital projects is actually key to driving the profitability of the company forward.

Speaker 5: So just going back to pricing, inflation is generally good for retailers, I understand at a moderate pace. So could you help me understand how you think about the evolution of the average ticket, because you talk about having a bigger range within price points to help against the higher level of inflation and gold and diamond prices? And so, what's happened with the average ticket and should that inflation moderate how do you expect it to change sort of thinking price versus volume here?

Ron Ristau: The average ticket -- we for years have been talking about the average diamond ticket prices because we segregated out our bead business and we actually stopped doing that because we thought that it was not really useful because it confuses people. What ends up happening is our average diamond prices are going up, okay. And average diamond prices go up for two reasons. Number one, we fact that we price, but also very importantly, the mix of product that we are selling so, instead of selling unbranded jewelry, we're selling Neil Lane jewelry, we're selling Tolkowsky, we're selling Levian fashion jewelry. This jewelry is more expensive than the comparable, well there is no comparable, but the generic products that it replaces.

So, that's tending to increase our average pricing. As we do that we see unit flow on those particular brands. When we raise prices we often see some small decline in like diamond volumes, but with more than an offset by the price increase, which has been out, which has been a major contributor to cost. If that would ever stop, people say, "Well, what happens if that stops?"

What I suspect would happen is the diamond prices would start to come down slowly and the unit volumes would start to go up. So you'd see the opposite phenomena from what you see today, which is you see a slight decline in unit volume with pricing going up. If it were to reverse you would see the volumes would move differently. Do you understand what I'm saying? And I would think that they would tend to move in direction that would tend to offset one another.

The other thing important thing going on in our business is we've got many businesses, particularly the bead business, which is very strong with Pandora and Charmed Memories lines, okay. We sell millions and millions of units of beads. So are total transactions counts are going up in the company because of this bead phenomenon. Now beads don't price like diamonds, they're much cheaper of course, where an average price point might be $200, $250, but we sell millions of these things.

So when you look at the total configuration of this across the company, the total transactions are going like this [makes a hand gesture]… You understand what I'm saying? While the diamond volumes are coming down a little bit, but the diamond price volumes are going up. That's the timeline of how this business is working right now. [Gap in tape 00:30:48].

I'll take the premium -- I don't know what the limit is. We haven't set any limit to what a premium brand is. What we've said, and Mike was very clear, that when we provide consumers with a top quality product, or what they perceive to be a value, even if it's more expensive than something else, the consumer is willing to spend. She has to or he has to perceive that there is a value for that product.

If you take a look at the Neil Lane product and you were to just pick it up and look at it, you might of thought that a mental value $10,000 or $12,000, but you can buy it in our stores for $5,000, $6,000, or $7,000. So it's more expensive than paying $2,500 for a solitaire engagement ring, but it's still a great value to people and they perceive that. So as long as we do that the consumers find their way to those products and they are -- they want to be engaged in that way.

Mike Barnes: I'll take that one step further and say, based on the example of Neil Lane that Ron's talking about, the bestselling SKU we have in that line is right at the top of the price pyramid, it's $7,000. So our bestselling SKU in Kay, so it's a mall jewelry store, not the Jared, which is more upper middle market, but Kay, in the mall is $7,000 and it's all about the design, the fashion, the innovation and people see it as a perceived value, even though it's very expensive. The average out the door sale that we have in a mall jewelry store is about $400 and this is a $7,000 piece, the bestselling SKU in there.

And it's all about value. And that's a great point because people really are looking for value, not price. And what I have found is that even in tough times, even back in the days when we were in a recession, a number of years ago, even then I thought, you need to price and make sure you've got good opening price points available because people are going to be trading down. And the reality was, they were paying more for innovation instead of going to a basic product at an opening price point and that's the way the American consumer feels about it. They're looking for a good value and they're looking for great design innovation, much more than they are looking for price points.

