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EDITED TRANSCRIPT

SIG - Signet Jewelers Ltd Q2 Fiscal 2013 Results Conference Call

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OVERVIEW:

SIG reported 2Q13 total sales of $853.9m and net income of $70.7m or $0.85 per diluted share. Expects 3Q13 fully diluted EPS to be $0.34-0.38.

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CORPORATE PARTICIPANTS

Tim Jackson *Signet Jewelers Limited - IR Director*

Mike Barnes *Signet Jewelers Limited - CEO*

Ron Ristau *Signet Jewelers Limited - CFO*

CONFERENCE CALL PARTICIPANTS

David Wu *Telsey Advisory Group - Analyst*

Ike Boruchow *JPMorgan - Analyst*

Jennifer Davis *Lazard Capital Markets - Analyst*

Rick Patel *BofA Merrill Lynch - Analyst*

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

Jessica Schoen *Barclays Capital - Analyst*

Anthony Lebiedzinski *Sidoti & Company - Analyst*

Rod Whitehead *Deutsche Bank - Analyst*

Jeff Stein *Northcoast Research - Analyst*

Steve Kernkraut *Berman Capital - Analyst*

PRESENTATION

Operator

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

Tim Jackson - *Signet Jewelers Limited - IR Director*

Thank you. Good morning and welcome to our second-quarter results call. 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.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thanks, Tim, and good morning, everyone. We are pleased with our second-quarter and first-half results and we are excited by the prospects for the remainder of the year. We delivered another strong set of financial results, with same-store sales up 7.1%. The US division was up 8.2%, driven by Kay, and the UK division was up 2.1%, driven by Ernest Jones, leading to UK operating results that exceeded our expectations.

ECommerce sales were another highlight, increasing by approximately 40% in the quarter.

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Our overall operating margin increased to 13%, up 20 basis points from prior year. Our earnings per share were $0.85, an increase of 11.8%. We utilized our strong cash flow generation to repurchase $196.5 million of shares in the quarter. Since mid-January, when the program began, we've repurchased 6.7 million shares at a cost of $300 million.

I would like to thank all of our Signet team members for contributing to these record results.

Now let's review the US performance in a little more detail. US total sales were $701.9 million, up $58.9 million, an increase of 9.2%, with same-store sales up 8.2%. Our merchandise initiatives delighted customers as branded, differentiated and exclusive merchandise drove sales growth.

Kay same-store sales increased by 12.5% on top of a 13.5% same-store sales increase last year. A successful Mother's Day contributed to the strong performance, and the branded programs, such as Open Hearts by Jane Seymour, Charmed Memories, Le Vian, Tolkowsky and Neil Lane Bridal performed well in the quarter.

Jared same-store sales grew 2.4%, on top of a 12.6% same-store sales increase last year, driven by the bridal performance. The lower rate of comparable store sales growth was primarily caused by the exit of Rolex, slowing Pandora sales and several brands that comped strongly, yet at lower rates than realized during last year's outstanding performance. We expect Jared same-store sales in the third quarter to continue to be negatively impacted by the exit of Rolex, with Jared sales in the fourth quarter benefiting sequentially from new products and increases in advertising.

Operating income was $117.3 million, up $12.9 million or 12.4%. Operating margin expanded 50 basis points to 16.7%, a record for the second quarter. Building on the first-half performance and based on the exciting initiatives we have underway, we believe we are well-positioned for a strong second half. I will now take you through some of the key initiatives.

As we begin the second half of the year, we remain confident in our ability to deliver outstanding product ranges that meet our customers' desires, having tested new programs with great results. New products that will roll out in the second half include Neil Lane Designs. We are now taking the Neil Lane franchise into the fashion category, building on the success we are having already in the bridal category. This is a very exciting expansion for us.

We've added also to the highly popular Jane Seymour Open Hearts range with a line titled The Family Collection. I mentioned it briefly on the last call, and we are in a rollout mode as we speak. I think this will be a great addition, as well.

We are capitalizing on the hot trend of colored diamonds with a new line called Shades of Wonder, which uses rare natural-colored diamonds from Australia to create beautifully designed jewelry pieces in natural earth tones.

Yet another hot color trend is blue, and we have a complete range of blue diamond jewelry that has done very well in tests and is also in the process of being rolled out.

In addition, will be leveraging the success of our Tolkowsky range into the Jared stores, as well as Kay.

These initiatives, together with a variety of other new and exciting product offerings, will, we believe, produce an exciting and successful holiday season. I believe our team of merchants have done a great job and are continuing to stay at the forefront of new products and trends.

I am also very excited about the number of major digital initiatives underway to continue to drive our growth in digital sales, which were up 48.8% in the US for the second quarter. We will soon launch our new Kay and Jared websites that include greatly improved functionality in areas such as search, navigation and product selection. This will support the strong sales growth we anticipate over time and our consumers testing shows a record response to our new designs.

We continue to significantly enhance our social media and mobile capabilities, and we are very pleased with our customers' response to the great content that we are delivering. We've added more emotional content into our social media. For example, we are incorporating bridal stories and

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a variety of multimedia content into how we connect with consumers. And this fall, we plan to launch mobile-friendly transactional websites for Kay and Jared as well, making it easier for the customers to complete transactions on their phones.

This commitment to sales-enhancing technology will also be reflected in-store with all Kay and Jared stores having digital sales technology. These are key selling tools for our sales teams. They have features such as access to our eCommerce websites, expanded product ranges and selling support systems to provide the customer with the knowledge to make informed purchase decisions. These are all steps along the way to achieving our goal of becoming the best in class in all aspects of the digital environment.

Having finished up with a strong first half, we are all looking forward to the third and fourth quarter, including the all-important holiday season. Our teams have been in preparation for this important time of the year for some time now. As I've discussed, we have many exciting new products in the pipeline that will benefit in our back half of the year and should be well-positioned for holiday in particular. We have a number of innovative and memorable campaigns ready to launch for the holiday season as well. We are increasing our advertising investment and will have a greater number of television impressions over the holiday, as well as a much higher digital media profile.

We have enthusiastic and well-trained sales teams ready to support our merchandise initiatives, and they have new tools, as I've mentioned, to provide customers with a great experience. With all this in place, we believe that we are well-positioned for the back half of the year, leading into the holiday season, which last year generated approximately 40% to 50% of our US operating income.

Now looking into our supply chain, we've spoken in the past about how important our supply chain is to our business model and that we are continuing to take steps to strengthen this important piece of the business. I am happy to announce today that we've recently been appointed by Rio Tinto as a Select Diamantaire sightholder, marking a significant development in our diamond sourcing capabilities. This means we are now buying rough diamonds directly and having the stones marked, cut and polished on a contract basis. This is a strategic initiative, and while not currently material, our objective is to secure additional, reliable and consistent supplies of diamonds for our customers and achieve further efficiencies in the supply chain.

We will develop this initiative further, as well as continue to build stronger relationships with our established vendors of polished diamonds and diamond jewelry, who will continue to account for the majority of our diamond sourcing.

Turning to the UK, total sales for the second quarter were $152 million. At constant exchange rates, sales increased by 1.4%. Same-store sales grew by 2.1%, which continued to outpace other nonfood retailers in the UK, as reported by the British Retail Consortium.

