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SIG - Signet Jewelers Ltd Q1 Fiscal 2013 Results Conference Call

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OVERVIEW:

SIG reported 1Q13 total sales of $900m, net income of $82.5m, and diluted EPS of $0.96. Expects 2Q13 fully diluted EPS to be $0.78-0.84.

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PRESENTATION

Operator

Good day and welcome to the Signet Jewelers first-quarter results 2012 conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Tim Jackson. Please go ahead, sir.

Tim Jackson - *Signet Jewelers Ltd. - IR*

Good morning and welcome. Thank you, Operator. Welcome to the conference call for Signet's first-quarter fiscal 2013 results. This is Tim Jackson, Investor Relations Director, talking. 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 disclosures in the annual report on Form 10-K that was filed with the SEC on March 22, 2012.

We also draw your attention to this slide. I will now hand over to Mike.

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Mike Barnes - *Signet Jewelers Ltd. - CEO*

Thanks, Tim, and good morning to everyone. We delivered strong financial results in the first quarter and increased our earnings per share by 10.3% to $0.96. We anticipated the impact of the calendar shift, as discussed on our last call, and managed our business including expenses accordingly, leading to this double-digit earnings increase. I would like to thank all at Signet who contributed to these record results.

In the second quarter to date, which benefited from the calendar shift, our same-store sales including Mother's Day were up strong double digits, reflecting the customers' broad acceptance of our merchandise offerings, our great customer experience, and the effectiveness of our advertising, all of which we consider to be core competitive strengths. I'll speak more specifically about Mother's Day in a moment.

Our results year-to-date and our consistent ability to execute our initiatives leave us well positioned to meet the challenges of the current economic environment and achieve our objectives for this year. Same-store sales were up 1.2%. The impact of the calendar shift reduced first-quarter sales by an estimated $32 million or by about 370 basis points.

In the US, we delivered same-store sales of 1.2% after an increase of 12.5% last year with the promotional shift having an estimated 440 basis point impact. In the UK, we are pleased to again report a positive comp and again it was 1.2% in what remains a challenging environment. This reflected as expected a significant improvement from the February performance which we discussed in our last call.

Income before income taxes was $128.5 million or an increase of 9.1%.

Now let's look at the US performance in a little bit more detail. US total sales were $751.5 million, up $13.5 million, an increase of 1.8%. Kay same-store sales increased by 2.9%. During February which includes the important Valentine's Day period, same-store sales were up 8.4% with April being adversely impacted by the calendar shift. Jared comps were up 0.2%. Jared also had a similar trading pattern with February comps up 8.1% and April adversely impacted by the calendar shift. Overall, US same-store sales increased 1.2% in the first quarter.

As we moved into the second quarter including the Mother's Day trading period, we have seen strong double-digit comps, a very strong all-around performance for this major gift-giving period for our US division.

Operating income was $137.7 million, up $11.5 million or 9.1%, reflecting the tight management of expenses in anticipation of this calendar shift. And the operating margin increased by 120 basis points to 18.3%, a record level for the first quarter.

Now let's turn to Mother's Day, because as we know 'it's all about mom'. We had a very strong Mother's Day in the US, with May month-to-date sales up approximately 21% following a 16% increase last year. Adjusted for the Mother's Day-related timing shift, same-store sales were up approximately 9% following a 14% increase last year. We are very pleased with this performance month-to-date encompassing this very important holiday period.

Now turning to the UK, the total sales were $148.5 million. At constant exchange rates they were up 1.4%. Same-store sales were up 1.2% with H.Samuel leading the way.

The same-store sales performance continued to be ahead of nonfood retailers in the UK as reported by the British Retail Consortium. The growth was driven by new product initiatives particularly in H.Samuel, the strong performance from store investments made last year, and our success in competing in a promotional environment.

There was an operating loss of $3 million, down $2.8 million, which was in line with our plan. The performance was primarily due to a lower gross merchandise margin. We are focused in the UK on initiatives such as testing new merchandise, staff training, and planning for Christmas, with the objective of driving comps in this key holiday season while identifying further opportunities to control costs.

We expect sales in the UK to continue to outpace the broader retail market but currently believe that operating income will be under pressure primarily due to the promotional environment. Just as a reminder in the UK, Mother's Day was in March.

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The drivers of our performance are our sustainable competitive strengths, in particular broad customer acceptance of our merchandise offerings, our great customer experience, and our investment in marketing.

Branded differentiated and exclusive merchandise continues to perform well and Neil Lane Bridal, Le Vian, Tolkowsky, and Charmed Memories have all been particularly strong.

The customer experience remains central to our success and we remain focused on training and development of our store teams including the best use of in-store sales enhancing technology that is currently being rolled out.

Our marketing investment for Valentine's Day and Mother's Day again proved very effective, with increased impressions helping to drive strong sales performances and building the value of the brand equity of both our store concepts and our merchandise collections. Also e-commerce performed strongly again with sales up $4.8 million to $22.1 million, an increase of 27.7%.

We continue to focus on our strategic imperatives to drive growth in fiscal 2013 and beyond, to manage the business appropriately including tight expense control, while continuing to implement initiatives that drive long-term shareholder value. The recruitment, training, development, motivation, and retention of our team members is key to sustaining our ability to deliver an outstanding retail experience for our customers.

The customers' acceptance of our merchandising initiatives remains very positive and we are always looking for opportunities to grow both new and existing brands and categories to delight both existing and new customers. Our ability to further enhance our competitive strengths through investment and our people and infrastructure to enable growth in sales and operating margins helps us stand out from our many competitors. A great example of this is our commitment to becoming world-class in the digital environment.

We remain committed to increasing our share of the jewelry market and maximizing sustainable profit levels.

I'd also like to point out in this quarter of a particular note the progress we made in optimizing our capital structure through the execution of the share buyback program which we began in mid-January. We completed $90.7 million of purchases this quarter, bringing the total repurchase to $103.4 million through the end of last quarter. At that time, $196.6 million remains available for future purposes under the program. I am pleased with the execution of the plan to date and we continue to maintain a very strong balance sheet as well.

Now I will hand the call over to Ron to go through the numbers in a little bit more detail. Ron?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Thanks, Mike. Total sales for Signet increased 1.4% to $900 million compared to $887.3 million last year. Our total Company comp store sales increased 1.2% versus an increase of 10.2% in the prior year.

In the US, total sales increased by 1.8% to $751.5 million, reflecting comp store sales of 1.2% and a positive contribution from changes in space. I again point out that the promotional shift adversely affected US sales by an estimated $32 million in the quarter.

