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EDITED TRANSCRIPT

SIG - Signet Jewelers Ltd Fiscal 2012 Q4 and Full Year Results Conference Call

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PRESENTATION

Tim Jackson - *Signet Jewelers Limited - Director of IR*

Good morning, and welcome to the conference call for Signet's fiscal 2012 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.

I will now 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 disclosure in the annual report on Form 10-K that will be filed with the SEC on today, March 22, 2012. We also draw your attention to this slide.

I will now hand over to Mike.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thanks, Tim, and good morning to you all. I'll begin with the highlights of our excellent fiscal 2012 results. Same-store sales were up 9%. The US, which represents about 80.9% of our sales, delivered same-store sales results of 11.1% which was outstanding after an increase of 8.9% last year.

In the UK we're pleased with a return to positive same-store sales for the year in a very challenging environment. Income before income taxes was $502.1 million, an increase of 67.1%. After a tax rate of 35.4%, this gave diluted earnings per share of $3.73, up from $2.32 last year, an increase of 60.8%. I'd like to thank all of the team members at Signet for their contribution to these great results.

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As most of you know, the Board approved two forms of shareholder distribution during fiscal 2012. First, a $0.10 per share quarterly dividend was initiated, and we're very pleased to announce today that the Board has now approved an increase in the quarterly dividend to $0.12, representing a 20% increase.

Second, the Board authorized a $300 million share repurchase program effective from January 16, 2012. By January 28, we had already executed $11.8 million under the program, which continues to remain in effect.

Now, looking at the US performance in a little bit more detail. US total sales were $3.341 billion, up $289.9 million, which was an increase of 10.6%. Kay increased same-store sales by 11.8% in fiscal 2012, an acceleration from the 7% growth achieved in fiscal 2011.

Jared had another outstanding year with comps up 12.1% for the year, following an increase of 15.7% last year. Overall, US same-store sales increased by 11.1% fiscal 2012, compared to 8.9% last year. Operating income was up $478 million -- I'm sorry, was $478 million, and that was up $135.3 million or a 39.5% increase. And the operating margin increased by 330 basis points to 15.8%.

This great performance was driven by all parts of the business working successfully together, but I'd like to highlight some of the major drivers for you.

First, merchandising, where performance was driven by initiatives in all categories. For example, in bridal we rolled out Neil Lane Bridal and the Tolkowsky Diamond, and we began training our store associates using our enhanced bridal program in the second half of the year.

In fashion, Charmed Memories continued to shine and was a non-comp for the first three quarters; Le Vian also performed very well. Our core collection showed a great performance, in particular in the earring category. Overall our differentiated ranges now account for about 26% of US merchandise sales, which is up 400 basis points from last year. We've also been working strategically with our watch partners and we've been very pleased by the results achieved.

We were successful in maintaining gross merchandise margin rate in the US despite the significant increases in commodity costs. This reflects our ability to carefully execute price increases and build a pricing architecture that continues to provide attractive opening price points and hits other key price points along a broad spectrum with appropriate merchandise.

Second -- market. Our marketing investment last year reached $188.4 million, up 16.7%, and continues to be a driving force for the business. An important feature during the year was an increased focus on marketing support for the bridal category including campaigns for the Leo diamond and Neil Lane Bridal.

We also started a multi-year investment in the digital environment with major upgrades to both the Kay and the Jared websites that were implemented for the holiday season. As a result we saw a 45.7% increase in US eCommerce sales in fiscal 2012.

A third major driver of our performance was our in-house customer financing. The ability to offer customer finance is a must in the jewelry category and to be able to manage it in house is an important competitive strength. By carrying out this function in house we can tailor our scorecards to the jewelry customer which has different characteristics from when they make other credit transactions.

Our in-house customer finance program was used by our customers for 56.1% of all US sales in fiscal 2012, up 190 basis points. This, aided by the reduction in net bad debt, was an important contributor to the increase in operating margin and fiscal 2012.

Now turning to the UK -- total sales were $715.1 million, up $21.9 million, an increase of 3.2%. At constant exchange rates and they were little changed. Same-store sales were up 0.9% following a decline of 1.4% in fiscal 2011 with H.Samuel slightly outperforming Ernest Jones.

The same-store sales performance was comfortably ahead of nonfood retailers in the UK as reported by the British Retail Consortium, a great performance in what remains a challenging retail environment for us. Operating income was $56.1 million, down and $0.9 million, which was a 4.8% decrease at constant exchange rates. The operating margin decreased by 40 basis points to 7.8%.

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Some of the key drivers were branded jewelry, fashion watches and bridal. The customer also showed a preference for promotional merchandise in this market. We increased marketing by 21.7% and we were smarter and much more precise in targeting our core customer. We continue to invest in eCommerce, for example, by launching iPhone apps in the fourth quarter and eCommerce sales increased by 15.5%.

In fiscal 2012 we've started rolling out a new Ernest Jones store design that creates a much more exclusive shopping environment with a greater focus on branded jewelry and watches. As part of this we've been working with our prestige watch partners to create branded watch boutiques.

We also tested a new design for H.Samuel in Westfield Stratford City. The store has a more contemporary feel with an improved presentation of bridal, diamonds and branded fashion jewelry. We're testing the use of digital media in store at this location as well. We'll continue to test this new design for further locations in fiscal 2013.

Fiscal 2012 was another year of very impressive results and clearly demonstrates Signet's successful strategies which are being extremely well executed. Our mission going forward is to further enhance our position as the market leader in both the US and the UK specialty retail jewelry markets by offering a unique customer experience and driving customer loyalty.