The sales performance was driven by the performance of the bridal category, successful merchandise initiatives in watches and the continuing success of fashion brands. The minimal operating loss of $0.3 million was better than our expectations and reflected the careful control of costs, along with better-than-expected sales.

In the UK, as in the US, we feel well-positioned for a strong back half of the year, and especially the significant holiday selling period. The strong merchandising initiatives from the first half will continue into the second, led by bridal brands including Tolkowsky, Perfect Fit and Forever Diamond programs. In H.Samuel, we have a new brand that bonds the precious metals of gold and silver to create beautiful, but affordable, fashion jewelry. It is called Together. That is being rolled out after a very successful test.

In addition, we have strong programs in crystal jewelry and well-known fashion brands, such as DKNY and Guess, that are also prominent in our selection. In Ernest Jones, we have strengthened the presentation of prestige watches, and in fashion jewelry, brands such as Le Vian, Gucci and Swarovski are being featured.

For holiday, we will have a record level of new merchandise in our stores. And by the way, newness has been a major driver of our business.

The number of new concept stores, such as those at Westfield Stratford City have increased. We have resited and upgraded a number of Ernest Jones stores this year, and they are terrific. They have a great prestige watch presence, and as a group, they are exceeding our remodel expectations.

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ECommerce sales were up 17.7%, strong double digits, in the second quarter, and we continue to build on our digital capabilities as we move into the third quarter. We will refresh the Ernest Jones website and expand the merchandise selection for both Ernest Jones and H.Samuel in the fall.

We are increasing advertising investment again this year, with more TV impressions for H.Samuel and a strong customer relationship marketing program for both H.Samuel and Ernest Jones. Our UK team members are fully committed to driving a strong back half performance in specialty holiday as it accounts for most, if not all, of our yearly operating profit in the UK business.

Now looking to the future, we've carried out an in-depth review and evaluation of the UK business, and we've put in place a three-year program to build on our market leadership position, with the objective of achieving a 10%-plus operating margin in fiscal 2015. Central to the program is continuing our outperformance of the UK retail market by strengthening the brand differentiation within the respective markets covered by both H.Samuel and Ernest Jones, in particular by increasing the strength of the brand portfolio.

We will optimize our real estate to reflect the changing shopping patterns of our customers. An example would be the major shift we see toward more major regional malls and away from some of the smaller town High Streets, something that took place in the US a number of years ago.

In major malls, we are increasing our investment by improving the in-store environment and selectively expanding store space. We are also the reorganizing the division so that cost structure is aligned to the sales base, better allowing us to reach our operating margin goals.

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

Ron Ristau - *Signet Jewelers Limited - CFO*

Thanks, Mike. As we indicated, total sales for Signet increased 7.1% to $853.9 million compared to $797.6 million last year. Total Company same-store sales increased 7.1% versus an increase of 9.9% last year.

In the US, total sales increased by 9.2% to $701.9 million, reflecting same-store sales of 8.2% and a 1% increase from additions to store space. In the UK, total sales increased by 1.7% -- I'm sorry -- decreased by 1.7% to $152 million, reflecting a same-store sales increase of 2.1%, a decline of 0.7% due to reductions in store space and the unfavorable impact of currency fluctuations, which reduced sales by 3.1%.

Company operating income increased by $8.6 million to $110.9 million, up 8.4%. Operating margin was 13%, up by 20 basis points. The major factors driving this increase were as follows. Gross margin was $311.2 million, an increase of $16.4 million, and the gross margin rate was 36.4%, down 60 basis points. Gross margin in the US increased $21.3 million on last year, driven by higher sales, which was partially offset by a slightly unfavorable gross merchandise margin decline of 20 basis points, primarily due to the sales mix at Mother's Day.

The US net bad debt to US sales ratio was relatively consistent at 4.5%, comparable to 4.4% in the second quarter last year as the credit portfolio performance remained strong. Gross margin in the UK decreased by $4.9 million, primarily as a result of the decline in gross merchandising margin of 210 basis points, attributed to customers' preference for promotional merchandise and merchandise mix. This was partially offset by lower store occupancy expenses.

Selling, general and administrative expense was $240.3 million, and as a percentage of sales, decreased by 10 basis points to 28.1% of sales. I will discuss this further on the next slide. Our other operating income was $40 million, up $8 million on last year, reflecting interest on the higher level of accounts receivable and a change in the mix of finance programs selected by customers. This had a 70 basis point favorable impact on operating margin.

In completing this analysis through net income, we note the following. Our net interest expense was $0.7 million, down by $1.8 million, and the second quarter last year included a write-off of $1.3 million of unamortized deferred financing fees. Income before income tax was $110.2 million, an increase of $10.4 million or 10.4%, and the tax rate for the quarter was 35.8%, resulting in net income of $70.7 million and diluted earnings per share of $0.85, up 11.8%.

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The weighted-average, fully-diluted number of shares for the quarter was 83 million, down from 87.1 million in the comparable quarter last year as a result of the share buyback.

So as we indicated, SG&A decreased by 10 basis points to 28.1% of sales. We believe that it remains very well-controlled, with the primary driver of the dollar increase in expense being an advertising investment shift, primarily due to the shift in the first and second quarter related to Mother's Day.

The details of the $15.8 million increase in the second quarter were as follows. Our net advertising investment increased by $8.3 million, which was 80 basis points unfavorable to the SG&A rate. However, store expenses, which increased $4.5 million, were 60 basis points favorable due to leverage, and other spending, which increased $3 million, primarily reflecting investment in IT, credit infrastructure and eCommerce, was 30 points favorable due to leverage.

For fiscal 2013 as a whole, we continue to expect at a minimum to maintain SG&A-to-sales ratios at last year's level.

We entered the quarter with $237.5 million in cash, a decrease of $202.7 million from the prior year comparable quarter end. The decrease in cash was primarily due to the share repurchase program and dividends, which totaled $287 million and $19 million, respectively. We have made good progress in the execution of a share buyback program, which began in mid-January of this year. The total value of all shares repurchased by the end of the second quarter was $300 million, representing 6.7 million shares. So since the start of fiscal 2013, we have reduced the share count by 7.4%.

In July, the Board authorized a $50 million increase in the program, and at the end of the quarter, $50 million remained available for future purchases under the enlarged program, which expires in January 2014.

Total net accounts receivable at the quarter end was $1,032.2 million, an increase of 13.8% from $906.8 million a year ago. This was caused primarily by our sales increases and the in-house credit participation rate increasing to 57.5% of sales from 55.6% last year. Net inventories at July 28, 2012 were $1,312.8 million, an increase of 9.1% from $1,202.8 million a year ago. This was primarily due to commodity cost increases and inventory purchases we have made supporting the bridal category. These increases will partially offset by a variety of management actions to improve inventory turn in units. We continue to maintain a strong balance sheet.

