Company Name: Signet Jewelers Ltd
Company Ticker: SIG US
Date: 2013-10-08
Event Description: Investor Day

Market Cap: 5,711.94
Current PX: 70.93
YTD Change($): +17.53
YTD Change(%): +32.828

Bloomberg Estimates - EPS
Current Quarter: 0.419
Current Year: 4.774
Bloomberg Estimates - Sales
Current Quarter: 768.500
Current Year: 4179.000

# Investor Day

## Company Participants

- James M. Grant
- Michael W. Barnes
- Tryna Kochanek
- Mark S. Light
- Sebastian Hobbs
- Ronald W. Ristau
- Edward Hrabak
- George W. Murray

## Other Participants

- Oliver Chen
- Jennifer M. Davis
- Dorothy S. Lakner
- Simon Bowler
- Lorraine Maikis Hutchinson
- Simeon A. Siegel
- David W. Wu
- Matthew S. Lilling
- Andrew W. Hughes
- Ike B. Boruchow

## MANAGEMENT DISCUSSION SECTION

### James M. Grant

Good morning, ladies and gentleman. We are ready to begin the conference. So I'd ask you at this time if you could please find your seats. We do expect a pretty full house, so I'd ask if you could maybe refrain from putting briefcases or whatever on adjacent seats and make sure you're all filled in.

My name is James Grant. I'm the Vice President of Investor Relations here at Signet. Just a couple of housekeeping things before bringing up our first speaker. You'll notice after the coversheet in your handout we have an agenda. We'll have four executive speakers with a break in between the second and third. When we're done with our speakers and Q&A, we'll retire to the room right behind you for lunch and at about 1:30 or so we'll get the first group loaded up and ready for store tour.

The other item of housekeeping, I wanted to mention is the Safe Harbor statement, which is on the next page. So please give a note to the risks and I'd also point out to the folks listening on our webcast also to please note the handout that you have there regarding the Safe Harbor. Finally, I'd ask that you take a moment to turn off your mobile phones. And with that, I'll call up our first speaker of Signet Jewelers, CEO, Mike Barnes.

### Michael W. Barnes

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Thank you, James. Gosh! Darn! I've got to turn off my phone. So anyway, welcome everyone. Thank you so much for taking the time to come and spend this with us this morning because I think that you're going to hear some really powerful messages from our company. And I've promised and I'm not sure if I can do it or not, but I promised my team, I wouldn't, like, over expand my dialog today because they have some powerful messages that I want you to hear. You guys hear from me all the time, I know that. So I'm going to try and keep it brief. I'm not sure if I can do it, but I'm going to try.

So let me just introduce the people that we have with us today, we have great team members number one, Ron Ristau, our CFO of the company Mark Light, CEO, U.S; Seb Hobbs, Managing Director of UK, Ed Hrabak, COO and George Murray [indiscernible] (02:32) and Tryna Kochanek is that close.

## Tryna Kochanek

Close.

## Michael W. Barnes

Are you going to give me a hard time?

## Tryna Kochanek

No.

## Michael W. Barnes

Gosh, darn. I do my best with these names, but some of them are just tough, yours, I'm not even going there. I may just say your first name.

Anyway glad to have these people with us today and you know what, we're really excited because we have a lot of our board members with us today. Actually, we have four of our board members here and this is so exciting because we've never had four board members come to an event like this. And we're just really pleased that they are here for this. And if I could introduce them briefly Dale Hilpert, Helen McCluskey, Tom Plaskett, and Eugenia. I'm going to leave it at that. I keep trying, but it is – I know it's hard though. Anyway, we have so many exciting things to share with you today.

Again, thank you for being here, what we want to talk about is how the present is really driving the future of our company. And how our stakeholders benefit from everything that we're working on. Because what we have is, we have a multitude of competitive advantages out there and it really starts with our outstanding customer experience. That is our number one competitive advantage. We source, we retain, we train, we develop our people in the field and they do such a fantastic job for us out there and that is the number one competitive advantage that we have, is our people in the field. And they do a fantastic job. They have for many years and they will continue to do that.

What else do we have? We have sector leading advertising. This year, we're going to have some really exciting new advertising campaigns that come out on TV, I'm excited about them. George, we'll see them when they hit the TV channels, but it's extremely exciting what we've got coming and I think you guys are going to be all be very pleased with it as well.