Therefore, our strategic imperatives are to -- A, develop and train our team members to consistently enhance the retail experience of our customers; grow and develop new and existing brands and categories to delight customers; drive competitive strengths and infrastructure to enable this growth; optimize the capital structure to manage risk and make investments to drive long-term shareholder value; and increase market share and maximize sustainable profit levels.

Our team members are very central to our success, so we seek to recruit and retain the best and to motivate and reward them accordingly. As a result we continue to build on many years of training rather than having to keep re-laying the foundations. This makes training much more productive.

Examples of our training focus in fiscal 2013 would include focused supports on merchandise initiatives; for example, additional training in how best to serve the bridal customer.

Second, as we roll out customer assisted selling systems into our stores it's very important to train our store team members on how best to use this technology when interacting with the customer.

And third, supporting our initiative in the digital environment online. As important as growing eCommerce sales, is the customer experience across an increasingly wide range of touch points. This requires well-trained and knowledgeable people to support the greatly increased interactivity that is now expected by our customers.

We're able to deliver this by leveraging many of the existing skills, knowledge and systems that are already within the business, and by recruiting and training new team members to build on this base as we further enhance our eCommerce platforms and drive our social media initiatives.

Let's dig just a little deeper into the branded merchandise. In the bridal category we continue to develop a variety of brands including the Leo Diamond, Neil Lane Bridal and the Tolkowsky Diamond.

The Leo Diamond, which is our longest running exclusive brand, and we continue to evolves the range, its marketing and the in-store presentation both in the US and in the UK.

As of October 2011, and based on successful trials, we have rolled out Neil Lane Bridal to all our US stores. We continue to test executions of this collection and we're still at an early stage of this brand's ongoing development.

The Tolkowsky Diamond is still in rollout in both the US and in the UK. While already seeing success, as with Neil Lane Bridal, we continue to test new executions as well.

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In fashion jewelry we're developing our portfolio are brands in the same way. For example, it's very important to keep these ranges regularly refreshed and relevant to the consumer by introducing new designs. This is particularly so with a brand like Charmed Memories which has a much higher frequency of purchase.

In the UK, where we have a substantial fashion watch business, we're also having success with branded jewelry from partners such as GUESS, DKNY and Gucci. In the watch category we continue to work closely with the major brands and are pleased with the boutiques and shop within shops that we've trialed with a number of the prestige watch brands such as TAG Heuer, Omega and Breitling.

I'll now look at some examples of how we're driving competitive strengths and infrastructure to enable this growth, first with regard to strengthening our supply chain. We have built what we believe are sector leading merchandising systems and supply chain capabilities and, more importantly, the team members that use them to provide our customers with the right merchandise at the right time and in the right place. But our investments continue.

In the fourth quarter we added additional senior level management to the team. We're now in the process of establishing permanent international capabilities in a limited number of very carefully selected locations that are planned to give us even greater expertise in our supply chain, enabling us to execute more efficiently and effectively. In fiscal 2013 we will incur $5 million to $7 million of upfront costs as a strategic investment to establish this capability.

Two further major examples of where we're investing to build our competitive strengths and infrastructure for future growth are in technology to enhance the customer experience.

First, in store where we began using a screen-based selling system in Jared more than five years ago. This technology uses a flexible but structured selling system for our sales associates, ensuring best practices follow, as well as the ability to offer our customers merchandise selections outside our typical store assortments.

We began introducing the system to our Kay stores in fiscal 2012 and we will roll it out further this year. We're also testing in-store digital technology in the UK market. While all of our stores have access to their respective brand websites through their POS system, the deployment of these screen-based selling systems enables the customer and the store associates to access them much more readily; this is opening up exciting new opportunities for us even as we speak today.

The second major area is the digital online environment. In fiscal 2012 we made major upgrades to all of our websites and we'll be making further significant improvements to them this year. We're also increasing our social media and our mobile capabilities. We've been testing online video advertising on premium content sites, utilizing our TV adverts and media buying leverage. We expect a further significant double-digit increase in eCommerce sales in fiscal 2013.

For fiscal 2013 capital investment of about $145 million to $165 million will be directed to projects that are intended to build upon our competitive strengths and drive sales growth. The level of store investment in fiscal 2013 is planned to be $95 million to $105 million, up from $62 million last year.

It is planned to increase the number of store openings in the US to 45 compared to 25 in fiscal 2012 and to carry out a total of 110 major store refurbishments or relocations across both the divisions compared to 85 last year. Of these about 90 will be in the US market and 20 in the UK.

In addition, we intend to invest $40 million to $45 million, up from about $28 million last year, in information systems, supporting sales enhancing technology both in-store and in the digital online environment and to enhance information technology operating infrastructure. About $40 million of this will be in the US with a balance of about $5 million in the UK. I'll now hand it over to Ron to go through the financials in a little more detail.

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Ron Ristau - *Signet Jewelers Limited - CFO*

Thank you, Mike. As Mike stated, total sales for Signet increased 9.1% to $3,749.2 million compared to $3,437.4 million last year. Total Company comparable store sales increased 9% versus an increase of 6.7% last year.

In the US total sales increased by 10.6% to $3,034.1 million primarily reflecting a comparable store sales increase of 11.1% versus an 8.9% increased last year. In the UK total sales increased by 3.2% to $715.1 million, reflecting a comparable store sales increase of 0.9% compared to a decline of 1.4% last year and the favorable impact of currency fluctuations which more than balanced the 1% adverse impact of reduced space. In total, eCommerce sales were $92.3 million, up $24.7 million or 36.5% in the year.