In the UK, total sales decreased by 0.5% to $148.5 million reflecting a comp store sales increase of 1.2%, a small benefit from changes in space and the unfavorable impact of currency fluctuations in the quarter.

Income before taxes increased by $10.7 million to $128.5 million representing 14.3% of sales versus 13.3% last year. The major factors driving this 100 basis point increase were as follows. Gross margin was $353.7 million, an increase of $4 million. The gross margin rate was 39.3%, down 10 basis points. Gross margin in the US was up $5.8 million on last year, driven by favorable gross merchandising margin improvement of 40 basis points, leverage on store occupancy expenses and increased income from credit-related fees.

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This was offset by an unfavorable impact of $4.7 million on US net bad debt charges. This charge was due to a change in the number of credit billing cycles included in the quarter, a change made for purposes of internal efficiency. This expense is expected to be offset by a broadly similar benefit in other operating income in the fourth quarter of fiscal 2013 with little overall impact expenses expected on fiscal 2013 results.

The US net bad debt to sales ratio excluding this charge was 1.8% compared to 1.6% in the first quarter last year. The small difference is attributable to the increased participation rate on credit sales leading to growth in the overall receivables portfolio.

Gross margin in the UK was lower than last year by $1.8 million, primarily as a result of a decline in gross merchandise margin of 170 basis points attributed to the unfavorable exchange rate impact and primarily the level of promotions in the market. This was partially offset by favorability in store occupancy and store operating expenses.

Selling, general and administrative expense was $264.5 million, down $0.7 million and as a percentage of sales, it was 29.4%, 30 basis points favorable. This reflected tight control of expenses and is primarily attributed to lower store staff costs.

Our other operating income was $40.2 million, up $7.4 million on last year, reflecting the higher level of accounts receivable. This had an 80 basis point favorable impact on the operating margin. As a result, our operating income was $129.4 million, an improvement of $10.7 million or 9% and our operating margin was 14.4%, up from 13.4% or by 100 basis points as I indicated.

Our interest expense was unchanged at $0.9 million and our income before tax was $128.5 million again an increase of $10.7 million and as a percentage of sales, that was 14.3%.

Our tax rate in the quarter was 35.8%, resulting in net income of $82.5 million and diluted earnings per share of $0.96, which was up 10.3%. The weighted average fully diluted number of shares for the quarter was 86.3 million.

We ended the quarter with cash of $399 million and maintain -- continue to maintain a very strong balance sheet. In the first quarter of fiscal 2013, net cash provided by operating activities was $34 million compared to $105.3 million last year. The difference between the two quarters primarily reflects favorable net income, depreciation, and declines in accounts receivable balance compared to year-end offset by increases in payments for inventory, expenses, and income taxes in the quarter.

Our total net accounts receivable at the end of the first quarter was $1,025.1 million, up by 13.4% from $904.3 million a year ago, primarily reflecting the higher rate of in-house customer financing and the prior-year build.

Credit participation showed an increase to 55.8% of US sales in the first quarter, up from 53.8% in the comparable quarter last year. Our average monthly collection ratio was similar to last year at 13.8% compared to 13.9% in the comparable quarter.

Our net inventories at April 28 were $1,335 million, up by 9.3% from $1,221.1 million a year ago. The increased inventory levels reflected the US promotional calendar shift related to Mother's Day, approximately $20 million, and the impact of the higher diamond and gold prices partially offset by our actions to improve inventory turn.

Our capital spending in the quarter totaled $18.6 million, up from $12.9 million as we increased our store and IT investment as previously described.

In the quarter net cash used in financing activities primarily included dividends of $8.7 million and the repurchase of approximately 1.9 million shares at a cost of $90.7 million.

I would now like to address the outlook for the second quarter. We are providing guidance for the second quarter due to the complexity of the calendar shift. Same-store sales in the second quarter are expected to be in the mid to high single-digit range and fully diluted earnings per share are expected to range from $0.78 to $0.84 based upon an estimated 84 million weighted average shares outstanding.

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In this guidance there are three issues to consider. One, we anticipate approximately a $0.06 decline in UK earnings versus last year as a result of the pressure on gross margin due to the competitive environment.

Second, approximately $10 million in advertising shifts move into the second quarter related to Mother's Day. This of course is offset by sales but the SG&A ratios in the second quarter will adjust slightly due to this fact.

Third, in the second quarter of last year, we had an effective tax rate of 33.6%, which reflected the favorable recognition of $1.9 million in previously unrecognized tax benefits or about $0.02 a share. We anticipate the tax rate in the second quarter this year will be 35.8%.

Importantly with our results here to date, combined with our focus on competitive strengths and the ability to execute our initiatives we believe leave us well-positioned to achieve our financial objectives for the year.

I will now hand this back to Mike for some closing comments.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Thanks, Ron. We will now be pleased to take any questions that you might have for us at this time.

QUESTIONS AND ANSWERS

Operator

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

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

Good morning, Mike and Ron. So it looks like the decline in the UK of $0.06 is I think seems surprisingly large. Maybe could you flesh out a little bit more the pressures on the gross margin and what's driving that?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Yes, as you know, the UK environment has been very challenging, as we have indicated on our calls in the past, but what we have seen in the first quarter was that we did produce a positive comp in the UK because we have made the decision to protect market share and try to increase our market share there. But we are finding that it is an increasingly promotional environment and that customers are self-selecting, being more promotionally orientated merchandise in the market, so we expect this trend to continue whereby we believe we will continue to outpace the broader economic indices in the UK as measured by the BRC.

However, we do think that the margins will be under some pressure and we believe that this is the right strategy as we prepare ourselves for holiday, as Mike indicated in his comments. So there will be some slight losses that we will incur in the second quarter and that's why we are calling it out.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

But we do -- I will just add to that just add on to what Ron said, the UK tends to be a fourth-quarter story for the most part. Holiday is so important. We feel like we are positioning ourselves exactly as we need to be as competitive as possible in that marketplace and that we do have the opportunity to gain further market share in the future.

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We continue to invest strongly into new merchandise programs. We have invested as you well know into stores and remodeling stores, etc., so we are encouraged with the direction that we're going in that market and we feel good about the long-term future there.

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

Is there a change in the competitive environment there? Any new competitors coming in or is this really kind of a function of the difficult overall economic conditions in the UK?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

You hit it on the second part there. It's really a function of the overall macro environment there. We continue to make the same moves as we need to in the UK in terms of pricing just like we do in the US but because of the competitive and the promotional environment -- and Ron said it best -- the customer really is self-selecting the more promotional merchandise and that's driving the mix. And it's an impact on our gross merchandise margins to some degree.

But again, I feel like that we are well positioned for the future and that we are moving in the right direction.