As I indicated, the year-to-date in-house customer finance participation rate was 57.5 million (sic -- see press release, "57.5%") versus 55.6% last year. This increase is being driven by our credit programs, meeting customer needs and a generally more restrictive bank credit market. The collection rate was 12.9% versus 13.2% last year, as the time frames for collection extended slightly due to the mix of programs selected by customers, this primarily being regular credit terms versus 12-month interest-free, as the former requires no down payment and allows longer payment horizons.

Other operating income, which represents primarily interest on the portfolio, increased $8 million to $40 million as a result of the increase in accounts receivable and the mix of programs selected by customers, as I mentioned previously. As our accounts receivable balance increased by 13.8%, the net bad debt charge as a percent of sales in the second quarter was again relatively consistent at 4.5% as compared to 4.4% in the prior year. The quality of the credit portfolio continues to result in a strong performance, and bad debt charges as a percentage of the monthly AR balance outstanding continued to improve.

For the year, we expect capital spending to range from $155 million to $165 million. Year-to-date capital spending was $54.8 million, an increase of $16.5 million from the comparable period last year, as we have increased our new store, remodeling and IT investments. We currently expect to open approximately 54 new stores and perform major remodels in 107 stores. These actions, together with a number of minor cosmetic remodelings, are expected to require capital spending of approximately $88 million.

Additionally, $45 million to $48 million will be invested in IT and eCommerce systems capabilities, with the remainder including a variety of infrastructure projects.

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Store closures are planned at 55, and reflect primarily closure of regional stores in the US and UK locations. Our capital is being directed at projects that builds sales, develop world-class infrastructure capabilities, enhance our customers' experience and create operating efficiencies.

We are providing guidance principally due to the complexity of the calendar shifts occurring in fiscal 2013. Same-store sales in the third quarter are expected to be in the low- to mid-single digit range, which includes the impact of a one-time watch event at Jared in the third quarter of fiscal 2012. Fully-diluted earnings per share are expected to range from $0.34 to $0.38, based on an estimated 81 million weighted average shares outstanding.

And I remind you, in the fourth quarter, we will have the impact of the 53rd week this year. This additional week is expected to increase our sales by approximately $50 million. However, this will have a negative impact on the same-store sales calculation for the fourth quarter and fiscal year, as sales in the comparable calendar week of 2012 were $89.3 million, which included a promotional event ahead of Valentine's Day that will shift into fiscal 2014. This additional week is expected to result in an operating loss of $2 million to $4 million, reflecting advertising expenses which will remain in fiscal 2013 and the impact of the calendar shift that impacts sales as I described.

Therefore, for clarity at year end, we will provide information on a 52- and 53-week basis and on a 13- and 14-week basis for the fourth quarter. Thank you. I will now hand back to Mike.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thanks, Ron. In summary, we've had a good second quarter and we are excited by the outlook for the second half. We remain focused on delivering an exceptional customer experience with exciting merchandise programs, new enhanced marketing programs and further development of our digital sales capabilities, as always, driven by our talented team. We believe these strengths leave us well-positioned to deliver our objectives for the year.

We would now be pleased to take any questions that you might have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) David Wu, Telsey Advisory Group.

David Wu - *Telsey Advisory Group - Analyst*

Thanks. Hi, good morning, everyone. First, the US comp, that appeared to have slowed -- call it maybe flat to low single-digit growth in the late May through July, if you compare it to the 21% comp that you saw in the first three weeks of May. I was wondering if you could perhaps talk about whether there are any product categories that performed particularly weak or what you think drove the deceleration.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thanks, David. We reported in the US 8.2% comp sales for the full quarter. Obviously, Mother's Day was a very strong selling period for us, as holidays tend to be. And I would say if anything, we had some great products in the full quarter that are doing very well, but some of them were in test. And as I mentioned, a lot of those that were in test, we are now rolling out, and we expect that to really benefit the back half of the year and especially the holiday period.

I would also say, David, that consumers in general, in this current economic environment, while our business continues to be very good and we are very, very pleased with it and the results that we announced, the consumers tend to be moving more towards these holiday periods and

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spending more of their disposable income during those time frames. And this isn't just new for this quarter. We've kind of seen this in the economic environment we've been in for a while now. The holiday spending, very strong, as it was during Valentine's Day back in the first quarter, and then things kind of tend to fall off a little bit.

So I would say that some of the spending has been grouped more around the holidays, but all in all, it was an excellent quarter for us. We are very happy with the results that we had in sales and in profits.

David Wu - *Telsey Advisory Group - Analyst*

And how were engagements sales specifically in the quarter, and how did that progress?

Mike Barnes - *Signet Jewelers Limited - CEO*

Our bridal business was strong, both in Kay and at Jared. If you look at some of the great brands we've got out there at Kay, we had strong sales from the Leo Diamond, from Neil Lane Bridal, Tolkowsky diamond. All of those helped drive the bridal business there. And we had strong bridal in the Jared, as well.

And we are continuing to roll out more and more into Jared. In fact, one of the things that we are doing is we are leveraging Tolkowsky now, which has been a great brand for us, and it is still in early innings, and that is moving into Jared as well. So we expect to see some great results from that.

David Wu - *Telsey Advisory Group - Analyst*

Great. And the Other Income, obviously that increased nicely again in the quarter. And you mentioned change in mix of the finance programs as one driver there. I was wondering if you could perhaps elaborate more on that, and if you've adjusted any of your customer credit programs.

Ron Ristau - *Signet Jewelers Limited - CFO*

The answer to that is no, we have not adjusted any of our customer credit programs. They remain relatively consistent. What is happening is, as I indicated, consumers are opting on their own to change the mix of programs. Our regular credit terms require no down payment and provide for slightly more extended number of months for payment, so people are simply selecting that. There is nothing we have changed or done; it is a matter of customer preference and choice. So that is what is driving that.

David Wu - *Telsey Advisory Group - Analyst*

Got it. Does that worry you at all, in terms of --?

Ron Ristau - *Signet Jewelers Limited - CFO*

No, the quality of our credit portfolio remains very well, as I indicated. The performance of the portfolio has been very strong. Again, I would point out the total receivables up 13.8%, but yet the bad debt as a percentage of sales is relatively consistent. So that means that the overall portfolio is performing stronger and stronger.

So we are not worried. We are on top of it. Our credit people are constantly reviewing and monitoring. But we have seen no change in any of that for the quarter, nor do we expect any for the go-forward six months. So we are not really worried about it at all.

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David Wu - *Telsey Advisory Group - Analyst*

Got it. And the US bad debt, that appeared to obviously normalized more in the past couple quarters. You haven't really seen big improvements there. And I know previously you've talked about the potential to get back down to sort of lower levels, in the 2% range, perhaps. Do you still think that as an opportunity or do you think right now the bad debt expense ratio is sort of normalizing to sort of --

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Ron Ristau - *Signet Jewelers Limited - CFO*

Well, here is what I think (multiple speakers). First of all, I don't think we ever said it would go down to 2%, so I would question that. We said there was a range, I think, from 2.8% to 3.4% --

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David Wu - *Telsey Advisory Group - Analyst*

2.8%.

Ron Ristau - *Signet Jewelers Limited - CFO*

-- I believe was the historical range, or something like that. But what we are seeing is that since the credit portfolio is growing, that as a percentage of sales, we think it is going to normalize. It might be as a percentage of sales at the same level, maybe even a touch higher, because that receivable balance is so big at this point.