Ron Ristau: And it's also, just to follow along again, it's bringing new customers to the franchise, because what we find is as we up the range offering, okay, and it starts to attract a slightly different customer also. So the band width of our customer base continues to expand, which is also very positive for us. So everything is good, I mean, it just keeps working, and working, and working. That's really what the message is. [Gap in tape 00:33:44].

Speaker 6: -- question is, [tape fading in and out 00:34:05]. A lot of retailers there [inaudible 00:34:15] in Jared's so you need the large stores, you need more visibility on the internet. Additional [gap in tape 00:34:32].

Mike Barnes: I'll start off with the initial watch question. We have been looking at our watch business. The watch business has been very good recently and it's something that we expect to see continue for the foreseeable future. So we've been working on that quite a lot, not just luxury watches, but also fashion watches and even kind of a hybrid fashion luxury watch.

One of the things that we have done, is we introduced Michele watches into the Jared chain. And Michele is kind of a high-end luxury fashion type watch, it's diamond-studded watches with very colorful natural alligator straps in colors. And it's a brand that's done very, very well here in the United States in particular. So we started it and we tested it in 26 stores, we since moved it up to 40 doors, so we're starting to see some success with that.

We have some other brands that we haven't got in yet, but we are bringing in tests. I went to the Basel Watch Fair in March and met with a lot of brands, some of them new brands for us and we think there's opportunity for us to expand our offerings in that category. It's a strong category, we're doing very well with it, but we don't think that we even come close to maximizing that business. I personally have been in the watch business for almost 30 years now and I think it's something that we can bring to the consumer a much better offering in the future in that area.

As far as the internet and how that plays with our stores, we really believe that it's about having bricks and mortar and the internet working together hand in hand. We want to have a good offering, and you're right, Jared is a larger format than a mall store by far. I guess the average is about 62 --

Ron Ristau: About 42, I would count as net 43.

Mike Barnes: Net selling area 42', so it's quite a bit larger than the mall stores and it gives the ability to showcase a lot of what we're doing. And with the -- some of the initiatives that we have taken on recently, like the bridal initiative, that's a huge initiative in and of itself for us. We did a major study on bridal; we had a lot of findings from that. We put together a lot of training for our associates and our staff in the stores and the field and we think there's a big opportunity for us to continue to expand that piece of the business.

And then the fashion offerings are something else, that as we move into some of these brands, we need to be able to show case them and show them the way a brand needs to be shown. That's what it's all about. A lot of it really is about the theater of it, being able to show case the styles, the packaging, the images of what a brand is and that gives us the opportunity to do that. But we find that having the internet working with us on that is a huge benefit. And there is a train of thought out there now that unless you're one of the big two, like an eBay or an Amazon, you have a much better chance of success, even with the internet, if you have a brick and mortar partner to go with it.

And we will that that's the way our customer feels. They're happy to shop on the internet. They're happy, especially to do research. A lot of people walk into our store with a sheet of paper they printed off and say, "Hey, I want to look at some of these products," and it just works very well for us.

So I think it all goes hand and hand and something's that's going to be a competitive strength for us in the future.

Ron Ristau: And unlike electronic stores, this is interactive, so we find many people doing their research on the internet, going into the store. So it's actually increasing people going into our stores as opposed to people don't want to go into the store. They want to look at the diamond online, but they want to pick it up feel it and touch in the store. It's not like a TV set or something, where you don't really need to do that. So we have a different dynamic going on than in certain other industries.

Mike Barnes: And every diamond has its own characteristic, its own quality. It's not like, to Ron's point, a television where -- a 55 inch Sony is a 55 inch Sony. It doesn't matter where it comes from. When you walk into our store and you're looking at diamonds and you're shopping them they all have different qualities. The quality's different, the color's different, the sizes are different, the cuts are different. So it's a very individual and emotional purchase and that's beneficial to us, because people, while they want to look online, they want to come in store for the most part, to make that purchase.

Jessica Schoen: All right, we are just about out of time, but I want to thank Mike and Ron again for being here today and thank all of you for coming.

Mike Barnes: Yeah, thanks everyone appreciate it.

Ron Ristau: Thanks you all.