The store brands, everyone knows, everyone knows that Every kiss begins with Kay, everyone knows that and everyone knows that He went to Jared. So these store brands that we have are powerful and if you look at the history of the store brands we have in the UK as well, H.Samuel and Ernest Jones, man, they've been there for so many years and they're so well known to our customers.

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So we have a big advantage with the store brands that we have. When you go past that though, what else do we have, all right, is that all, that's all we got, no, we have unbelievable merchandise. If you look at the exclusive and the differentiated merchandise that we have in our stores, it's incredible. It really is. And some of these brands are just amazing.

When you look at some of the bridal business that we have with the Leo brand, which happens to be our oldest brand, and you look at Neil Lane, which is doing fantastic for us, if you look at Open Hearts by Jane Seymour, I mean, these brands are incredible and we're doing fantastic with them. And by the way, in the UK, we have some brands that are doing really wonderful as well. We have Forever on the diamond side. We have several other brands there that are just driving our business. So this is a big, big opportunity for us going forward.

All right, I know I'm rambling on, but if we look at supply chain, supply chain is very strong for us. Nobody has got a stronger supply chain than we do, I mean, let's face it. We are the largest jewelry store chain in the world. If you just look at the jewelry piece of it and we've got incredible group of people that are running our supply chain. The in-house customer finance that we have, nobody else has that.

We all know that and a lot of you may have questioned that in the past, but I hope that you understand just how valuable that is to our company. Because it's powerful and it really drives our business and we have a very large percentage of our sales that use our in-house customer financing. So that's huge competitive advantage for us.

And finally, I'd just say that our financial performance and where we're at, if you look at our company and our balance sheet and our ability to invest, nobody is stronger than we are. So we're very excited about that and we will continue to invest in our business for the future, that is a fact. We will continue to invest in that business.

So where does all this take us? And I want to get through this pretty quickly here, but we sat down as a management group and we talked about, okay, we have strong business, we're number one, we've got the number one market share, but where are we going? And we said we need to spend some time to think about where are we going to go from here?

And so what we did is we spent that time and we talked long and hard about a lot of different subjects from the U.S. perspective, the UK perspective, everything that we're doing as a company combined. And what we did is we came up with what we call, Vision 2020. This is really about our long-term growth strategy. We've got some great short-term strategies, medium-term strategies, they're all working and we're very pleased with how we're executing those strategies, but where are we going to go for the long term. This is what we're talking about.

This is not about taking incremental steps, because we're doing great job here, but you know what, we need to make bold moves. We need to be proactive out there. We need to evolve our business for the future. It's all about evolution and we've been pretty clear about the fact that this is not revolution, its evolution. So, we're going to test things appropriately and we're going to expand them as they work. We're not going to get crazy, but you know what, we're not going to sit still either. That's not what we're about as a company.

So, we have three major strategies that we really want to focus on for the near term. Number one is, we want to maximize the mid-to-upper mid markets. What we're talking about here is the jewelry market that is above costume jewelry, but below the uber luxury type jewelry, that's where the – really the meat of the market lies in the jewelry business, and we want to maximize that. We have a number one market share in the U.S. and in the UK. We want to take that and we want to stretch it out even further.

Number two, we want to be the best in bridal. What does that mean best in bridal? Well, I'll tell you what it means? It means that we want every single customer and every single competitor even out there to realize that, oh my gosh! When it comes to the bridal business, you can't beat those guys at Kay and Jared, they are number one. And that's where we want to be.

And the same thing with H.Samuel and Ernest Jones in the UK, number one. That's where we want to be. We're doing a good job today. We have a huge market share in bridal, but good is not good enough. We want to be best in bridal. And number three we want to be the best-in-class when it comes to the digital ecosystem. The digital ecosystem is something that is bigger than just e-commerce.

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We all look at e-commerce, how much do you sell? What's your market share? What's your percentage of sales? Et cetera, et cetera, et cetera. But this is about creating a relationship with your customer. This is about talking to the customer and having the social media involvement, sure you want to have the e-commerce and the sales that go with that. But this is about creating a long-term relationship with the customer. So that's where we're going with the digital ecosystem.