Now looking at the reconciliation of income. Income before taxes increased by $201.7 million to $502.1 million, up 67.1%. I'll now explain the major factors driving this increase.

Gross margin was $1,437.6 million, an improvement of $194.7 million. The gross margin rate was 38.3%, up 210 basis points. Key drivers of this improvement were as follows -- the main driver was leverage on store occupancy expenses both in the US and UK. We experienced improvement in the US net bad debt to total sales ratio which came in at 3.4% of sales -- of US sales, down from 4.2% last year. There was also improvement in inventory-related costs.

These items offset a slight decline in gross merchandise margin which was down 10 basis points with the US being up 10 basis points and the UK down 60 basis points. Gross merchandise margin was little changed despite record increases in commodity costs.

Selling, general and administrative expense was $1,056.7 million for fiscal 2012, up $76.3 million or 7.8% from last year. As a percentage of sales they were 28.2% which is 30 basis points favorable. I will go into this in more detail on a following slide.

Our other operating income was $126.5 million, up $16.5 million on last year, reflecting the higher level of accounts receivable. This is a 30 basis point favorable impact on our operating margin.

Fiscal 2012 operating income was $507.4 million, an improvement of $134.9 million or 36.2%. Our operating margin was 13.5%, up from 10.8% in the previous year or 270 basis points.

In fiscal 2012 our net interest expense was $5.3 million, a decrease of $66.8 million, as a percent of sales it was a fall of 200 basis points. $47.5 million reflected the absence of the nonrecurring make whole payment from 2011 and the balance reflected the resulting elimination of interest payments on private placement notes.

Income before income taxes, again $502.1 million, an increase of $201.7 million as a percentage of sales, that was 13.4%, an improvement of 470 basis points. Our tax rate in fiscal 2012 was 35.4% resulting in net income of $324.4 million and diluted earnings per share of $3.73, up 60.8%.

Please note that in fiscal 2011 our resulted did include a nonrecurring make whole payment due to the prepayment in full of our private placement notes of $47.5 million pre-tax and $29.5 million post-tax, or $0.34 per share. This all occurred in the fourth quarter of fiscal 2011. Our growth in diluted earnings per share excluding this item was 40.2%.

Now looking at SG&A in more detail, as a percentage of sales in fiscal 2012 it improved to 28.2% as compared to 28.5% in the prior year as we effectively leveraged our SG&A.

The major reasons contributing to the increase in the level of the expense of $76.3 million were as follows -- we increased our net advertising investment by $30.1 million; we experienced $26.9 million of an increase as a result of store staff costs, which flexed with the increase in sales; $6.5 million was attributable to higher 401(k) contributions; and $6.2 million attributable to currency fluctuations. The balance primarily reflected increased investment in IT and credit infrastructure. We believe our SG&A remains well controlled and effectively managed.

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Now looking at the customer finance statistics. Our credit participation rate showed an increase to 56.1% of US sales in fiscal 2012, up from 54.2% last year. Our average outstanding balance at the year end was $1,068, up about 3.8%, with the number of active accounts increasing 11.9% to just over 1.1 million.

Our monthly collection rate accelerated by 10 basis points to 12.7%, therefore the average credit account maturity remains less than one year. As a percentage of US sales the net bad debt ratio improved by 80 basis points to 3.4% from 4.2% in fiscal 2011, and this improvement was driven by our consistent credit practices, the quality of our collection practice, as well as a more stable rate of unemployment in the United States. The closing level of receivables was just under $1.16 billion. Our credit portfolio is performing very strongly.

In fiscal 2012 net cash provided by operating activities was $325.2 million compared to $323.1 million last year. This was after an increase of $152.5 million in our receivable balance compared to a $78.7 million increase in Fiscal 2011. The receivable increased reflected both the strong sales performance in the US and the increased credit participation that I mentioned.

Our year-end inventory increased by $115.2 million, this was driven primarily by commodity price increases and some opportunistic commodity purchases that we made at year end. Our underlying inventory turn improved significantly in fiscal 2012 reflecting our focus on efficiency. Our capital spending totaled $97.8 million, up from $55.6 million in fiscal 2011 as we increased with our store and IT investments. We ended the year with cash at $486.8 million.

Now I'd like to provide you with an update on current trading. In the month of February we provided -- which covers the important Valentine's Day trading period -- our overall same-store sales were up 7.6% in the US with the UK down 3.1%. Overall Signet store sales were up 6.2%. And let me point out that for Kay the balance was 8.4%; Jared was 8.1%; our regional brands were 1.2%; in H.Samuel we were negative 2.3%; Ernest Jones negative 4.1%; and total UK down 3.1% with the total consolidated comp at 6.2%.

I'd now like to cover two calendar shifts in fiscal 2013 which are important in financial planning. First Mother's Day, which this year is on May 13 and last year was on May 8, as a result a key marketing event, which normally falls for the Company in the first quarter in April, will switch to May this year and will be reflected in our second-quarter results.

We estimate that this will reduce same-store sales in the first quarter by $25 million or about 400 basis points in the US and 300 basis points overall for Signet. The shift in EPS between Q1 and Q2 is estimated to be between $0.03 and $0.04. We are providing first-quarter guidance due to the complexity of these changes. Due to the impact of the calendar shift we expect first-quarter same-store sales in the low-single-digit range and earnings per share ranging from $0.88 to $0.93.

Second, this year is a 53-week year. This last occurred in fiscal 2007. As a result an extra week of sales, estimated at $48 million to $52 million, will be added to the year. Although we are still finalizing our plans, we currently believe this additional week would result in an operating loss of $2 million to $4 million reflecting the timing of advertising expense and a shift into fiscal 2014 of a key promotional event relating to Valentine's Day next year.