So even with good credit performance, since you are working with a higher overall credit portfolio, when we look at the bad debt as a percentage of the receivable portfolio, it continues to drive lower and lower. When we look at it as a percentage of sales, it is not improving as rapidly. Does that make sense?

David Wu - *Telsey Advisory Group - Analyst*

Yes, it does. Got it. Great. And then just lastly, can you maybe talk about your partnership with Rio Tinto, and how you -- how that could potentially improve your gross merchandise margins over time.

Mike Barnes - *Signet Jewelers Limited - CEO*

Yes, sure. Our partnership with Rio Tinto is very strong. We are very pleased to have been granted the Select Diamantaire status as a sightholder of theirs. And we believe it is a good step in the right direction for really improving our supply chain for the long term.

That is something that we are going to build upon. It is not material at the moment in terms of our overall business, but it is a great step in the right direction. And we continue to work with Rio Tinto as well as our other great vendor partners for more and more ability to improve our supply chain for our customers in the long run.

In terms of how it is going to affect gross margins, I don't think that you will see any significant impact anytime in the near future on that. We are now buying the rough diamonds and we are contracting out the marking and the cutting and polishing of those. Obviously, over a long period of time, we do feel like it could help us. But for anytime in the near future to medium future, I wouldn't expect any significant impact, A, because it is still a relatively small business, and, B, because you would need to build up to some level of scale to really see an impact. And that is a ways away right now.

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David Wu - *Telsey Advisory Group - Analyst*

Thank you very much.

Operator

Ike Boruchow, JPMorgan.

Ike Boruchow - *JPMorgan - Analyst*

Good morning, guys. Thanks for taking my question, and congrats. I guess, Mike, when we look at the US business, clearly the last two years have been fairly robust, and we've had some calendar shift noise the first quarter to the year. But I guess when you kind of normalize for the shift, it looks like you comped around a 4.5% in the US in the first half of this year.

Is that -- how do you look at that and then look at the back half of the year and kind of your business going forward, especially with all these new brands that are coming on? Is a mid-single-digit comp somewhat sustainable going forward, or how do you think about that?

Ron Ristau - *Signet Jewelers Limited - CFO*

I was going to say, we've provided guidance forward into the third quarter, which we told you would be, in our opinion, low- to mid-single-digit comps. We wouldn't go beyond that as far as speculating. But -- we don't give guidance for the full year on all that, but we have run out a quarter.

The third quarter, however, will be somewhat suppressed by the impact of the watch event we spoke about which occurred in Jared last year. That generated about $16 million in sales in the quarter; that will not be repeated into the third quarter. So the overall third-quarter comp will be down a little bit. And we do expect these new programs to get some traction into the fourth quarter.

Mike Barnes - *Signet Jewelers Limited - CEO*

We would expect to see the Jared business, post the third-quarter one time watch event, to sequentially improve going into the fourth quarter.

Ike Boruchow - *JPMorgan - Analyst*

Right. But then from a higher level perspective, I mean, from the category and the mid-tier jewelry category and your market share, how much you share you guys have been gaining each quarter for the last several quarters, is there anything that is changing there?

Mike Barnes - *Signet Jewelers Limited - CEO*

Our goals are all the same. Our long-term goal is to take market share over time, as we have done pretty methodically over the last 10 years. So you get a little bit here and a little bit there, but it is a very long-term proposition by us, and it is one that we are going to stick to, because we believe that we've got great competitive strengths that can really help us continue to do that, with the great products we've got, the excellent team that we have in the field, our ability to advertise and to scale.

So I believe that you will continue to see us working certainly towards that goal to continue gaining long-term market share out there. We believe that our business model is very solid right now. We think that we are very well-positioned to hit our goals for the year. We had a great first half and a great second quarter, and we look forward to continuing to drive especially all these new initiatives as we move forward.

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Ike Boruchow - *JPMorgan - Analyst*

Okay. With the new fiscal 2015 UK margin goal of 10%, what is kind of embedded in there? I assume you guys need some positive comps there. Is there a material store rationalization plan that is embedded in there, as you guys -- as you alluded to moving to some of the more productive locations in the UK?

Mike Barnes - *Signet Jewelers Limited - CEO*

I talked about that a little bit. I will elaborate. Basically, we are looking at our store base in the UK, and certainly we are rationalizing it as we think is appropriate. And a lot of that has to do with the shift in UK purchasing trend, and that is away from a lot of the standalone, kind of High Street locations and some of the smaller to mid-sized cities there, and towards these big, regional shopping malls, which drive tremendous traffic. And our locations are doing fantastic where we have placed them there.

We've also been able to revise and renew the store concept look that we have for both H.Samuel and Ernest Jones. If you ever have the chance to drop into Stratford, which is pretty convenient if you are in London, the stores are just terrific there. We are incorporating a lot of digital, both customer-facing and otherwise, into the stores. They are larger in size, and they are driving great sales per square foot.

So we think that stores is a huge opportunity for us. We think that we will be able to continue to drive comps. We were happy with our comp store sales in that environment, especially for the second quarter. We have great merchandise programs underway right now. And just as in the US, some of these programs are just starting to really roll out.

I mentioned the Together fashion product that we have in the UK. That is a really great merchandise program, because it takes the gold and the silver, both precious metals, but of course gold is very expensive in today's environment; it bonds them together and creates great fashion merchandise at more of an affordable price than the gold standalone jewelry would be. And it looks fantastic. So we are very excited about the programs we have there.

And then lastly, we are making sure that we have the right infrastructure to fit the current environment and the level of sales that we have in the UK and where that is going. So all these things together, we believe that the team has a great opportunity to take us back to double-digit operating income over a three-year period there.

Ike Boruchow - *JPMorgan - Analyst*

Got you. One last quick question. Ron, the capital spending clearly came up a lot this year, to about $160 million, I guess, at the midpoint. When we kind of think out the next year or two, does that level start to come down? Is this an investment year? Or does it continue to build a little bit on top of that when we are trying to think about your free cash flow? Thanks.

Ron Ristau - *Signet Jewelers Limited - CFO*

I'll tell you, when you look at our capital spending, our capital spending is driven by new stores, and we believe that the level of new store activity should be, if anything, maybe even higher. The level of remodeling is driven by our lease expirations, and we intend for our stores to maintain the look of a leader, so therefore, we will not cut back or slow down our remodeling program in any way. So that level of investment will stay.

And our continual investment in IT infrastructure is a multiyear approach. It is not something we are just doing one time. We intend to drive forward in all aspects of IT and social media and invest what is necessary to become number one in the market in that area. So our capital spending will remain at these levels. I would -- if I were to look forward, I would say more so than not. Okay?

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Ike Boruchow - *JPMorgan - Analyst*

Great. Thanks a lot. Good luck, guys.

Operator

Jennifer Davis, Lazard Capital Markets.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Let me add my congratulations. A couple of questions. First, on the rough diamond initiative, how should we think about the impact on that on inventory going forward?

Mike Barnes - *Signet Jewelers Limited - CEO*

The inventory impact of the rough diamond initiative, it is not significant.