So our goal here is really to lead and be a leader in the mid-to-upper mid-market jewelry. That's what our vision is and that's what we're talking about. Obviously, I've got off my slides here, I'm sorry about that, because I don't really have a speech. I'm just kind of talking with the slides and somewhere got of sync. But I've already talked about the fact that we want to lead the upper – the mid-to-upper middle market jewelry market. And we're going to do that by expanding our formats, our locations, the product mix that we do, the brands, the field training and the marketing. All those things are going to be important as we move forward.

So we're going to evolve our competitive strengths. We're going to create consistent initiatives. We're going to grow our share in this tier of the jewelry market and we're going to continue to test and then test before we invest, obviously, but then invest strongly and move things further and faster than even before. So, why focus on the mid-market jewelry? Because it is our largest growth opportunity, that is really where the biggest part of the jewelry market resides. The other thing is – and this is really important I think, statistics show that companies that grow from the core and stick to the core are much more successful than those that try to move away from it. So this is the core of our business and this is something that we need to stay with.

So, how are we going to do that? Number one, we're going to stay true to our heritage. We've got great brands. You look at the U.S. and we got Kay and Jared. The UK, we have H.Samuel, Ernest Jones. We're going to stick to those brands and we're going to stay true to their heritage, but at the same time, we're going to evolve and we are going to target the up and coming demographic of the younger consumer that is coming out to buy jewelry. We're going to focus on our merchandise, our marketing, our store growth and our productivity as well.

The fact is that there is so much opportunity out there. One opportunity and I'm going to go through this really quick, is our outlet opportunity, the outlet stores. As you guys know, we made a recent acquisition last year of Ultra Diamonds and it's been a – in my opinion, it's been a fantastic acquisition. We have recently transitioned most of those stores into Kay outlet stores, the stores that we have transitioned have continued to do extremely well. We have our products in there. They are moving forward and we believe that this is going to be a major growth opportunity for the future. Mark is going to talk more about that. So, I'm going to leave it at that, but the outlet part of our business is a huge opportunity for our future.

This happens to be a business that's got sales of over $24 billion. And there are so many retailers that are driving that. You guys know this. I mean, some of the big retailers, whether it be Ralph Lauren, Nike, et cetera are doing a great job in the outlet business. Jewelry is only about $321 million, which is just over 1% of those sales. In a normal mall atmosphere, jewelry is about 8% of the sales. So there is a big opportunity for us to grow that business. So number two, we're talking about best in bridal. We talked about this, our market share in bridal is probably around 15% in the U.S. today, that's huge. I mean that's enormous, but we believe we can do better. We are the best at selling high quality bridal merchandise in the industry. And we need to work on that and continue to drive this competitive advantage that we have.

Our goal is to be the absolute destination for bridal. So when we think about this, how are we going to be the best in bridal? Number one, great jewelry brands, I've already talked about them. Neil Lane, the Leo Diamond, Tolkowsky, these are major brands that we can drive to our advantage. Great marketing programs. We've got some fantastic marketing coming up, some great advertising coming up – store operations that's number one for us. Our people are number one and our competitive advantages that we see for ourselves, great real estate, we don't settle for second-class real estate. We are very focused on making sure that we have the best when it comes to that.

Our credit program, I spoke to that. There are so many other things, services that we provide, trade-ins, et cetera. Bottom line is we believe that we can be the destination place for brides.

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What else can we do support our bridal initiative? This is actually very important. Our strategic diamond sourcing initiative is a big deal for us. What we're doing is we're working on securing our own long-term supply of diamonds for the mid-market. This has been years in development, quite frankly, and what it does is it gives us direct access to more control of the diamond supply. And we want to create a sustainable competitive advantage when it comes to the diamond supply.

So how are we doing that? Number one, we've got an office that we're opening in India. We have a buyer there now, that actually transferred from Akron, who is extremely experienced and doing a great job for us. And she is now living in India and working on securing the supply of our polished diamonds in that market.

That means that we've got people on the ground, in the market, 365 days a year as opposed to just sending them there for buying trips, two or three times a year, like probably most other of our competitors do. And a lot of our competitors can't even do that, they just have to deal with wholesalers, because there's no way they can afford to slide a buy multiple times a year.

So this is a very important part of our supply chain improvement and where we're going with that. We've got people there. We're focused on it. And we have people that can get us the best deals in the marketplace as they exist. The result of this is, we're going to be able to supply our customers with more consistent supply, better quality and a better value; that's really what it all focuses on.