Now I'll speak briefly about the financial objectives for the year. In setting the financial objectives for the year consideration was given to the current operating environment with developments in the US and UK economies continuing to be divergent.

The US economy is showing signs of strengthening and in fiscal 2012 there was growth in the jewelry market. We plan to continue our leadership performance in the UK market, although we are operating in an economic environment that is not projected to show any short-term improvement. And I will point out that both economies could be adversely affected by developments in the euro zone.

Signet's goal in fiscal 2013 is to deliver record results, building on our recent performance while making strategic investments necessary for future growth. Therefore in fiscal '13 management's financial objectives for the business are as follows.

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First we intend to increase sales and gain profitable market share. Next, we anticipate that the gross margin ratio, while expected to be broadly similar to fiscal 2012, will benefit from improved store productivity and increases in prices which are expected to primarily offset the impact of changes in the cost of commodities, in particular the cost of diamonds and gold.

Note we will be investing in fiscal 2013 to drive the future supply chain capabilities Mike spoke of. And in this initiative we expect to incur start-up costs estimated to be between $5 million and $7 million. We do expect to leverage our store occupancy expenses and maintain strong performance in our credit portfolio.

In selling, general and administrative expenses we plan to increase advertising to drive sales and continue to build customer equity in our store concepts and merchandise brands while maintaining the selling, general and administrative expenses to sales ratio at a minimum.

We will invest $145 million to $165 million of capital in new stores enhancing our infrastructure to drive future growth. Of this $95 million to $105 million will be spent opening 45 new stores and remodeling 110 stores and $40 million to $45 million and IT supporting sales enhancing technology. We recommend using 36% as a tax rate for planning in fiscal 2013. Thank you. I'll now hand back to Mike.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thanks, Ron. We would now be pleased to take any questions that you have at this time.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Ike Boruchow, JPMorgan.

Ike Boruchow - *Morgan Keegan - Analyst*

Just a couple questions. The first question on I guess the current trading statement you gave us. Can you help us think about -- since you gave us the EPS range, I guess, Ron, can you help us? How should we think about gross margins and SG&A balancing out for Q1? And then also, could you guys help us understand just how important Valentine's Day is? What percent of sales for the quarter Valentine's Day represents, especially in the US?

Ron Ristau - *Signet Jewelers Limited - CFO*

Well, I would say that we've given the guidance ranges. We're not getting into extensive detail. We believe that, like what we said, that our gross margin ratio will broadly similar to that of last year and that our SG&A will be similar. It fluctuates somewhat by quarter, but those broad statements I would think still hold in the first quarter as well.

Mike Barnes - *Signet Jewelers Limited - CEO*

And as far as the importance of Valentine's Day, obviously it's one of the most important holidays that we have during the year and it's a very strong selling season for us. So it's a very important part of the quarter. I don't think we break out the exact percentage of what it usually means to us. It probably is important to note though that it's much more important in the US than it is in the UK as a holiday.

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Ike Boruchow - *Morgan Keegan - Analyst*

And then I guess, Mike, broadly speaking on the industry and commodity costs, can you help us think about the timing of when peak costs kind of flow through the P&L? Is that kind of happening right now in the first half? And kind of your guys' strategies on how to help offset that with price increases and increasing the mix of higher margin products?

Mike Barnes - *Signet Jewelers Limited - CEO*

I'll let Ron talk about the flow of the cost and how that affects our average costing system. In terms of how we control it, we're doing the same things that we've talked about in the past, and that is our plan is to broadly maintain our gross merchandise margins going forward. We feel that we can do that. As appropriate we will increase prices to make that happen as well as we do see these costs flow through our system and increase in average costing.

One of the great things is that we've got an unbelievable product lineup. We've got great brands, great products, great designs. And because of that our customers are willing to accept the price increases, as they have been over the years. And it's really been a competitive strength to us that we have such a strong lineup we're able to do that. Ron, do you want to talk a little bit about how the costs flow through?

Ron Ristau - *Signet Jewelers Limited - CFO*

Well, yes, as you know our costs flow through on average so that there is some time delay between commodity price increases and them being reflected in our margins. We will incur additional -- we're working on price increases in the first quarter. They will not have much impact in the first quarter.

So I don't really know what else to say about it other than for the year we will price to more or less maintain our gross merchandise margins. There will be some fluctuations by quarter. Primarily benefits usually come in the second and third quarter. And then by the fourth quarter they tend to be diminished somewhat as the costs begin to flow through. And you see this every year so that our margins tend to accelerate a little bit in the second and third and be a little bit lower in the fourth and first on gross merchandise margin.

Ike Boruchow - *Morgan Keegan - Analyst*

Great, thanks, guys.

Operator

Bob Drbul, Barclays Bank.

Bob Drbul - *Barclays Capital - Analyst*

Two questions that I have for you, first one is on ASPs -- can you talk a little bit about the ASP trends from Q4 in Q1 and your expectations around it and heading into '12? And the other concern or question that I would have for you is are you seeing price resistance to any of the price increases and do you sort of have a plan for any further price increases around the diamonds and the gold as the higher costs to work into the P&L?

Mike Barnes - *Signet Jewelers Limited - CEO*

Well, on the first question for ASPs, I guess in Kay we saw slightly declining ASPs. A lot of that is because we were mostly non-comp with our bead program, Charmed Memories, last year. And so obviously as beads are counted one at a time and carry a lower average price point, you're going to see the ASP slightly decline.