Ron Ristau - *Signet Jewelers Limited - CFO*

It is not significant at this point in time. I don't believe it will be terribly significant. Although it will -- since you are buying diamonds at a -- you are moving back one step in the supply chain in the purchase of diamonds, you could see some small increase in our inventory levels. It is in the range -- this year, it's relatively insignificant. Over time, I don't think it will be terribly significant, but it could be (inaudible) $20 million-ish, $30 million-ish. It is not -- it is in those ranges.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Okay, great. Thanks. And then regarding the new merchandise, how many stores is Neil Lane Design in now? And by the way, I've seen it, and it looks great. And are you rolling it out to the entire Kay chain? And then how about Jared? And then kind of I guess the same for Jane Seymour, The Family Collection, how many stores is that in? And Shades of Wonder, the blue diamonds, and how many stores are you rolling those out to? Thanks.

Mike Barnes - *Signet Jewelers Limited - CEO*

We are going to do a significant rollout for all of those, quite frankly. And I'm glad you got a chance to see the Neil Lane Design, because it is a fantastic product, and I think it is going to do very well based on the test that we had. So well in fact that, frankly, we are going to roll that to all doors of Kay and Jared. So that is going to be a big program for us. We are very excited about it, as I mentioned earlier, and we are looking forward to it.

Blue diamonds, you know blue is just another color trend that is really happening right now. And our team has worked with our vendor base to really create some outstanding looks within there. And so we are going to be rolling that to all doors as well.

So these are not insignificant rollouts. These are big rollouts in the back half of the year. And our major goal is to make sure that we are just especially very well-positioned for that quarter and the holiday selling season.

So we are on this, and we've got some great results from these tests. You guys know we don't roll something out because we have a test before we invest, so if something is not doing well, we don't roll it out. And I probably already said too much, but for competitive reasons, I don't want to go any further than that. But we are very excited about our product initiatives for the back half of the year.

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Jennifer Davis - *Lazard Capital Markets - Analyst*

Can you just say how many doors have you been testing these in? And when will they (multiple speakers)?

Mike Barnes - *Signet Jewelers Limited - CEO*

We have different levels of tests, but the tests themselves were pretty much in an insignificant number of doors.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Okay, and you will have them all rolled out by the beginning of the fourth quarter, or how should we think about the timing on it?

Mike Barnes - *Signet Jewelers Limited - CEO*

Basically I'm just saying we are going to have them rolled out in the back half of the year. Obviously we would like to get them all rolled out certainly in time for the holiday selling period when it gets started really.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Okay, great. And then one last one quickly, just looking at eCommerce sales, it looks like it was about 3% of second-quarter sales. How high do you think that number can get eventually, especially with (multiple speakers) you're making?

Mike Barnes - *Signet Jewelers Limited - CEO*

We really don't have a target on it, but we have stated and stick by our guns that our intention is over time to become absolute best in class in eCommerce sales and our digital sales in general. And we believe we have made significant progress in that. That is something that I really wanted to push harder and faster over the last year and a half and the team has reacted to that challenge. They've done a fantastic job and on a consolidated basis, I think we were up about 40% and the US was up over 48% in the second quarter.

So we are continuing to make great progress. We've got both the Kay and the Jared -- new sites are coming out soon in the fall, and we expect to continue seeing that grow. And it will become a higher percentage of our sales, but we will see where that ends up at.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Okay, great. I lied actually. One more quick one. Regarding the UK guidance, to get back to that 10% -- I'm modeling somewhere around 6%, maybe 7% this year. Are you assuming somewhat of an economic recovery in that number, or is that assuming kind of status quo macro environment?

Mike Barnes - *Signet Jewelers Limited - CEO*

It is more status quo. We were assuming or hoping for an economic recovery and have been ever since the recession and quite frankly, right now, the environment -- we are looking at it as the new normal, but you know what, it is still a great place to do business and we are performing very well in there. We are the market leader. We had strong earnings last year that most companies would sign a 20-year contract if they could get that in the UK. And we think that with everything that we are doing with our stores, with our merchandise initiatives, looking at our infrastructure, that those are all the things that are going to drive our business.

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I even mentioned again we are increasing advertising again this year. We are making the right investments to grow our business in that market. If an economic recovery, especially a strong one were to come about, I would view that as a bonus to where we are planning right now.

Jennifer Davis - *Lazard Capital Markets - Analyst*

All right. So we will expect a historic 15 point something if we see a recovery? Thanks. Best of luck.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thank you, Jennifer.

Ron Ristau - *Signet Jewelers Limited - CFO*

Thank you for the objective.

Operator

Rick Patel, Bank of America Merrill Lynch.

Rick Patel - *BofA Merrill Lynch - Analyst*

Thank you. Good morning, everyone. Could you give us some color on the driver of comps for both the US and the UK? What was the change in average ticket versus traffic? And then just secondly, was there any meaningful change in that trend versus the prior quarter?

Ron Ristau - *Signet Jewelers Limited - CFO*

The key driver of comp really across the board was traffic. Interestingly enough, this quarter, with the shifts of Mother's Day and some interesting things go on with average ticket pricing, so you just -- this year and this quarter, it was all driven by traffic, units and transactions. And that is true across the US. And in the UK, it was driven by price.

Rick Patel - *BofA Merrill Lynch - Analyst*

Okay, great. And then can you give us some insight on to what you think drove the decline in merchandising margins during the quarter? Was it -- did you not take pricing up fully to offset cost increases? Did you also see promotional pressure in the US? How should we think about that, and then what is your outlook for the remainder of the year?

Ron Ristau - *Signet Jewelers Limited - CFO*

As I indicated, in the US, it was a 20 bps in decline, and it was driven by the mix of product and Mother's Day. So when Mother's Day shifted, it moved into the second quarter, a lot of products, it is actually -- for Mother's Day, you're dealing with a lot of $100 to $300 items. So the margin on some of that and the promotions that we run during Mother's Day have a slightly lower margin for that time frame.

So you see it as the decline in this quarter because of that Mother's Day shift. That is really all it was. The basic pricing structure and margin objectives that we've set out remain intact.

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Mike Barnes - *Signet Jewelers Limited - CEO*

That one -- we have a very major event for Mother's Day that shifted from the first to the second quarter that we talked about last time. And obviously, that is a little bit more promotional and that is going to have some effect. So it is nothing really core in the business. It just has more to do with the shift, as Ron mentioned.

On the UK side of things, it continues to be that the customers continue to look for bargains. And we'd don't have really more promotional items out there at retail, but the customers are gravitating more and more towards those items, and that continues to have a margin impact on the UK business.

But overall, I would say that our agenda of continuing to broadly maintain our merchandise margins is still intact, and that is still our goal going forward.

Rick Patel - *BofA Merrill Lynch - Analyst*

Okay, great. And then my last question is just really around the charm bracelet category. There seemed to be a disparity between the performance of Charmed Memories, which seemed to do well, and Pandora, which underperformed. Can you delve into what you think caused that? Is it a matter of tougher comparisons at Pandora? Is it pricing? Is it something else? Just help us think about that.