So what else are we doing? Well, we're actually working on a rough to polish diamond factory, and we expect to announce sometime in the near future that we have acquired a diamond factory in Gaborone, Botswana. So in Africa, which happens to be the country that's got the biggest diamond mines in the world by value, and we think by opening this factory, acquiring this factory, running this factory, it's going to give us a huge competitive advantage, because we are going to be able to produce the diamonds that we need.

And I'm not going to go into a lot of detail, for sure, because I shouldn't. But the bottom line is that it's not always easy to get the type of the diamonds that you need, the quality, the size and the cut, and when you have control of that, then that gives you a superior advantage over a lot of the competitors out there.

This initiative is going to help us in both the U.S. and UK because we're going to able to cut diamonds that meet the needs of both markets and quite frankly they're different. Seb would tell you that the diamond appetite in the UK is much different than it is in U.S. and we need to be considerate of that, and we need to understand that because every market is not the same.

Finally, on the digital ecosystem, I think I've talked about this already, but this is not just about e-commerce. It's about supporting our customers in every possible way on the Internet and that means from a social media, from purchasing, from education et cetera.

The fact is and this is kind of important actually, a lot of the e-commerce sales that happen out there are actually completed in the store. People go online and they buy, but they want it delivered to a store so they can come in and they can talk to an expert that understands what's going on out there.

So when you put it all together and you look at the advertising, the customer information that you have, the web site, the e-commerce, everything, it really is all encompassing and it's important and that's why we refer to it as a digital ecosystem and not just as e-commerce, because it's so important to create that relationship with your customer, not just sell to them, but create a relationship for them.

So we're working on our websites all the time. We've got updates to Kay and Jared, updates in the UK as well. We're working on microsites, and really importantly here is we're working on a site that is an online education center. This is really important, because what we want to be is the go-to resource, if you have any questions about jewelry, we want you to come to us.

You could think of it as like web MD, right. I mean it's the site people go to. It's like I need to understand what's going on here or whatever. We want that for jewelry. So we want to be kind of like a jewelry MD, so to speak. And I think that's absolutely important to us on a go-forward basis.

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If we look at where else that we're going from a digital standpoint, everything that we're doing with our mobile apps, our tablet and how we are optimizing those sites. And you look at what we're doing in the stores and with the touch screens that we have shipped into the stores, it's really pretty amazing, what we're doing from a digital standpoint.

We've got so many things going on, I've already talked about this. We've got Facebook, we've got Sweepstakes happening out there, we're into YouTube, we're doing all these things and this is just where the world is going today. So we need to be a part of it.

So that's kind of the overall encompassing idea about the digital ecosystem and where we're going with it. And by the way, we're going fast, we're not going slow, so we're really pushing this. I think I made it clear, our goal is to be the absolute best-in-class in this industry.

One other thing that I wanted to talk about today, this is actually very exciting mean you know, If you look at the image up on the screen right here, we are the official sponsor of the Pro Football Hall of Fame for the class of this year, and we have done the rings, Kay is the official sponsor. We're very excited about this.

What this talks about? It's not a big deal. It's not like a big money maker, okay, we get that. But you know what it is, is it says, we care about this industry. We're about jewelry. This is an important thing to people out there. It really speaks to our ability to look at the jewelry industry and encompass it, and say, you know what, we want to be a part of everything. So to me, this is very important, I think it's exciting. There's a lot of great inductees this year into the Hall of Fame, so exciting part of our business.

So just to conclude my conversation here. There is three main objectives that we have on our roadmap, where we're going? It's really about and these are the only three points that you really need to think about. How do we become the leader in the mid to the upper mid-market jewelry sector. That's what we want to be. We are the leader, but we want to expand that.

How do we become best in bridal? Well, again, I think we are best in bridal, but there is still more that we want to get out of that and best-in-class in the digital ecosystem. Those are our big three strategic objectives and this is where we want to take the company going forward.

So we have more speakers coming, thank goodness! The next three speakers will go a lot deeper and talk about a lot more detail into where we're going and the next one is going to be Mark Light. So Mark Light is our CEO of the U.S. He's been with the company for 35 years and he is absolutely an incredible leader and has done a fantastic job and I'm I am very excited that you get to hear from him today. So, Mark, without further ado.