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In Jared the ASP went slightly the other direction as we have totally finished comping the bead program in that concept store, Jared. And so we're seeing just more of a normalized increase in ASP over time and especially as prices are increased to offset the commodity prices out there. I'm sorry, what was the second question you had?

Ron Ristau - *Signet Jewelers Limited - CFO*

Customers.

Mike Barnes - *Signet Jewelers Limited - CEO*

Oh, customer resistance. As I said earlier, we have been able to price to broadly maintain our gross merchandise margins historically. We continue to anticipate that we'll be able to do that. And again, the great lineup of products and brands that we have allow us to do that because it still presents a great value for our customers.

Bob Drbul - *Barclays Capital - Analyst*

Great, thank you very much.

Operator

Jennifer Davis, Lazard Capital Markets.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Congratulations on a great 2011. On your continued solid execution, I remember at the beginning of 2011 there were doubts about your ability to increase sales and gross margins on top of strong 2010 results and increasing commodity costs. So definitely a job well done.

So I have a couple of questions. First, Mike, did you say how much bridal increased and could you talk about margins on bridal versus the rest of the assortment? And then I was hoping you could elaborate a little more on the $5 million to $7 million investment to drive future supply chain capabilities. I think you said you were establishing some permanent international capabilities. Just wondering if you could elaborate on that. Thanks.

Mike Barnes - *Signet Jewelers Limited - CEO*

Sure. On the -- I'll let Ron answer the question on the margins for bridal. Bridal, I don't think we mentioned it in the call, but it continues to be about 50% of our jewelry merchandise sales and continues to be a very strong part of our business. And as we did mention, we have focused very heavily on that and focused heavily on training our store staff to really drive that part of the business going forward. So we think there's a great opportunity for us in that area. Margins on bridal compared to (multiple speakers).

Ron Ristau - *Signet Jewelers Limited - CFO*

Yes, bridal margins I'd say are similar to, perhaps depending upon the mix, just a touch lower than the Company average. Don't forget there are a lot of -- there are loose solitaire stones in our bridal mix and that is a lower margin business for us. So the total bridal mix is broadly similar, perhaps a little bit less.

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Mike Barnes - *Signet Jewelers Limited - CEO*

And as far as the supply chain initiatives, Jennifer, we're doing some -- we're moving in a very exciting direction. As the leader in the specialty jewelry industry in both the United States and in the UK, supply chain is very important to us.

So we continue to look at new initiatives that will help us secure our supply chain for the future growth of our Company and allow us to supply the right products, the right prices, the right qualities of both diamond related and other products to our customers. So we're very focused on that.

We really haven't outlined exactly what those initiatives are. They are international in nature. They're not really material, as we stated, in terms of (technical difficulty) expect upfront investments of $5 million to $7 million to really get started there. But there are some exciting initiatives that we have planned that we think are going to really give us competitive strengths for the long-term future of our Company.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Okay, thanks. And then one quick clarification, if I may. On the Q&A you guys both said that you were planning on maintaining or broadly maintaining gross merchandise margins. Do you remember (multiple speakers)?

Ron Ristau - *Signet Jewelers Limited - CFO*

No, I said gross margin.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Okay, all right (multiple speakers).

Ron Ristau - *Signet Jewelers Limited - CFO*

Yes, we said gross margin -- we said gross margin, I'm sorry. We were trying to get away from one little piece of the margin. So broadly speaking gross margins.

Jennifer Davis - *Lazard Capital Markets - Analyst*

All right, thanks.

Operator

Bill Armstrong, CL King & Associates.

Bill Armstrong - *CL King & Associates - Analyst*

What are you seeing in terms of new retail center development in the US?

Mike Barnes - *Signet Jewelers Limited - CEO*

We are not seeing a lot of new retail development still. What we did is we appropriately challenged our team to go out and open more stores this year than they did last year and really hunt for those spots that they hadn't found yet and try to make it happen. Most of those or a great majority

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of those are going to be in off-mall locations. We are finding the occasional mall location but certainly we're much more penetrated with Kay in the malls.

So if you look at the new store openings that we've outlined for this year, there's 45 new stores and we're thinking about approximately 11 of those will be Jared so that will be off-mall location and the other 34 would be Kay. But a significant number of those would also be off mall as we found a lot of success opening Kay off mall as well as Jared. And in some areas, because of the demographics, Kay is actually a better fit.

So we're taking it as they come. We wish there was more development out there. We look forward to the day hopefully when there will be because we would love to open up more new locations. With the success of that we're having with our stores right now that would be our best hopes and wishes. But we're taking it as we can; we're being as aggressive as we can with the environment that's delivered to us.

Bill Armstrong - *CL King & Associates - Analyst*

Okay, great. That's helpful. Second question on your guidance -- typically in the past your guidance has included same-store sales and free cash flow and I see that's not included in your guidance currently. Would you care to share that with us and, if not, why the change?

Ron Ristau - *Signet Jewelers Limited - CFO*

First of all, we've never included same-store sales in our outlook, so I would just have to correct that statement. From a free cash flow perspective we made a decision not to focus on free cash flow. We think that that was -- number one, it's not a standard measurement for most US companies, and we also believe that that was a focus during the recessionary time frames and that at this point and time it's not as important.

We didn't give a number but we -- I'll tell you we expect the number to be positive to $200 million, so it will be over $200 million. This year our free cash flow came in at around $228 million. So rather than give these broad ranges we were giving we just would like to -- it's kind of an incidental measurement, not a primary driver, so that's why we did not provide it. But the range will be over $200 million.

Bill Armstrong - *CL King & Associates - Analyst*

Okay, thanks.

Operator

David Wu, Telsey Advisory Group.