Mike Barnes - *Signet Jewelers Limited - CEO*

Sure. Pandora is a very large and somewhat mature business for us. And we had some weakness in that in the second quarter. There is a lot of things that we are looking at in that regard. One is that we are looking at some new products. We are bringing in about 100 new SKUs for the fall season that we are very excited about. Our merchants are very excited about the styling and the fashion and the innovation in those.

We are also talking with Pandora about new, innovative ways to drive the business in the future. The thing to keep in mind is that Pandora is one of our largest brands at Jared. It is very strong. It is continuing to bring in a lot of traffic and the sales per door continue to be very strong.

But we did have some weakness there, and we believe and hope that these new initiatives will help us kind of turn that around for the future. It will always be a very big business for us, and it is something that we are going to put a lot of time and energy into driving, both with our merchants and the Pandora merchant team, as well.

So it is just one of those things in this quarter. As you mentioned, Charmed Memories performed very well for us. So we believe Pandora will get back on track and that as we continue to get new product innovation from them, that we will see that business hopefully improve in the future.

Rick Patel - *BofA Merrill Lynch - Analyst*

So as you get more product for Pandora and some of your other newer brand launches and extensions, any brands or lines you plan on deemphasizing for holiday?

Mike Barnes - *Signet Jewelers Limited - CEO*

Deemphasizing?

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Rick Patel - *BofA Merrill Lynch - Analyst*

Just maybe cutting back on in terms of the number of SKUs to make room for your new product coming in.

Ron Ristau - *Signet Jewelers Limited - CFO*

It's really kind of an ongoing process. We do that -- that's one of the ways that we manage our inventory, when I indicated inventories are up 9.1% as a basis of commodity -- primarily on the basis of commodities, which we've offset by a variety of actions. The constant culling of the line, anything that slows down is a normal part of our merchant process, so that is always ongoing.

Mike Barnes - *Signet Jewelers Limited - CEO*

The other thing I would say in that regard, Rick, just to put a little bit more color to it, is as a lot of these branded businesses have continued to grow for us in our exclusive, proprietary businesses, in particular, you've seen over the years how that percentage of the business has gone up. Well, the store space in each individual store is the same, so obviously, we've pulled back on some of the nonbranded businesses as the branded businesses grow; it just makes sense. Last year, if we did 26% in that branded exclusive business, up from 22%, then clearly they got more space and other things didn't. As Ron says, it is just an ongoing part of our business really to manage that.

Ron Ristau - *Signet Jewelers Limited - CFO*

If we weren't doing that with commodity inflation, the inventories would have gone much higher. So it is a very important part of our process.

Rick Patel - *BofA Merrill Lynch - Analyst*

That makes sense. Thank you and best of luck in the back half.

Ron Ristau - *Signet Jewelers Limited - CFO*

Thank you.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thanks.

Operator

Bill Armstrong, C.L. King & Associates.

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

Good morning, guys. Just getting back to the credit participation, which has been increased, what are the main drivers of that? I know you've got customers who are selecting different programs, but that is sort of the mix. What is driving the overall increase in credit participation?

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Ron Ristau - *Signet Jewelers Limited - CFO*

I'll tell you, there is a couple of different things. Number one, you have to remember that people pay for almost 100% of their purchases on a credit card, whether it is our internal credit or it is bank credit. So what people are doing is they are looking at -- they are using our credit programs to make those purchases as they seem to be a little more protective of their bank credit lines. Or bank credit lines might be more restrictive. I can't really speak to any of that. But we notice that is occurring. There is a shift from bank credit cards to our own credit cards.

Our bridal business is particularly important -- credit is particularly important to that business, and that business continues to grow. So that is a natural increase in the penetration. So I would say those two things together are really driving that penetration rate to go up.

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

Okay. That makes sense. The other question just has to do with the Rolex liquidation. I thought I heard you say in your opening comments that Jared's second-quarter comps were impacted by the comparison to last year. But I thought that liquidation was pretty much all in the third quarter.

Ron Ristau - *Signet Jewelers Limited - CFO*

It was in the third quarter. What we are speaking of is it wasn't the liquidation in the second quarter; it was just the total value of Rolex sales, which went to zero.

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

Oh, okay.

Mike Barnes - *Signet Jewelers Limited - CEO*

(multiple speakers) normalized --

Ron Ristau - *Signet Jewelers Limited - CFO*

You see what I'm saying? It was -- yeah, it was --.

Mike Barnes - *Signet Jewelers Limited - CEO*

We don't comp the promotion until the third quarter, so in the second quarter, it was still a normalized business last year, but this year it wasn't there.

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

Right, right. I got it. Have you replaced Rolex with any new watch brands?

Mike Barnes - *Signet Jewelers Limited - CEO*

You know, what we've done is we've really have begun an evolution of our watch business at Jared. And I'm really very excited about it, because I think we are moving in the right direction to meet the needs of our customers going forward.

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One thing I am very excited about is Tag Heuer. We put it in and have been operating for a while five shop-in-shops into Jared stores for Tag, and they have done very, very well for us. So well, in fact, that we are going to roll out an additional 14 -- almost tripling the number -- in time for holiday this year. So those are already scheduled. They are already being worked on. We hope to have those in place by November 1. And that is going to be exciting for us, to see how those perform in light of the fact that the five we already operate are doing extremely well.

Our other brands are doing well in Jared as well. Omega continues to shine. It continues to sell very well for us. And we been doing a lot of new things, as we've talked about. You've heard me talk about the test that we are doing with Michele. We also have been testing Gucci in a limited number of doors.

We are talking now about potentially expanding both of those into more doors in the fairly near future, and we think that's exciting. So we've really begun an evolution of our watch business at Jared and we think we are going the right direction and we will be excited to see how it works for us.

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

Got it. Thanks for that clarification.

Operator

Jessica Schoen, Barclays.

Jessica Schoen - *Barclays Capital - Analyst*

Good morning, everybody. You mentioned market share earlier, and I was wondering if you could share any color you have on what you have seen in the category overall and how your performance has differed from any of those major trends.

Mike Barnes - *Signet Jewelers Limited - CEO*

I'm sorry -- what was the end of that question -- how our performance what?

Jessica Schoen - *Barclays Capital - Analyst*

Just how your performance has differed from any of the major trends you are seeing in the category, whether overperforming or underperforming.

Ron Ristau - *Signet Jewelers Limited - CFO*

Well, in market share, I'll tell you, the market share information we get is usually on a much lagged basis. The US government just updated the information -- when was that, Tim, a month ago or (multiple speakers)?

Tim Jackson - *Signet Jewelers Limited - IR Director*

Yes, a month ago.

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Ron Ristau - *Signet Jewelers Limited - CFO*

And our market share was 10.4%, which was actually up a little bit from what we had thought. We don't see it on a real-time basis. We can only see it on a significant lag. So that is all we can really tell you about that.

We make the assumption as we are comping and growing and we look at our comp growth versus what we believe other people are doing that we are continuing to gain market share, and that is usually borne out when we see the numbers from the government.

Mike Barnes - *Signet Jewelers Limited - CEO*

In terms of performance, we are seeing similar to what we have talked about in the past, and that is these exclusive and differentiated brands continue to drive very strong for us. We are also doing very well with a lot of our nonbranded fashion product. And bridal continues to gain strength, as Ron mentioned a few moment ago.