## Mark S. Light

Well, thank you, Mike and thank you all for being here with us today. As Mike just said for those of you haven't had the pleasure of meeting yet, I have been with Signet Jewelers U.S. for over 35 years, and I've got to tell you in my 35 years when I was with the company, we had some 30 stores, and I've seen a lot of tremendous growth and we'll be up to almost 1,500 stores in the U.S. this year. I will tell you honestly that I'm more excited than I've ever been about our company and the incremental growth of our company.

And so I'd like to take a deeper dive into some of the Vision 2020 points that Mike talked about as they relate to Signet's U.S. business and three of our primary strategic goals. As Mike said, to maximize the mid-to-upper middle market jewelry sector, to be the best in bridal and to be the best within the digital ecosystem.

So let's begin with some of our aspects that drive our business and give us the ability to maximize our mid-market. Store growth, the evolution of store brands including our outlet division and our expanding branded merchandise. First let's take a look at the Signet U.S. store growth.

As a research based company, our detailed analysis of our own stores, our competitor stores and the real estate market is continually ongoing. And as a result of this analysis, we committed to a robust store opening plan in fiscal 2014 and

fiscal 2015. This year, Signet U.S. is opening 75 to 85 new stores. We'll have as many as 70 stores that are Kay, mall, off-mall and outlet stores, and up to 15 that are Jared locations. And by the end of fiscal 2014, the number of Signet stores in the U.S. will be nearly 1,500. And this aggressive real estate plan will continue. We anticipate opening 75 to 85 new stores across America throughout fiscal 2015 as well.

And by the way as we expand, we're also working on exciting new store design concepts. With development of, what we call, stores of the future. And with an increased remodel cycle that includes testing next generation Kay store designs, Jared store design and much, much more. It's a great opportunity to drive productivity and evolve even more with our customers as we grow.

One catalyst of the store growth is the fact that over the last several years, Kay, which has always had a strong brand perception, has become even a stronger brand. And our research shows that we have the potential to have 500 to 600 Kay off-mall locations, which include outlets.

But strong store growth isn't only measured by the number of locations, it's also measured by the selling floor space. The average Kay selling space is 1,300 square feet. And you compare that to Jared with the average selling space, it's 4,800 square feet, nearly four times that of the Kay average. That means opening 15 Jared location is like opening 50 to 55 Kay stores.

And from store growth, we moved to another driver of our main market strategic goal. And that's the evaluation of our store brands, concepts and sales generals. One of these sales channels reinvestments, which underwent a major evolution during this past year is Signet's U.S. outlet division.

Our acquisition of Ultra Diamond last year took our company from number three to the leadership position in the outlet jewelry sector. We've formed a dedicated team to understand the Ultra retail business, which includes the buying practices, the pricing tactics, marketing and we learned a lot. Outlet is an exciting growth opportunity in both strong and weak economies. We also know that there is a unique behavior to the outlet customer compared to that of the mall customer. You see the outlet customer does shop differently. They've different needs even from city-to-city.

Outlet shoppers actually have a treasure hunt mentality. They're always looking to find the best possible value they can get. We also learned that in certain metropolitan areas, foreign tourism accounts for a large percentage of outlet business. For example, in Las Vegas, there is a high Asian tourism clientele. And in Southern Florida, there's actually a large presence of Brazilian tourists. All of our research of our outlet sector and outlet customer guided us to effectively targeting our micromarketing and merchandising and real estate efforts.

Our marketing team actually travels the world to collaborate with tourism groups that have a major presence in the U.S., to learn in-depth their people's shopping patterns and intimately to be familiar with what their needs are in jewelry. And in the merchandising area, we offer Kay brand in merchandise. We offer assortments that are created specifically for our outlet stores and we also have previously owned merchandise and clearance products.

And as for real estate, as a result of our market research, Vision 2020 plans for our total number of stores to exceed 200 is the reflection of outlet being the fastest growing retail sector with developers. In fact, by the end of this year, we expect to be operating approximately 120 Kay outlet stores and 39 Ultra outlet stores.

Signet's outlet evolution is a journey that's really just beginning. Since June, when the conversion to Kay was officially finalized, our outlet locations have been strengthening. We're already increasing market share with the total business delivered at those stores.

Another driver of our goal to maximize Signet's share of the mid-market jewelry is the evolution of our branded merchandise. Not only does this evolution mean the development of exciting new brands, it also means extending our existing brands to make them even more differentiated in the hearts and minds of our customers. So, at this time, I'd like to tell you about some of the latest developments within our branded merchandise.