David Wu - *Telsey Advisory Group - Analyst*

First question, with respect to your new merchandising initiatives that you have planned for this year, are you planning at all to develop any new exclusive brands or is the focus really on introducing new styles within your existing differentiated ranges?

Mike Barnes - *Signet Jewelers Limited - CEO*

That's a great question. We definitely are focused on creating new designs and styles with our existing very successful ranges, that's always an important to us and we've got some great new products coming out in those ranges.

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In addition to that though we've got some exciting tests going on. I'm not going to characterize them exactly for competitive reasons, but we've got potential line extensions and we've got some new brand tests going on as well. So there's a lot of exciting things happening. In fact, we're testing a lot of things in the spring that could very well be rolled out or start -- begin starting a rollout in the back half of the year.

David Wu - *Telsey Advisory Group - Analyst*

Excellent. And on the price increases this year, could you quantify the magnitude or at least directionally if they'll be higher or lower versus last year?

Ron Ristau - *Signet Jewelers Limited - CFO*

We don't like to kind of get into specifics on a level of price increase for competitive reasons. Suffice to say that we've said that the price increases will be sufficient to cover the inflation in commodity costs that we are forced to deal with. But we'd like not to be more specific than that, David.

David Wu - *Telsey Advisory Group - Analyst*

Okay, that's fine. And then also can you give us a little bit more color on credit sales over the quarter? How have the approval rates been trending? Are you still seeing improvement in the average customer credit score in the fourth quarter?

Ron Ristau - *Signet Jewelers Limited - CFO*

Well, I won't say that -- you can see the penetration went up to over 56% versus 54% for the year, the fourth quarter was strong. We are seeing that our approval rates remain -- I would say relatively consistent. Approval rates in and of themselves have not been changing dramatically.

We have seen that people who have been granted credit are behaving very, very responsibly and continue to make more than the minimum payment. And all of this is reflected in the overall performance of the portfolio and the improvement in bad debts that we've seen. So the credit portfolio is performing very well. There's been no real change in the level of approvals or disapproval or no change in our scoring mechanisms and it just seems to all be working well.

And very supportive of course of the bridal business. And important, as we deliver some of the higher priced merchandise such as the Neil Lane and Tolkowsky lines, which are slightly higher prices and our consumers are using some additional credit to help finance those purchases. So everything is working very, very well and supporting the business to our satisfaction.

David Wu - *Telsey Advisory Group - Analyst*

Perfect. Thank you very much.

Operator

Rick Patel, Bank of America.

Rick Patel - *BofA Merrill Lynch - Analyst*

Can you help us understand the February comp decline in the UK? I'm just wondering if the consumer sentiment there is getting worse or if there was a change in perhaps your promotional cadence. What exactly is driving that change in trend there?

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Mike Barnes - *Signet Jewelers Limited - CEO*

That's a great question too. If you look at the February comps in the UK and you look at them compared to last year, what you saw was lower single-digit declines both last year and this year so that there's a little bit of a trend there. There are a couple things that I would say about that.

One is to reiterate that while it is important, Valentine's Day is not as important in the UK as it is the US and it doesn't carry the same weighting on that. And the other thing that I would say is I wouldn't necessarily expect to see that exact same trend in either the first quarter or the full year for the UK. It seems to be a little bit of a trend for February but that's a very short time frame.

Ron Ristau - *Signet Jewelers Limited - CFO*

And, Rick, just to add to that -- remember the comp last year in the UK was also a negative 2.6%. February just isn't a very strong month over there.

Rick Patel - *BofA Merrill Lynch - Analyst*

And can you also maybe give us an estimate of how many store closures we should expect this year and taking into account your 45 new stores -- what should we expect the net change in square footage to be like?

Ron Ristau - *Signet Jewelers Limited - CFO*

The square footage will be positive and I believe the closure number is approximately 25 stores. And you know what, Rick, I just don't have the number at my fingertips. I'll be happy to give you a call after the meeting, okay?

Rick Patel - *BofA Merrill Lynch - Analyst*

Appreciate it. Thanks and good luck on the year.

Operator

Jeff Stein, Northcoast Research.

Jeff Stein - *Northcoast Research - Analyst*

A couple questions here. First of all, Ron, can you discuss the other operating income line, which was up slightly in Q4. But it looks like the rate of growth year over year dropped relative to the first nine months. Anything there we should be focused on?

Ron Ristau - *Signet Jewelers Limited - CFO*

No, I wouldn't think you should be focused on anything in particular. We did make some small internal changes in some processing of cycles in February which had a slight impact on that number. But I wouldn't think you should read anything dramatic into it.

Jeff Stein - *Northcoast Research - Analyst*

And the (multiple speakers).

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Ron Ristau - *Signet Jewelers Limited - CFO*

The receivable portfolio is up and operating income when we look forward into next year will continue to grow as the receivable portfolio grows.

Jeff Stein - *Northcoast Research - Analyst*

Got it. And the $5 million to $7 million of supply chain investment, is that going to be run through gross profit or SG&A?

Ron Ristau - *Signet Jewelers Limited - CFO*

It will run through gross profit because it's the nature of manufacturing. So we'll be including it in our gross profit line. It's included in our (multiple speakers) guidance, Jeff, when we talk about being able to -- we'll be able to accept that charge and still we believe be relatively similar in our gross margin ratio. So we've included that in our thinking. It's not incremental to, so I don't want you to think that it is, okay.

Mike Barnes - *Signet Jewelers Limited - CEO*

Yes, it's all built into the (multiple speakers).

Ron Ristau - *Signet Jewelers Limited - CFO*

It's all built into the guidance we've talked about.