So we are excited that those will continue to drive our business for the future and that we will continue to get better and better at branding and innovation and fashion, and that we will continue to be the market leader and hopefully continue to take market share, as we have, over the long term.

Jessica Schoen - *Barclays Capital - Analyst*

Great. Thank you. And then in the UK it sounds like you are performing better than the retail environment overall. I was wondering if you could just comment on the promotional and competitive environment and what is helping you win there, as well.

Mike Barnes - *Signet Jewelers Limited - CEO*

Sure. The UK, we are performing better than the overall retail environment. We have outperformed the British Retail Consortium nonfood numbers on a consistent basis this year and continue to do so.

It is a very promotional environment in the UK. Unlike the US, which obviously is somewhat promotional, the UK is really focused on that. And what we have done is we have continued to provide our customers with great promotional opportunities during the year. And as I mentioned earlier, our customers are self-selecting these promotions more often than some of the other full-priced merchandise. So they are very conscious of pricing in the UK.

We are not increasing our promotional activity. We are trying to keep it pretty much status quo. But the customers are selecting it, and that is what has been driving a lot of the business there.

Number two, in the UK, really what has been driving the business -- I mentioned this a little bit earlier -- newness. They are really gravitating towards newness as well. Some of that is promotional. Some of it is not. But that is a big driver. I believe that the consumers everywhere, both in the US and the UK, are saying, look, we are willing to purchase but we are going to be more picky, and you got to give us innovation, you've got to give us something new. I don't need something that is very similar to what I have in a drawer back home.

So we have to be conscious of that and our merchants have to make sure that they continuously strive to meet those changing needs of the consumer.

Jessica Schoen - *Barclays Capital - Analyst*

Thanks for taking my questions.

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Operator

Anthony Lebiedzinski, Sidoti & Company.

Anthony Lebiedzinski - *Sidoti & Company - Analyst*

Good morning. It sounds like you have a good plan for the UK. I was wondering if you could give us a little bit more details about the store base there now. Can you perhaps say how much of your stores are in the regional shopping centers versus the High Street locations?

Mike Barnes - *Signet Jewelers Limited - CEO*

I can just tell you directionally that the business has shifted to the point where it is pretty close to 50-50, I believe, in terms of the big regional malls and the High Street locations. And we think it will continue to shift more and more toward the large regional malls. And so we've put a lot of focus on our stores in there.

We talked a little bit about Ernest Jones. We did some refits, and we did some resites of Ernest Jones stores, even over the past year and into this year, and they have performed terrifically for us.

We've also put in some boutiques, some prestige watch boutiques. We have an Omega boutique in the Bullring Shopping Centre in Birmingham that is doing fantastic for us. In the Stratford Center Westfield Mall we have a Breitling boutique that is doing very well also. And so we continue to look for opportunities to expand selectively the size of our stores in these big regional centers.

We are also modernizing them. We are using a lot of technology. And we are really showcasing brands, both jewelry and watches, within these stores, with shop-in-shops, as well as the boutiques that I mentioned.

Ron Ristau - *Signet Jewelers Limited - CFO*

And I also would point out that the sales statistic is, as Mike indicated, close to 50-50, but you can see a different picture when you look at profitability. So when we look at profitability, the store base, particularly in the smaller town centers that we have indicated, really are starting to lose some economic viability, and therefore we feel the need to rationalize this portfolio, and we will do so aggressively over the next year to two.

Anthony Lebiedzinski - *Sidoti & Company - Analyst*

Okay, so three years from now, could that mix be 70/30 or can you give us at least some color as to a ballpark estimate?

Ron Ristau - *Signet Jewelers Limited - CFO*

I can't give you the exact number, but I will tell you it will be up (multiple speakers).

Anthony Lebiedzinski - *Sidoti & Company - Analyst*

Okay.

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Ron Ristau - *Signet Jewelers Limited - CFO*

We are not ready to lay out and tell people. But it obviously has to go up if we continue the activity and if we continue to stress the importance of our top-performing stores, which is what we intend to continue to do.

Anthony Lebiedzinski - *Sidoti & Company - Analyst*

Okay. Perhaps can you give us some color as to how big the same-store sales differential is between your stores in your High Street locations versus the stores in the regional shopping centers?

Ron Ristau - *Signet Jewelers Limited - CFO*

No, I don't think we would be prepared to do that. I can tell you it is a noticeable number.

Anthony Lebiedzinski - *Sidoti & Company - Analyst*

Okay, all right. And then third quarter of last year, can you just remind us what was the impact of the Rolex promotion on your merchandise margin?

Ron Ristau - *Signet Jewelers Limited - CFO*

The merchandise margin impact is an interesting question -- I'm glad you asked it -- was actually less than the sales impact. Because don't forget it was a promotional -- it was a promotional event. So it did have less of a profit impact than it did a sales impact.

Anthony Lebiedzinski - *Sidoti & Company - Analyst*

Okay. All right. Thank you very much (multiple speakers).

Ron Ristau - *Signet Jewelers Limited - CFO*

Total sales was about -- sorry -- 16 -- the sales impact was $16 million, just to remind you of that.

Anthony Lebiedzinski - *Sidoti & Company - Analyst*

Thanks.

Operator

Rod Whitehead, Deutsche Bank.

Rod Whitehead - *Deutsche Bank - Analyst*

Two or three quick ones. You've guided to $5 million to $7 million of additional sort of supply-chain costs. Was that the cost of setting up a sightholder operation, and will there be further incremental costs next year on that, or does that guidance stand?

Secondly, in the past, you've said you wouldn't take Tolkowsky into Jared because you have the Peerless Diamond for Jared. Does that mean you will drop Peerless, or you'd continue with that?

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Thirdly, could you just speak briefly to the gross merchandise margin outlook, in particular what is happening to your sort of average input costs of gold and diamonds?

And fourthly, in terms of openings, store openings, the ones you've set out in the presentation, how many of those, particularly the Jareds, have been done so far? And have you any kind of visibility on the potential number of Jareds you could be opening next year?

Mike Barnes - *Signet Jewelers Limited - CEO*

Okay. Ron, I'm going to take the first two questions before I forget what they were. On the supply chain, the cost associated with that that we kind of guided to is not specifically or totally have to do with becoming a sightholder with Rio Tinto. We have other supply-chain initiatives, and as always, if something becomes meaningful or at the right time, we will fill you in more on that. For competitive reasons, until something is more public on that level, then we won't go too much into it.

But again, it is not a significant number. But it is taking us in the right direction, all the initiatives that we are working on right now. We are very excited about that, by the way. We think it is the right thing to do for the Company and it's really going to help us in the future.

As far as the Tolkowsky, we believe that Tolkowsky is -- we know it is performing very well and we believe there is an opportunity to leverage that in the future at Jared. How that works with Peerless, we will let you know about that as we finalize our plans. Basically, all we have announced is that we are going to leverage Tolkowsky into Jared. So I will give you more detail on what we are doing with that a little bit later on.