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

Okay, one other question and on a different topic and that is I was wondering if you could maybe just explain a little bit more about this change in the number of credit billing cycles, maybe help us understand how that works and how that would have affected obviously the Q1 and then how that's going to kind of reverse in Q4? What are the mechanics of that?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

This is really a change in our internal operations relative to credit and what we wanted to do was to really unify our quarterly cutoffs and just the way we process internally and it drives some of the way that we recognize our bad debt expense and other operating income. So what will happen is we have essentially cut the number of cycles in the -- I'm sorry -- added the number of cycles in the first quarter and cut the number of cycles in the fourth quarter and it just will change the flow between the quarters this year.

No net impact to the year. We took a hit of about $4.7 million in the first quarter this year in the bad debt expense and we will recognize an offsetting favorable situation in our other operating income in the fourth quarter. So in the year, it means nothing but it just helps us internally to have some efficiencies that we are always striving to gain in our own internal operations.

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

So then in future years should we then see similar seasonality, a seasonal pattern that we are now seeing this year?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Yes, this pattern will permanently adjust and you should never have to realize any kind of a difference again relative to this.

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

Right, okay, thanks.

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Operator

David Wu, Telsey Advisory Group.

David Wu - *Telsey Advisory Group - Analyst*

Thanks, good morning, everyone. First your second-quarter guidance, your second-quarter guidance does assume a bit of a comp deceleration through the remainder of the quarter just from the high double-digit growth that you saw during May to date. And I was wondering if you are just being conservative here. Are you seeing something out there that is sort of making you more cautious?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

If you look at the month to date, the first three weeks, as we pointed out, it was very strong double-digit comps obviously. We try to be as prudent as we can be when we give our guidance and we felt like mid to high single digits was an appropriate guidance to give.

It's very interesting, David, because this first two quarters just has so many moving parts between it. God knows I wish that Mother's Day and other events would stop shifting around on us. Somebody didn't plan this very well to the retail business when they thought about all these holidays thousands of years ago! But the point is there's just a lot of moving parts in the first couple of quarters. It kind of -- we are through the shift now and we feel pretty good about where we are at.

We pretty much guided and said that in the first half of the year also that we expected to see somewhere in the mid single-digit comp range and that's kind of where we are still at. With the second -- with the first quarter being lower single digits as we guided to and the second quarter being mid to high single digits and we think it's a very strong performance especially in light of the performance that we are lapping over last year.

And even maybe more important than even the comp number is the quality of those comps. You look at setting record earnings in the first quarter and we still have a very strong year in front of us. We think that we are well-positioned to hit our financial objectives and other objectives for the full year as we move forward through the back half, so we are very excited about where we're at right now.

David Wu - *Telsey Advisory Group - Analyst*

Great. And on credit sales you mentioned credit participation was up versus last year and I was wondering if approval rates are still relatively consistent from the prior quarters?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

They are relatively consistent, David, but they are actually down about 100 basis points, which I would consider relatively significant. But they are not up. They are down.

David Wu - *Telsey Advisory Group - Analyst*

Got it and then also I understand bad debt expense increased about 20 bps even when you exclude the credit cycle impact and I know it's a relatively small impact, but I was wondering if you are seeing sort of any signs of softness at all in sort of the credit health of your customers?

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Ron Ristau - *Signet Jewelers Ltd. - CFO*

No, I think that's a very excellent question. We are very pleased with the performance of the credit portfolio. We are seeing no indication whatsoever of any problems or [role weights] or anything else of that nature. Everything continues to be tracking very, very strongly. What we have here is a slight impact of 20 bps.

Again, we are a 13% increase in the receivables so therefore the relative level of bad debt will go up and sales only increasing by 1%, so it produces a slight distortion in the quarter in the rate. But no -- the underlying performance of the portfolio remains very strong and very well-managed.

David Wu - *Telsey Advisory Group - Analyst*

Great. And then just lastly on price increases, I was wondering if you could just kind of share with us your strategy for the year if you raised prices at all in the quarter and if you think price increases could be an effective way to sort of deal with the tough comparisons that you have ahead?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

We have increased prices in accordance with our normal strategies during the first quarter in both the US and in the UK and it's kind of a mixed bag. In the UK, we have taken our normal price increases but we are seeing a more promotional environment, so therefore, it seems counterproductive to take further price increases to offset the margin issues that we are having there because that's really not what -- it won't work in that market we don't believe.

What we need to be doing there is positioning ourselves for comp growth and greater market share participation in the UK right now.

In the US, we did realize of course a 40 bps improvement in our gross merchandise margin in the first quarter, so it was helpful. Pricing was helpful. And we feel we are well-positioned while continuing to maintain great values for our customers in the US. So we would not look to take further substantial price increases unless something unforeseen happened. But I would say right now we are on our normal pattern.

David Wu - *Telsey Advisory Group - Analyst*

Excellent, thank you very much.

Operator

Jennifer Davis, Lazard Capital Markets.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Good morning. I am trying to get my arms around guidance. It's based on 84 million shares, comps mid to high single digits, so I would assume you would get some decent leverage on that. And you took price increases in the first quarter, so I would expect some higher gross margins in the US.

I understand the UK is weaker but it looks like the low-end of your guidance assumes some margin contraction and given the US is 80% and the UK is 20%, I'm just kind of trying to understand that a little.

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Ron Ristau - *Signet Jewelers Ltd. - CFO*

There is a little bit of an impact in the second quarter with the tremendous shift of the -- all of the Mother's Day, all of our Mother's Day promotional events into the second quarter. That does have from a mixed perspective a slightly unfavorable impact on our margin as Mother's Day tends to be always, always a little bit lower dollar value sales. So Mother's Day, the Mother's Day program in its totality covers a slightly lower margin than other times of the year.

When we concentrate that all in the second quarter as opposed to having it split between the first and second quarter as we normally do, it doesn't have that much effect but it is having a slight effect in the second quarter due to the concentration of those sales, so that's something from a modeling perspective that is kind of complex for people to pick up.

The second thing I would point out is that while we are of course covered by the incremental sales that happen, we are going to see -- because moving along with Mother's Day some of our advertising support shifted into the second quarter, if you will, so there will be a slight impact on the SG&A ratios as I called out when I was enunciating some of the things that are causing some of the differences because we understand it's a little difficult for people to understand. But I go back and point out the $0.02 in taxes last year and again we made a profit in the UK last year in the second quarter which we do expect to reverse into a loss this year, which is going to cost us about $0.06.