So let's begin with fashion. And one of our most beloved partners that Signet has is Open Hearts by Jane Seymour. It has an impressive 65% brand recognition. And it's one of the fastest growing merchandise brands in Signet's history. So let's take a look at our Jane Seymour timeline.

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So in 2008, the brand debut with the iconic Open Hearts then came Angles, followed by Family. and this year we're offering our newest exciting announcement, Open Heart Waves. Each one is inspired by Jane's artwork and has established a genuine emotional connection with our customers.

Every new design caused a wave of excitement when it was rolled out, got to be at a little bit [ph] liberty in here (38:05), very little I know. Wave is no exception. Each piece is accented with blue diamond and we're offering a wider price ranges in our digital channels. It's the newest design in the collection that this remarkable artist continues to refresh and expand. The evolution of Open Hearts by Jane Seymour over the last five years truly represents what successful brand extension is all about. And you can look forward to additional new designs from Jane in the future.

The next fashion assortment I'd like to update you on are Charmed Memories and Pandora. For our Kay stores, Italian artisans are handcrafting new items to keep up with our orders from our customers, who are passionate about turning their special moments into charmed memories. This year we began offering NFL Charms and we're the only major retailer with this program. We're also selling new Disney Charms. Meanwhile in Jared, we continue to work with Pandora to refresh and introduce new styles of Charms for the American market, some of which will be designed exclusively for Jared this fall.

Now, we move to some of our brands that embrace what is currently one of the hottest trends in retail jewelry and that is colored diamonds. Our younger generation Y or the millennial customers are very passionate about color. They actually believe that they have the diamonds of their generation. And Signet, is on the cutting edge of this trend. In this year, we're accelerating the evolution of our colored diamond business.

This evolution is taking place within one of our most popular fashion brands and that's Le Vian. This brand has always been on the leading edge of fashion and has become a trendsetter with colored diamonds. Le Vian's Chocolate Quartz complements fall fashion and more, but we're also introducing to our customers a wide range of new color design in this exciting brand.

And when it comes to color, another exciting brand is Artistry. With this brand, our fashion customers can choose from blacks, blues, yellows, greens, and as well the hottest color out now, purple. And we believe that Signet will be the first and possibly only in the marketplace this fall offering purple diamonds within the Artistry brand in Kay Jewelers. And for the first time, we've committed to TV advertising this fall for Artistry. And I'd like to show you the commercial that tells the story of Artistry and serves as a national launch for this exciting brand. This spot is called [ph] Palette (40:49). Take a look.

[Video Presentation] (40:54 – 41:24)

We are very, very excited not only about this ad, which we think is a fabulous job of illustrating the beauty of colored diamonds, but also about the jewelry products that we're going to have this fall. And those of you who will go, you'll see in the stores at this trip. But we also have a wide variety of colored diamonds in our Vivid assortment in our Jared stores.

And with the overall success of our color, fashion and merchandize this year, we're also extending both Artistry and Vivid into the bridal category as well, which brings me to the second major goal of our Vision 2020 strategy. And that is to be recognized by our customers as the industry as being the very, very best in bridal. And we are building on our outstanding work and our teams that have already this in this area and are already strong bridal brands.

Approximate 50% of Signet's business comes from the bridal category. And we are proactively working to build upon our own improvement in this area every day. From customer research to our trade-in and in-house credit programs and in every step in between as a full service jeweler, each aspect of our best in bridal strategic goal represents a journey from good to great to being absolutely the best.

We will make every customer think about our stores first when they think about bridal merchandise. We will be their destination for bridal merchandise. And the bridal brands, as we source, design, sell and service, we will inspire our customers and our team members unlike to turn this goal into reality.

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Brands like Neil Lane, which is the jewel to the stars, and we consider Neil Lane Bridal to be the foundation brand for our future. It's one of Signet's most successful bridal brands, and it absolutely represents our commitment to being best in bridal. We're currently expanding this brand for our customers by introducing new bridal sets with larger center stones.

And by the way, back on fashion for a second, Neil Lane Designs was announced last year. And this year, we continue to refine and extend that successful line to grow a greater share of the fashion jewelry business.