Ron Ristau - *Signet Jewelers Limited - CFO*

I would simply say that where we are on gold and gold and diamond inflation is that these costs still continue to work your way through our system. It does take about a year, and if you look to the end of last year, there was still significant commodity price pressure that was going on. So our prices are still working their way through the system and still increasing, as you can see from the inventory increase that we experienced.

That is, of course, all factored into our thoughts about gross margin going forward and gross margin for the year, and we still stay with the expectation that our gross margins will be broadly similar to last year. So nothing has really changed at that point.

This year, we've seen some short-term stabilization or slowing of the rate of increase in some of these costs. But it remains to be seen as to what they will ultimately develop at and how they will impact our future years. So it is a little premature to think about that. Was that all the questions? Did we hit them all?

Rod Whitehead - *Deutsche Bank - Analyst*

Nearly all of them. Sorry about that. The store (multiple speakers).

Ron Ristau - *Signet Jewelers Limited - CFO*

Your Jared question. We have eight Jareds planned for this year. One has been opened, and seven remain to be opened in the second half of the year. If you look in our 10-K, I'll just point you, there is a very good chart that breaks out the first half/second half opening on page 25 of our 10-Q.

Rod Whitehead - *Deutsche Bank - Analyst*

Okay, lovely. Thank you, thank you. That's great.

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Operator

Jeff Stein, Northcoast Research.

Jeff Stein - *Northcoast Research - Analyst*

Good morning, guys. First a question for Ron. I'm just kind of curious how you guys are thinking about the shift in mix you are seeing in financing to revolving credit. A, what is that telling you, and are you at all concerned about it or are you excited about it? Obviously, it has been a boost, but it almost seems as though the customer is telling you that we are looking for ways to buy it; we just can't afford to pay for it the same way that we have in the past. That is my first question (multiple speakers).

Ron Ristau - *Signet Jewelers Limited - CFO*

I think that, number one, we welcome it, because we believe that it means that our credit programs are meeting customer needs, and we still believe that customers are prudently using their credit. We believe this is a reaction by customers to really what banks are doing to them, as opposed to anything that we are individually doing.

So again, as I said, they pay usually 100% on credit no matter what. We only talk about the credit portfolio for us, but in reality, if you look at the way people pay, it is pretty much 100% on credit. So what they are doing is they are shifting from bank cards to our card, meaning that they are protecting that bank open-to-buy for some reason and they are welcoming the ability to open up a line of credit with us, and they like the way that our terms work, so that it again meets their needs.

We've looked at the credit portfolio. You know we are very diligent about this. Over and over, we've seen no deterioration in credit quality. As matter of fact, what we've seen is actually an increase in credit quality and an increase in the performance of the business by all of the metrics that we look at.

So it doesn't really concern us. We welcome it. And as long as customers need it, we stand ready to provide this credit, and we think it is a major competitive advantage and we continue to believe that.

Jeff Stein - *Northcoast Research - Analyst*

Ron, approvals were down in the first quarter. How would you describe them in the second quarter?

Ron Ristau - *Signet Jewelers Limited - CFO*

They are roughly equivalent to last year. I think they are a touch down, like tenths of basis points.

Jeff Stein - *Northcoast Research - Analyst*

Got it. And one final question, and this may be for Mike. When you guys tend to speak of market share in the UK, I am just kind of curious. It almost sounds as if you are talking about general merchandise retailers as your competitors as opposed to jewelers, which I think you focus more on here in the US as your competitors. And it seems like you have a much higher market share of the jewelry market in the UK than you do here in the US. So how are you thinking about it in terms of when you become more promotional? Are you reacting to just the general environment or are you reacting to what other retail jewelers are doing in the way of pricing and promotions?

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Mike Barnes - *Signet Jewelers Limited - CEO*

That's a really good question. Number one, we are not really becoming more promotional, as I pointed out. The customer is kind of self-selecting the promotions that we offer, which are generally in line with what we have been offering. So they've just become more of a bargain-hunting consumer, and they are going towards those promotions. So that is what is driving a lot of that.

It is a good question about market share there. Obviously, we feel like the jewelers are our major competitors in that marketplace, and we do have, pretty far and away, the number one market share there.

The problem that we run into is that there are no great stats for us to get there, because the rest of the specialty jewelers are not public entities. In fact, our largest competitor is not public -- none of them are really, other than ourselves, in terms of the specialty retail jewelers. So therefore, we kind of have to look at how we are doing against the other nonfood category of the British Retail Consortium to kind of judge how we are doing against other discretionary spending, is how we look at that.

Now, we do have some stats on the watch business only that come from Gfk that have shown that we have continued to take market share. I don't have those numbers right in front of me, but we have continued to gain market share in the watch category in the UK. And because our jewelry category is very strong, we believe that probably would translate to gaining market share, but we are not going to -- certainly not quote anything definitive if we don't have good statistics on that. So that is really what leads to that.

Jeff Stein - *Northcoast Research - Analyst*

Got it. Thank you.

Operator

Steve Kernkraut, Berman Capital.

Steve Kernkraut - *Berman Capital - Analyst*

Hi, guys. Most everything has been asked. I just wanted to ask one question in terms of your expansion of square footage. What is the strategy in terms of outlet stores? You see Zales and a lot of them, and what are your thoughts there with Jared or Kay?

Mike Barnes - *Signet Jewelers Limited - CEO*

Well, we don't have Jared outlet stores, but we have Kay outlet stores, and basically, we include those in our all-small category. But we are expanding more into the outlet category. We believe that as a growth area for us and that we are underpenetrated. So we are very focused on the outlet area for Kay.

Steve Kernkraut - *Berman Capital - Analyst*

But it is Kay that is there? And is the productivity of the outlet stores higher sales per square foot than you would get in regular malls?

Ron Ristau - *Signet Jewelers Limited - CFO*

No, it is slightly lower.

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Steve Kernkraut - *Berman Capital - Analyst*

Slightly lower.

Ron Ristau - *Signet Jewelers Limited - CFO*

It's slightly lower, but of course from a profit perspective, the profit rates (multiple speakers) --

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Steve Kernkraut - *Berman Capital - Analyst*

It's better.

Ron Ristau - *Signet Jewelers Limited - CFO*

-- can be comparable because of the lower real estate.

Steve Kernkraut - *Berman Capital - Analyst*

Lower rent, right, right. Okay. Thanks very much.

Ron Ristau - *Signet Jewelers Limited - CFO*

You're welcome.

Operator

Thank you. At this time, there is no further questions in the queue.

Mike Barnes - *Signet Jewelers Limited - CEO*

Okay. Thanks, operator. Before closing, I would like to introduce our new Investor Relations Vice President, James Grant, who joined Signet a couple of weeks ago. Tim and James will be transitioning in the coming months as we move our Investor Relations function to be based in the US. So we welcome you, James, and I'm sure all of you will be speaking with him a lot in the near future.

I'd like to thank all of you for taking part in this call. We really appreciate it. We hope to see many of you at our IR Day in New York on October 1, the details of which, together with the registration page, can now be found on our website. Our next scheduled call is on November 20, when we will review our third-quarter results. So thank you all, and goodbye. Have a great day.

Operator

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

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