So I doubt that most models anticipated that. That's why we are calling it out. Hopefully we will see how things work out. We're not usually in the guidance business and we try to be prudent with our guidance also as we have to release these numbers.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Quick clarification, that $0.06 decline in the UK, that's only -- the $0.06 is based in the UK, right? So it's 20% of $0.06, right? Or it is $0.06 in total?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

$0.06 is the difference.

Jennifer Davis - *Lazard Capital Markets - Analyst*

In the UK or in the total? (multiple speakers)

Ron Ristau - *Signet Jewelers Ltd. - CFO*

It is the effect on the total.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Okay, great. (multiple speakers) Thank you. My next question is on other operating income, saw a pretty big increase there. Is that because of the added number of cycles? Did that impact the other operating income this quarter?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

No, it did not impact other operating income. Other operating income is realizing a benefit from the more on the size of the receivable portfolio as being the primary driver of that. And then we are also seeing some slight mix differences in the types of programs people are selecting, which is causing us to gain some additional income. So that's a trend that we expect to continue in the year, that we would realize some other higher

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operating income as we move through the entire year, which is a good benefit to the business and driven by what we believe will be a higher receivable balance.

Jennifer Davis - *Lazard Capital Markets - Analyst*

But in the fourth quarter your receivable balance was higher than it was in the first quarter, yet your other operating income was not up.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

I would more think about it relative to the fourth quarter and the first quarter are a little bit disconnected, if you will, in this (inaudible). The first quarter is go forward -- what you should think about for go forward.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Okay, great. Thanks. Then I'm sorry, last one. Can you talk a little bit about maybe how many new customers you acquired this quarter? Do you have that information -- maybe you have like how many customers or new customers you've got through your credit cards or something and how that compares to prior levels? Because obviously the question that I have gotten a lot this morning already is if you are losing share to Zales, so is there any --?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

First of all, look at the relative size of the businesses and we're not losing anything to see Zales and take a look at the result of the Mother's Day results versus what was released yesterday and I think we can decide whether or not we're losing any share to Zales in the macro environment.

We don't specifically give those numbers but I will tell you that most of our customers all the time are new customers because again jewelry is a relatively infrequent purchase and we are constantly drawing new customers into our base in order to make our numbers. So that's about as far as we can go as far as giving information.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

The other thing I would throw in there, Jennifer, just to kind of reemphasize what Ron is talking about, again I will say there were so many moving parts between these quarters and the promotions that we run may not be comparable to the promotions that other competitors run that we're up against in the marketplace. It's hard to do that when you have all these different things moving around. And the level of promotion or the level of customer interaction, etc. may be different between various competitors out there of ours.

But again, Ron pointed out take a look, we feel really strong about the great results that we saw month-to-date through Mother's Day which were very impressive comp sales numbers for us, I believe. (multiple speakers)

Jennifer Davis - *Lazard Capital Markets - Analyst*

They were up. It was up 21%, right?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Yes, 21% and even if you adjust for the shift, it was still up 9% on double digits last year, so you may want to compare those numbers out to what the other competitors out there are doing.

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The other thing I would like to really say to that is we are very excited about all the merchandising activities and the new merchandise that we are driving out there. As we mentioned on the last call, we have a lot of multiple merchandise programs in test right now and quite frankly I'm very pleased to say that several of these tests have had very good results and we're going to begin rolling those out a lot more during the second quarter more than doubling the number of doors they are in and by the end of the second quarter, there will be hundreds of doors, several hundred doors.

I really don't want to go into more detail about what those programs are until we begin that role because I'd like to keep the details quiet for competitive reasons but I will update that further a little bit later on.

That's a couple of programs. We have several other ones that are in earlier stages of testing that are also so far doing very well. Now it's early days on those and stay tuned. We will see what happens and we'll update you on that as well.

Finally, I would just say there's some existing things going out there that we think are going to really help us out and especially in the back half of the year with existing programs. Our Tolkowsky Ideal Cut Solitaire program, that is a really good example, rolled into the final -- is going to be rolled this quarter into the final 194 Kay doors and that's going to make it an all-door program. It has done very well for us and we are very excited about it.

And then finally, Jane Seymour, one of our premier exclusive brands, we are working on some very exciting innovations for that brand. It's been around for a few years now that is going to further extend the success that we have seen there. We've got great new designs going into that. We have -- we are extending the Open Hearts to a new collection called the Family Collection and it really is I think going to be a fabulous program. We're actually going to expand that by another 250 doors as soon as possible.

So there's a lot of exciting things going on out there. We think our comp store sales are -- we know that they are in line with the guidance that we have given and we think that they are very encouraging for the rest of the year. And with all this stuff going on, we really think that we are well-positioned to hit all of our objectives for the full year.

Jennifer Davis - *Lazard Capital Markets - Analyst*

All right, great. Thanks and best of luck.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

One last point I would make on that, Jennifer, just to follow-up one last time is that you recall when we had our original -- our year-end conference call, we estimated that the calendar shift would be worth about $25 million based upon what happened in the previous year. Then the actual numbers I will just point out to you again turned out to be more like $32 million than $25 million when we actually -- when the dust settled and did the calculation. So that calendar shift was a little bigger than we first thought.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Okay, great. Thanks.

Operator

Rick Patel, Merrill Lynch.

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Rick Patel - *BofA Merrill Lynch - Analyst*

Good morning. Thanks for taking the question. Comps at Jared seemed to decelerate more than comps at Kay during the quarter and can you just put that into a context for us. Is that business just a little more sensitive to Mother's Day than Kay or do you see the higher income customer showing somewhat greater caution with jewelry purchases?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Sure, as I said, there's a lot of moving parts. Some of it has to do with the various brand opportunities that we have right now. As you know, some of the brands are in Kay. Some of the brands are in Jared and some of them are in both and right now some of the successes that we have seen happen to be more of Kay type brands. We've seen Tolkowsky has been very strong, as I just mentioned. Charmed Memories also did very well and both of those are only available in Kay at this point. And then there's also another impact in Jared where with the exit of Rolex, there's an impact on sales there as well.

Rick Patel - *BofA Merrill Lynch - Analyst*

Got it. And then can you talk about the performance of the bridal jewelry category versus last year? Is Neil Lane still continuing to hold up pretty well and any new initiatives planned on that side of the business given there's no major shopping catalyst until holiday now?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

The bridal category continues to be very strong for us. It continues to be about the same amount of the mix out there. The Neil Lane Bridal has been a great program for us, as you know. Tolkowsky I mentioned has done well and our bridal in general has done extremely well, so we feel very good about where we are going with bridal.

As you probably know, that was a huge emphasis for us last year. We did a lot of development and training which we consider to be a very core competitive strength for us with our associates and our managers on bridal and we're going to continue to do that because we see the effects that it has had.