Jeff Stein - *Northcoast Research - Analyst*

Understand, okay. And your SG&A leverage point, any change there this year relative to last year?

Ron Ristau - *Signet Jewelers Limited - CFO*

My favorite question always, as you know. The leverage point really depends on what we decide to spend in advertising and how it moves around. The leverage point on occupancy expense, which was a very successful point for us last year, remains very low-single-digit comp to start to leverage occupancy costs.

Both of these things move around as we open up new stores and as we decide to change our (technical difficulty) advertising investments. So it's hard to just pick one particular number. Generally the comps are mid-single, we do more -- we more than adequately leverage many things.

Jeff Stein - *Northcoast Research - Analyst*

Okay, very good. Thank you.

Operator

Anthony Lebiedzinski, Sidoti & Company.

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Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Just a follow-up on the advertising question. Can you give us maybe some color on how much you expect to increase your advertising expenses by and also give us a better understanding as to the breakdown between TV and radio and other media, whether that's going to change significantly from the past?

Ron Ristau - *Signet Jewelers Limited - CFO*

What I would say is that we don't like to go into too much detail of exactly what level of advertising increase we would realize. It depends upon the performance of the business, it depends upon advertising rates that we are experiencing, it depends upon competition this year from the presidential election and all of the money that will be spent.

So I don't want to really give you a specific number. Nor would I tell you specifically how the mix is going to shift. I would tell you that TV advertising remains primarily our number one approach, but social media and consumer -- direct to consumer marketing are also important in our mix as is radio to a certain extent. So I would still say to you that TV will be predominant, but the other mix factors are moving as the market develops. Mike, I don't know if you want to (multiple speakers).

Mike Barnes - *Signet Jewelers Limited - CEO*

No, I was just going to say it's something that we track very carefully. We take a very scientific approach to it. And yes, we are increasing our advertising this year but, as Ron said, we like to think of it as a cumulative number. And all those different categories Ron called out are still very important to us, whether it be online, radio or TV which is still the major part of the advertising. And the reason that we're continuing to increase it is because it drives sales, it works for us.

Ron Ristau - *Signet Jewelers Limited - CFO*

And again, I'd point out that while we're increasing it we're also committing that at a minimum we'll be able to maintain across the year our SG&A ratio. So we're watching it; while we increase one we're making sure that the business performance justifies and that we're getting a return on investment necessary to continue with spending. So it's a very -- we watch it and balance it very effectively.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Okay. And as far as the current trading, the February comp in the US, how much is that driven by ASPs?

Ron Ristau - *Signet Jewelers Limited - CFO*

Well, it's driven by both ASPs and volume. Remember, what's going on, as Mike alluded to, is the fact that we have the bead programs which are high volume driven but low price, and then we have the diamond programs. I would say to you that they're both driving; I would say that pricing continues to be slightly more important than volume on a net basis (inaudible).

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

And as far as the store remodels, do you have a breakdown between the Kay and Jared stores?

Ron Ristau - *Signet Jewelers Limited - CFO*

I did not provide that level of details on an overall basis. It will be close to 110 stores across the enterprise.

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Mike Barnes - *Signet Jewelers Limited - CEO*

That's about 90 in the US, but we didn't bring the breakdown between Kay and Jared on that.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Okay, that's fine. All right, thank you.

Operator

(Operator Instructions). Rod Whitehead, Deutsche Bank.

Rod Whitehead - *Deutsche Bank - Analyst*

Three if I may, one very quick one. I missed the figure you gave for eCom growth in the US.

Ron Ristau - *Signet Jewelers Limited - CFO*

It was 36 (multiple speakers) I gave an overall basis. I said it was 36.5%. It's around 45% in the US, I'm sorry, alone it -- on an overall basis the growth rate was 36% and the total eCommerce sales were $92.3 million.

Rod Whitehead - *Deutsche Bank - Analyst*

For the group?

Ron Ristau - *Signet Jewelers Limited - CFO*

Yes, sir.

Rod Whitehead - *Deutsche Bank - Analyst*

Brilliant, thank you. And secondly, on -- you mentioned at one point, Mike, that you were working strategically with the watch brands. I wonder what that meant and in particular I know you were -- one of the things you trialed last year was the MICHELE watch brand and how that has performed and whether that would be rolled out.

And then finally, just on your buyback program. You said at the Investor Day that you dearly wanted a balance of 7% to 9% of sales, which is roughly $300 million and you're currently at $500 million. And your free cash flow is going to be at least $200 million for the next couple of years.

So, if you only buy back $300 million in the next two years then your cash balance is actually going to go up from $500 million to $600 million. So I was just wondering whether there is an intention for a further buyback program within the next two years?

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Mike Barnes - *Signet Jewelers Limited - CEO*

Okay. Well, we'll start with the watch question first. Now we're very excited with some of the partnerships that we have with a lot of the major brands out there. I just got back from the Basel Fair with both the UK and the US teams a couple of weeks ago and we had some great meetings. And we're continuing to get closer with our partners.

We've got some exciting things going on, including building major boutiques for people like Omega and Breitling in the UK and TAG here in the US. So we think these are very important partnerships. We think that they're going to be great to business drivers for us in the future and we continue to work with them in a very positive way.

We are testing and trialing some other brands, MICHELE as you mentioned. We started with that in about 26 Jared doors; we're actually going to increase the trial a little bit. We've seen some good pockets of success there and it's also done very well for us online. So we know that we have the customer out there, but it is a new brand for us.

So all in all the brands are doing extremely well for us in the watch category and it's something we would expect to see continue for the future. And we look forward to continuing to build those partnerships.