Rick Patel - *BofA Merrill Lynch - Analyst*

All right, great. Then just lastly, can you provide some color on how you expect product costs to trend versus the first quarter? Do you expect the percentage increase versus last year to increase, decrease, or stay the same as we think about the second quarter and the back half?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

I talked to you about our annual statements that we made about gross margin and we said for the year we expect to maintain our gross margin rate while offsetting commodity costs that are roughly comparable to what it was in the previous year. And we would still stick with that statement.

There's some fluctuation by quarter because -- it's a little complex as I mentioned in the second quarter, there's a little bit of impact because of the consolidation of the total Mother's Day program in the second quarter that wouldn't be in some of your historical models. But there is nothing that's really materially different other than the fact that we have slight margin pressures in the UK which will continue in the second quarter.

And as Mike pointed out in his comment, we would expect for the year right now that there will be some gross margin pressure in the UK which will continue through the year and may lead to lower than last year results.

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Rick Patel - *BofA Merrill Lynch - Analyst*

But that diamond costs have sort of trended down since last summer, do you expect it to be a gross margin tailwind by the time we exit the year?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

I think we have to see how it develops over time. I would think that again which our model is a slow turn model that changes in prices and less long-term and sustained over long periods of time tend to have de minimis impact on any one fiscal current year. So changes in diamond costs that would occur more than likely would impact future periods as opposed to having a major impact this year.

That said, it could have a small impact. But I wouldn't call it out as something that would be material in this year.

Rick Patel - *BofA Merrill Lynch - Analyst*

All right, great. Thanks, guys. Good luck.

Operator

Ike Boruchow, JPMorgan.

Ike Boruchow - *JPMorgan - Analyst*

Congrats on a good quarter. Just a couple of quick questions. I guess first on the credit side of the business, Ron, in this quarter can you just help us understand a little bit better so this one-time kind of issue with the credit billings, it looks like it kind of hurt your consolidated gross margins by roughly 50 or 60 basis points. If that's correct, are you kind of saying to take that 50 to 60 basis points and put it into Q4 so we should basically have roughly 50 bps of margin opportunity in Q4 just from the shift?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Let me make sure you are clear on this. Number one, it did have an impact of $4.7 million in the first quarter on the gross margin number. When we get the benefit back it will come not in gross margin but it will come in other operating income in the fourth quarter. So the way this will work, it's just there a first time -- there's an expense in the first quarter and a benefit in the fourth quarter that are on mismatched lines.

And then this adjustment is like it's forever embedded in our model. It will never adjust again so when you look into 2014 versus 2013, this effect will no longer -- will be nothing. It will be like resetting the way it flows by quarter in both of those lines.

Then I would say with the broad statement that the gross merchandise margin we expect to be broadly similar across the full year. Implicit in that if we are having some discussion in the UK with some margin pressures would mean that we are implicitly assuming that margins in the US would be a touch better but that the two will tend to offset.

Ike Boruchow - *JPMorgan - Analyst*

Okay, great. Also I guess there's a lot of noise with the Mother's Day shift. Just to try to avoid more noise for the next quarter in Q3, you guys do lap that one-time -- the Rolex sale that went on. Can you kind of just remind us again last year how much that helped your comps and what -- when we start building our models for Q3, how should we be thinking about comps? It would seem likely that the comps should decelerate from 2Q but the margins could also accelerate ex-ing that shift out. Could you just give us some color there?

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Ron Ristau - *Signet Jewelers Ltd. - CFO*

Yes, I could. That's a very good question and thank you for asking it because the timing shifts can be somewhat confusing. In the third quarter last year, just to remind everyone, we had about a -- in the Jared business about an 8% gain in the comp in Jared in that quarter because of the fact that we were liquidating some Rolex product as a result of this discontinuation of the line in the stores. That generated a benefit in the third quarter last year approximately $15 million which we will be up against when we come through this year.

Now we will be of course trying to offset that but it is a headwind for us moving into the third quarter and the third quarter from a gift giving perspective is always our most difficult quarter. There is not much activity going on in the market.

Traditionally the third quarter margins are always lower than they are in the second quarter and first quarter and you can study that by looking on the historical trend. We would expect that historical trend on a relative sequential quarter basis in the third quarter be probably somewhat similar to what it has been historically. Okay? We stay with the comment of the full year that the margins will include.

There is a comment I noted from an analyst -- someone yesterday that I just want to make sure everyone is clear on. There is this 53rd week and when we gave our year-end or our annual statement about guidance in our year-end release, we indicated that during the 53rd week we believed that we would recognize incremental sales of between $48 million and $52 million and that the 53rd week would represent an operating loss of $2 million to $4 million because of the way that Valentine's Day moves with the 53rd week. So we will incur some advertising costs in the 53rd week and sales shifted to the first quarter of next year 2014.

I would point out that those sales in that week will represent negative comps so that the 53rd week is -- causes a suppression versus the 52-week comp when you think about how to build your model. It's not a positive from a comp perspective that we have those additional sales flowing in.

So again, the 53rd week would be $48 million to $52 million, a slightly negative comp during that week and a loss of $2 million to $4 million just to reiterate what we said in our previous annual guidance. So I hope that's helpful to you in thinking about the way the quarters flow.

Ike Boruchow - *JPMorgan - Analyst*

No, that's very helpful. Thanks, Ron. I guess one last one I guess for Mike on a higher-level view of the business. You came into this year at around an all-time high margin around 13.5%. Excluding the credit shift in Q1m your operating margins were up almost 200 -- excuse me, 150 basis points, which is pretty phenomenal.

How do you view operating margins down over the next year, or three or five years, as this business has clearly changed and structural changes have kind of gone on within the specialty jewelry market?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Sure, and thanks for asking me that question instead of Ron because you knew I would probably give a different answer, right? No, seriously, we are very pleased with our operating margins. And as you know, growing profitable market share has been our long-term goal. We don't have an exact target on that, but we don't feel like we have hit a ceiling. We think that there still is operating margin expansion available to us, quite frankly, over the long term, and we are focused on continuing to grow our sales and our operating margins both over the long term. So it's something that we believe is sustainable for us.

We believe that with the productivity that we can gain from our stores and with the excellence and executions that our teams do out there that we still have an opportunity to continue to gain operating margin. So the short answer I guess would be we don't feel like we have had a ceiling yet, and that there's still opportunity in front of us.

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Ron Ristau - *Signet Jewelers Ltd. - CFO*

The only thing I would add from Mike's comment is that we would expect as we're indicating here than in the UK most likely as we look to this year, there will be a slight decline in operating margins. When we look forward into the future, we believe we are positioning the business to start to reverse that trend as we look out into 2014 and 2015. So we would not -- we do not find that situation acceptable and we'll be working hard with our UK team as we try to readjust the business to the realities of the economics in those markets.

Ike Boruchow - *JPMorgan - Analyst*

Great. Good luck, guys.

Operator

Jeff Stein, Northcoast Research.

Jeff Stein - *Northcoast Research - Analyst*

Good morning, Mike and Ron. A question for you just on the UK -- getting back to the UK business for a minute. Philosophically, Signet has always kind of taken the position that they are going to protect gross margin merchandise margin first on the basis that demand for jewelry is relatively priced and elastic. And I'm wondering is this a change in philosophy or does the UK customer perhaps behave differently than the US customer?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

It's not a change in philosophy. What it is, is a recognition of the reality of what is going on in the UK market and the challenges from a disposable income perspective that people are having in the UK to find the disposable income necessary. So what we have to do there is understand -- we could do two things. We could just continue to increase prices in the UK, which we don't believe would work and we believe we would sacrifice market share because literally people are very challenged over trying to stay in concert with what's going on with our consumer.

So the UK consumer is behaving a little differently. This pressure has been going on for a while. It just seems to be accelerating a little bit this year due to the conditions that we find ourselves in. So our decision is to go for market share in the UK and not to just continually price because we do believe the consumer is challenged and we need to have product for that consumer that is appropriately priced for what the consumer needs.

That's what believe is the right strategy in the UK and we are going to follow it because we believe it will be worse if we did the alternative.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Just one other comment just to make sure we are fully level set there. It is not a change of philosophy, as Ron just said, absolutely. And by the way, we do continue to price in the UK and increase prices in the UK as appropriate, so that hasn't changed either. But as Ron mentioned earlier in the call, the consumer themselves, they are self-selecting more of the promotional goods and yes we do have the appropriate level of promotional goods out there for them to select from. So we have our normalized price increases as we normally would execute them and we have our promotional goods and maybe a few more of them based upon the market as it sits today. But at the end of the day, it's the consumer that is choosing the mix of what they buy and they are bargain-hunting still in the UK. So that puts pressure out there.

What we won't do is we won't raise our prices more than we should. We will raise them appropriately but we won't raise them more than we should to offset that promotional mindset of the consumer and therefore it is the pressure on gross merchandise margins a little bit. But we feel like it puts us in the right position and the right competitive place to best execute our business model and set ourselves up for the back half of the year and the long-term.

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Ron Ristau - *Signet Jewelers Ltd. - CFO*

As Mike indicated, we are significantly outperforming from a comp perspective the British Retail Consortium numbers, so we are very pleased with how we are positioning ourselves in that market because we would not want to be having the alternative of significant comp drops.

Jeff Stein - *Northcoast Research - Analyst*

Mike, in the US, how is the US customer behaving with regard to making similar choices? In other words, what are they selecting right now in the stores? Are they going for the regular priced merchandise or the promotional merchandise and is the mix changing very much year on year?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

I would say the US consumer has a little bit of a different mindset and that they're not overly choosing the promotional merchandise and not overly bargain-hunting. In the US, really the consumer seems to be focused on newness, design, and innovation. If you give them a reason to buy something, they will buy it. They want something different and they are being very picky about what they choose. But if you have great brands and great design such as we have, then they are willing to step up and pay for it.

In fact some of the better selling merchandise that we have seen in the US has not been anywhere near opening price point, much less promotional. Some of it has been very strong price point type merchandise and it's because of the innovation and the fashion and the design.

Jeff Stein - *Northcoast Research - Analyst*

Okay and final question. The regional brands, what happened there? We have done some research in terms of calling independent jewelers and the vast majority of them indicated that they had a fairly good Mother's Day and I'm looking at your regional brands and you guys were down year on year. What accounted for the sharp decline? I know advertising is a big delta but we are still hearing that independents are doing pretty well. It sounds like your regionals are underperforming independents.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

No, I wouldn't say that. During Mother's Day, our regionals had very good results -- up -- remember Mother's Day for us was included in our second-quarter results and included in the numbers that Mike was quoting for the US division up 21% year to date in May. That includes the regionals, so the regionals are in there and Mother's Day was strong in the regionals, not as strong as it is in Kay and Jared because it never is, but they did have a good Mother's Day. (multiple speakers) not have a good Mother's Day.

Jeff Stein - *Northcoast Research - Analyst*

Thank you very much.

Operator

Andthony Lebiedzinski, Sidoti.

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Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Good morning. First question is on the UK. Could you tell us what the same-store sales are quarter to date? So far you give us the US number. And also, Mike, you had mentioned in your opening remarks that you are going to be testing some new products in the UK, so I was wondering if you could give us some color on that?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

On the new products, I will talk to that. We are testing some new things. We're not really in a position yet to talk about what they are but we have just like in the US, we have a number of merchandise initiatives underway in the UK and a lot of those positive comp store sales are being driven by new merchandise but again until we roll that out, we don't want to speak more specifically about which ones they are.

Some of them I could talk to because they're the same as the US and they've been underway for a while. I mentioned Tolkowsky a couple of times. It's been a successful program not only in the US but also in the UK marketplace. We also have leveraged the fashion business of Le Vian for instance into the UK and that's an opportunity for further growth for us there. So there's a lot of exciting things happening on the merchandising side in the UK.

In terms of comps, Ron.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

The UK business, we didn't disclose it because there's no Mother's Day impact on the UK, but the comps in the first quarter were in that a little better than 1% range and we are seeing more or less a continuation of that trend in the May timeframes.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Thank you for that. Also on your last conference call in March, you talked about investing in your supply chain. You gave a number of $5 million to $7 million for the year. Was there any impact from that in the first quarter? And also -- and if so, could you quantify that and also can you talk about what you expect to gain from that initiative?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Number one, there was no significant impact in the first quarter. That activity will be more towards the third and fourth quarters of the year and it's included in our statements about gross margin and how we think it will be covered. So it's in our numbers and will be largely offset as we go through the year.

What we expect to gain -- it's a variety of things. I'm going to let Mike speak to that, but strengthening the supply chain is important to us.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

As we talked about, our supply chain is so important to us and we are working very diligently to improve the relationships, build partnerships, improve existing ones and build new partnerships in ways that are going to benefit us for many years to come. It's something that we're working internationally on this. We've got -- we have always had a strong supply chain and we keep a lot of boots on the ground in a lot of the places where the business is being done, be it places such as Antwerp or in India and Mumbai.

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But we think by having a stronger presence in some of these areas that it will benefit us and as we do -- as Ron said, there was no significant impact in the first quarter but as we do continue to invest in our supply chain and we do see where that investment is going, then we will further quantify that for you in the future.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Okay, thank you.