As far as the stock buyback, as we mentioned, it continues to be in force and we had just gotten started when -- in January 16. So it's still very new. We intend to continue on with it as appropriate and we will address -- the Board will address our balance sheet and our cash balances on a regular basis. And as it is appropriate we'll look at doing other things.

We increased our dividend by 20% from $0.10 a quarter to $0.12 a quarter, so that's another move and that's what we intend to do. We intend to take very thoughtful measures from quarter to quarter and year to year to make sure that we're delivering the best value we can for our shareholders. And so it's not like a one and done necessarily on the stock buyback or dividend or whatever it may be. We're always going to take it very seriously and analyze our situation and make those appropriate decisions.

Rod Whitehead - *Deutsche Bank - Analyst*

Thank you very much, Mike.

Mike Barnes - *Signet Jewelers Limited - CEO*

You're welcome.

Operator

David Jeary, Investec.

David Jeary - *Investec - Analyst*

A couple from me if I may, please. Coming back to the supply-chain investments, Mike, I still don't fully understand what you're looking at. I heard you use the word exciting initiative. So I just wonder if you could help us to become a bit more excited by giving a bit more insight into what exactly they were?

And secondly, your comments on marketing -- and I know you take a very holistic view of SG&A and returns. I was just really going to ask a question on that point specifically on UK marketing. Spend was up 22%, sales and profits obviously not up by anywhere near those same metrics. I just wonder how you look at that in the context of what is obviously a difficult market and how you -- if you justify making that kind of investment relative to the returns, please?

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Mike Barnes - *Signet Jewelers Limited - CEO*

Sure, good morning or afternoon, David. As far as the supply-chain initiatives, the reason I haven't lined that out a little bit more clearly, I want everyone to understand that we are appropriately investing in the future of our Company and that includes making sure that we secure our supply chain better, we build better partnerships. There's a lot of different things that we can have in the works.

But until it's the appropriate time I really can't get into a lot of detail on that because, quite frankly, I don't want to tip our hand to the competition on everything that we're working on. So we want you to know that we're working diligently to do the right things and to secure the future of our business needs and we will give you some more details on that as soon as we can.

In terms of marketing in the UK, one of the things we said we were going to do -- we're very pleased with our business in the UK and especially when you look at the retail environment and the overall economic environment and the market, which I'm sure you know extremely well, we've done very well in that market compared to a lot of the other nonfood retail companies out there. In fact, we have consistently beat the nonfood retail on a regular basis.

And we are going to continue to invest in our business. We believe that when it comes to taking market share and taking a leadership position and being a leader in a market we need to appropriately invest. We're going to be remodeling stores in the UK -- out of that 110 major remodels or relocations we talked about, about 20 of those are in the UK and that's a big part of that when you look at the split between the US and the UK.

The important thing to us is, yes, we did increase our marketing and we feel like that will help us drive long-term value and sales in the UK and that's why we're doing it. This is not the time to shy away from investment, we believe in the marketplace, we think that we have a bright future there. And it's tough time right now, but hopefully it won't always be that way. And we are preparing ourselves for the future and making sure that we make the correct investments to get us there.

David Jeary - *Investec - Analyst*

Thank you very much, Mike.

Mike Barnes - *Signet Jewelers Limited - CEO*

You're very welcome.

Operator

Andrew Hughes, UBS.

Andrew Hughes - *UBS - Analyst*

This is obviously the UK section of the call. I had a question about the US business and the EBIT margin of 15.8%. It looks to me like it's an all-time high, certainly a 10-year high. Can you just give us some sort of thoughts about how you look at it now?

Clearly there may be some that get concerned about over earning with an EBIT margin that high. Flip side of the coin is that the structure of the industry is completely different from the past. So do you think you can continue to push on with that EBIT margin?

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Ron Ristau - *Signet Jewelers Limited - CFO*

I would say that, number one, of course we're very pleased with that EBIT margin. And I believe you are correct, it is a record. It also -- the business is performing very strongly in the US and it continues to set new records. So just because we've established a records doesn't mean we intend to stop there, nor do we think it's a limitation.

As we focus on improving the productivity of the store chain, which even though we're opening up 45 new stores, the main driver is improving the productivity of sales within the Kay and Jared and regional brands that are already established. That is a very profitable way to grow sales, because obviously we don't have to make the capital investments or have the maturation of store issue that we deal with.

So that we believe that these stores will continue to gain market share, continue to improve in productivity. And as they do that they will continue to move higher in terms of the operating margins of the US business. So I think it is wonderful that it's a record. We do not think it is a limitation. We believe that we can continue to push forward and that's what we are planning for in 2013.

Andrew Hughes - *UBS - Analyst*

Okay. The guidance you've given broadly is flat gross margin, flat cost ratios for this year. So the implication is that you might pause for breath this year before continuing onwards and upwards in outer years, is that a sort of a fair assessment?

Ron Ristau - *Signet Jewelers Limited - CFO*

Well, I think we always try to be reasonable with any statements we make relative to future guidance because it's always difficult to predict. But this year we probably wouldn't have predicted getting to 15.8% if we had made a prediction. So I think that we always strive to get better, okay, while maintaining a conservative outlook so that we can not disappoint our investors.

Andrew Hughes - *UBS - Analyst*

All right, good. Thank you very much.

Operator

As there are no further questions in the queue, that will conclude today's question-and-answer session. I would now like to turn the call back to Mr. Tim Jackson for any additional or closing remarks.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thank you, Operator. And thanks, everyone, for taking part in this call, we really appreciate it. Our next scheduled call is on May 24 when we'll review our first-quarter results. Have a great day and thank you again.

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