Operator

Jessica Schoen, Barclays.

Jessica Schoen - *Barclays Capital - Analyst*

Good morning, everyone. I had a question about the traffic trends in the US. I was wondering if you could give a little color maybe about how they differed between your on-mall locations and your off-mall. I understand that the shift of Mother's Day may cause a little bit of noise but just generally how they compared during the more comparable parts of the quarter?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

I guess you could definitely answer that question by looking at what happened in results. Our online sales were up 27% in the first quarter, which we thought was very strong. We continue with that initiative. We continue to see increases in traffic and all traffic measurements and site visitors, time on site, conversion, and so on are all very favorable.

In the stores, the traffic trends tended to follow what happened with comps, so the traffic trends in the first quarter were very strong during Valentine's Day, a little bit softer in March and April and very, very strong in Mother's Day.

Jessica Schoen - *Barclays Capital - Analyst*

Okay, as far as the progress on the capital investment that you're planning to make for the year, could you remind us of anything you've said about the cadence of that capital investment as well as when you expect to see the potential benefit?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Well, the cadence of it, our capital spending always tends to get a little more skewed towards the second half of the year than the first half of the year just because of the way we bring projects online but not significant change. We're still expecting to spend between $145 million and $165 million in that regard.

Just as a side note, we probably still expect to be well over $200 million in free cash flow for the year. So if you are asking me how much are going to spend by quarter. I don't think we've ever disclosed that. But I would say look to our pattern of past years and how capital spending for the year has broken out by quarter and it probably will follow a similar trend to prior years.

Jessica Schoen - *Barclays Capital - Analyst*

Okay, thanks very much for taking my question.

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Operator

Susan Sansbury, Miller Tabak.

Susan Sansbury - *Miller Tabek - Analyst*

Good morning, thanks. Going back to the UK, would you be willing to share what your plan is with respect to the level of losses for the year? You've been very specific. We know what the first quarter was. You've been very specific about the second quarter.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Let me be clear. We do not expect -- I'm sorry for not being clear about this -- we expect to be lower than last year in the UK most likely based on what's happened but we do not expect losses in the UK. The UK is always orientated towards being a fourth-quarter business with holiday being a key driver of profitability, so we made very good money on operating profit rate was about 7.8% last year in the UK and we will make money in the UK.

We might not make at the same rate that we did last year because of some of these headwinds we are facing but we will be profitable and the UK will be a good strong profit contributor and cash contributor to our overall corporation. So don't want to mislead you in any regard there.

And as for the future, there are some actions that we wouldn't choose to get into in a lot of detail because of the complexity of execution in the UK market.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

I will just add to Ron's comment on that, we were very pleased with last year's overall result making 7.8% operating income which was a number in the UK that a lot of companies would have signed up for immediately. We are just -- we're toughest on ourselves and we expect to do better than we are doing currently but it is still going to be a very profitable and a cash flowing business for us and we are very pleased with the direction that we are moving in and the investments that we are making because we think that what we're doing is we're really securing the business for long-term market share gains. And we are still very excited about it and a lot of the new stores that we have opened up there and some of these big powerful regional centers have performed and continue to perform extremely well.

So there's still a lot of huge opportunity in the UK and it will be a very profitable business for us this year. We're just up against a bit of a headwind right now.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

The UK is all about Christmas. Christmas, Christmas, Christmas. As Mike said in his comments, we are focusing on testing new merchandise, staff training, and planning for Christmas, which is why we are encouraged to see the positive comps developing in the UK because we want to make sure that we have the merchandise mix that people want when we move into Christmas season. Because that's when we earn virtually 100% of our profit in the fourth quarter.

So the better job we can do of getting set, getting the merchandise tested, ironing out all those issues as we move through the second and third -- first, second, and third quarter the stronger Christmas potentially that we can have and that's what the ballgame is in the UK.

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Susan Sansbury - *Miller Tabek - Analyst*

I apologize for my I guess inappropriate choice of words but --

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Ron Ristau - *Signet Jewelers Ltd. - CFO*

I just wanted to make sure I wasn't unclear because we don't want to -- we are running a little bit lower losses in first and second quarter or more greater losses but we do not expect -- and I want to make sure everyone on the call is clear -- we do not expect losses in the UK division for the full year this year.

Susan Sansbury - *Miller Tabek - Analyst*

Okay, but there is a Plan B in the event that all hell breaks loose? The macro you cannot control. What you can control everybody I think everybody is comfortable with, but is there a Plan B?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Absolutely. You know, we realize that anything can happen at any time and things can suddenly break loose and that's why we focus intently on the details of the business and how we manage our expenses and how we manage our investments. We are always prepared to react to whatever the macro environment throws at us and we think that we can do it quickly. We think that we can do it as effectively as possible depending on exactly what that might be.

If a black swan were to hit and things were to change dramatically, we would absolutely react. Even in today's very tough economic environment in the UK, we are looking very closely at how we manage our business and we will always continue to appropriately invest in the future and invest in new merchandise and invest in our stores and our people and training but we are watching the expenses very carefully. We are looking at ways that we can address what the environment is that we are operating in today and we have a long-term plan for a lot of success in the UK and to see some of the short-term maybe lower operating profits that we discussed coming back up again.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

We also I guess we are voting like the debate in Europe, we vote for growth with expense control in the UK because we can't save ourselves the prosperity in the UK business.

Susan Sansbury - *Miller Tabek - Analyst*

Okay, two other quickie questions. Ron, you know I'm new to the story and I don't know if the next question is -- you can answer or will share on the call. But inventory plan for the end of the second quarter and year?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

We would expect our inventories -- we are -- in the inventory it's very interesting because we do face the issue of commodity inflation, so with the same or even lower unit inventory, our inventories will go up just because gold and diamond prices on average will be going up. So we are up at about 9% in the end of the first quarter, about $20 million of the increase is just because the build from Mother's Day is in the inventory, if you will, and that didn't take place -- didn't come down until the Mother's Day sales occurred in the second quarter.

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But I would expect that our inventories will be up in that 7% to 9% range as we go across the year, driven by this commodity inflation. I would point out that embedded in that number and where you cannot see is that we continue to improve our underlying turn to try to offset some of the commodity inflation that we have to deal with so operationally we continue to get better and better in inventory.

Our inventories have never been cleaner and more current. We actually from an operating perspective, one of the issues we have is that we don't have any clearance inventory in order to drive some sales in the stores but that's a high-class problem and we will take it every time.

Susan Sansbury - *Miller Tabek - Analyst*

Okay, there was some mention in the 10-Q about some specific initiatives with respect to inventory. There was a reference I guess to protecting -- anyway never mind, I'll ask you later.

In terms of share repurchase, your stock opened up down 10. Now it's down 7. You bought in at $46. Any comment about your attitude or position with respect to this authorization currently?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

As we said, we executed a lot of the stock buyback, approximately a third of it during the first quarter that had a two-year authorization on it, so we think that we appropriately and effectively went into the marketplace and executed the buyback.

The program is still ongoing, as you know, and we will continue to appropriately execute it as we see fit going forward, but we don't really get into any details of what that plan of buying is or how or exactly when because we think it would be inappropriate.

Susan Sansbury - *Miller Tabek - Analyst*

Okay, no problem. I appreciate it. Thanks ever so much. Good luck. You're doing a great job.

Operator

Rod Whitehead, Deutsche Bank.

Rod Whitehead - *Deutsche Bank - Analyst*

It's quite clear that you have somewhat underperformed sales in Q1 but you have significantly outperformed them in Q2 at least over the key Mother's Day period. Do you feel that is because you shift the advertising and your business has had a bigger focus on the main event, Mother's Day and perhaps less in the lower period? Overall, are you kind of happy with that the way that's come out?

The second question just on exclusive products, have those -- what kind of growth rate have they seen in Q1? You said there's a number of initiatives that you weren't going to mention and then you mentioned a few things that are being further rolled out. Were those the ones you weren't going to mention or are there other ones that you haven't mentioned?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

I will clarify that for you, Rod. To start off with your opening comment, I am going to assume that you are talking about sales when you say that we underperformed anybody out there on the competitive marketplace. But the reality is we knew that we were going to have low single digit comps in the first quarter. That's why we were so clear about that. We wanted to make sure everybody understood that.

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Every company has different cadence to the programs that they run, the promotions that they run, how they do it, when they time it, which week they do certain things, etc. We know what ours is and so we knew where we were going to come in during the quarter and that's where we came in and we managed everything appropriately because we wanted to make sure that the comps that we did have were extremely profitable and well-managed. And when you set record earnings for Q1, we think that we did a very good job of doing that.

And then as you saw, very strong going into Mother's Day with the month-to-date sales extremely strong, 21% or 9% minus the shift. And I have to say it worked out pretty much as we expected it to and as we laid it out.

So we feel very good about where our business is at right now and our ability to execute the remainder of the year the way that we had planned it. So in this environment, we feel extremely good that we can meet all of our objectives for this year so I'm very happy about that, number one.

Number two on the merchandising items, yes, this is what's exciting is that I mentioned that we are going to finish the rollout of Tolkowsky Ideal Cut Solitaries into Kay, which is great. I mentioned that we have some exciting new innovative things going on with Jane Seymour with the Family Collection and that we are going to be rolling into another 250 doors with that.

So those are fairly new things out there, the Family Collection being extremely new and there are very exciting opportunities for us for the back half of the year and beyond.

But your point, I did talk about a lot of things here and I'm sorry if I confused anyone with it. We have a lot more tests going on and there's a couple of those that I will not mention by name aside from the ones that I did that we are rolling into several hundred doors by the end of the second quarter. We'll be in several hundred doors with each of those. But until I get that rollout out there, I would like to keep what is working for us a little bit competitively to ourselves.

And then even beyond those that we are already extending the rollout on, there's some even newer tests going on that we haven't made any decisions on yet but they are testing well. It is a short period of time and it's early days and as I said, stay tuned and we'll talk more about that.

But the merchandising initiatives are very exciting. We think we are very well prepared for the back half of the year. The first quarter came out about as we expected based on our own individual promotions and how we run them and how we time them. And then we came into Mother's Day very strongly and have done well month-to-date and we think we're well prepared.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

And the way I would just counter, just a follow-up on (inaudible) is that our testing usually continues Valentine's Day first, second quarter and we tend to roll much more product into the third and fourth quarters of the year so that this is the way our normal cadence runs. So we look forward to a good second half.

Rod Whitehead - *Deutsche Bank - Analyst*

Thank you very much.

Operator

James Pan, CP&E Partners.

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James Pan - *CP&E Partners - Analyst*

A question about the UK. You said that basically -- and correct me if I'm wrong -- that the issues are cyclical there because of the discretionary environment in the UK. Can you give more background on what's happening to the square footage of the industry? In other words, will we benefit from this pain in the UK on the other end when -- if and when the UK economy improves just like we did in the US four years ago?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Let me try to address this and make sure I understood your question, so first I'm going to ask you what's going on. I thought you were asking us a little bit about what's going on with stores in the UK.

James Pan - *CP&E Partners - Analyst*

Basically I'm asking (multiple speakers)

Ron Ristau - *Signet Jewelers Ltd. - CFO*

What's happening in the UK from an overall perspective is that sales continue to shift into the powerful regional mall centers and away from high street locations, with the exception of London. So when we look out into the UK what we see is that number one, we are closing and we expect to close this year around 26 stores in H.Samuel and Ernest Jones combined in the UK.

So we will be experiencing some slight space decline in the market of about 3% in the UK market as opposed to about 3% growth in the US market. And we would -- that is a trend that we continue to be working with with our UK business because there are stores and as the customer patterns of shopping are shifting around, some of the real estate is becoming less desirable and some of the real estate is becoming more desirable.

So we are following those trends from a consumer perspective in the UK and that's a little bit different than the US because obviously the move into regional shopping malls in the US happened many, many years ago, so that trend is continuing.

We also continue in the UK to very -- to negotiate very productively with our landlords in some of these spaces to make sure that the rents that we are paying reflect the economic values of the property as that continues to shift or we are exiting properties. So that program will continue over a number of years in the UK. Does that answer your first part of that question?

James Pan - *CP&E Partners - Analyst*

What I'm really getting to is market share. Do you expect us after -- when and if the UK economy normalizes, do you expect us to have materially more market share, about the same, or less market share than we do in the UK at this point?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

More market share because what we see is we are not the only people closing stores in the UK. The whole market is -- the retail space is constricted but what's happening at the space constricts is that the powerful stores are picking up the volume. If you understand what I'm saying .

So that the same -- (multiple speakers) from the measurements of market share that we see we would expect our market share to increase over time.

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James Pan - *CP&E Partners - Analyst*

Okay. Thank you.

Operator

Thank you. I will now turn the call over back to Mr. Mike Barnes for any closing or additional remarks.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Okay, thank you, Operator. I would like to thank all of you for taking part in the call. Our next scheduled call is on August 23 when we will review our second-quarter results. So thank you again and have a great day.

Operator

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

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