Now back to bridal and best in bridal. Another differentiated brand Signet is expanding is the Tolkowsky diamond, the ideal, ideal cut. We continue to test new designs, settings and stones qualities. And this year, we're extending the Tolkowsky brand to go further into the bridal by testing ideal cut diamonds inserts and wraps. And for those of you not in the jewelry industry, an insert basically is a ring that shapes like such and you could pick a solitaire diamond and put it – the – your solitaire right inside the insert to enhance the look of your solitaire. It's a big introduction for us.

We've also introduced a new online selling system that delivers a consistent presentation and educates our customers on the aspect of the Tolkowsky diamond.

And no discussion of being best in bridal would be complete without the Leo Diamond, the first diamond ever to be certified to be visibly brighter. Leo is Signet's first and one of its largest bridal brands. And we are responding to the growing demand for higher-quality diamonds by extending the Leo brand.

For instance, this fall, we're extending the Leo Artisan diamond that was only in our Jared stores is now into our Kay mall stores. This is one of the finest diamonds that we carry and it gives our customers another price point and an even higher level of quality to consider within the Leo brand.

All the bridal and fashion programs that I just touched on make it very clear what – that we are committed to the evolving and expanding our brands as far as – and as fast as our customers decide for them to go. As we move forward, within Vision 2020, we have the processes, the technology and the team in place to enable Signet to always be in the cutting edge with our merchandising initiatives.

To that point, every item in Jared, Kay and Kay Outlet is available and accessible as virtual inventory, so customer can see them just with a few clicks. Meanwhile, we're always looking for new trends and products to fulfill our customers' needs. This means creating and developing the more branded, differentiated and exclusive merchandise. And brand extension is what our customers need and want.

In the end, we're taking great care to provide limitless choices for our customers when it comes to what they purchase and how they purchase it. These options are being taken to a whole new level with something we call custom jewelry design.

So let me give you a taste of how this exciting initiative will help us achieve our strategic goals. Take a look.

[Video Presentation] (46:17 – 47:25)

We just launched this program in our national managers' conference. That's what that video that you just looked at. Our people are extremely excited about this, and we are one of the fews that we can do this. We have shops throughout the country and we have the technology and we have the people to execute it, this wonderful program. And for Signet, the margins on customer jewelry design are above average.

For our customers though, it means that their options are now literally endless. If they can't find what they're looking for in our display cases or online, they can work with our store teams to actually create any piece that they envision literally from scratch. Custom design is especially appealing against the Gen Y'ers who are all about that one unique piece that nobody else has.

Ultimately, our customers now have no reason to go anywhere else for their jewelry for them that it celebrates life and expresses love. And that's because Signet has more tools and resource for brand innovation than any of our competitors. We are evolving as our customer base evolves, and we are redefining what customer loyalty means. And



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as a result, we will be the destination for the very best in bridal merchandise. And ultimately, we will extend our lead among mid to upper-middle market jewelers, which lead me to Signet store strategic goal to be most effective within the digital ecosystem.

One driver of this Vision 2020 goal is dynamic marketing program to support all of our store and merchandise brands. Specifically, we implement an omni-channel marketing approach, which means being everywhere and accessible by all of our customers at all times. And as you heard earlier, Mike talked about the web, social media, e-mail and mobile, our comprehensive marketing efforts continue to expand in all digital and traditional media.

I've already touched on how we're talking a different approach to marketing when it comes to our outlet division, but the area that best exemplifies our expansion of Signet's marketing initiatives is our television marketing and television advertising.

Throughout – through 12 – 2012 excuse me, we have been on national TV advertising Kay and Jared and highlighting specific brands for all of the major holidays. And in 2013, we are increasing our advertising investment, and we'll have a greater number of impressions during the Christmas season as compared to last year, but the expansion doesn't end there.

Earlier I showed you a new Artistry fashion TV spot. We have some new exciting programs that will be running in October as a matter of fact for the first time. These include a test of bridal continuity TV advertising with spot focusing on three brands: the Leo Diamond, Tolkowsky, and Neil Lane Bridal. In addition, we are excited to announce that we will have billboards on the NFL Network and commercials on the CBS and on Fox on Thanksgiving Day. And we are presenting sponsor for the Big 10 and SEC Championship games this fall.

This year's expanded TV campaign will create engagement like never before. Some spots target out fashion brands, while others are intended for the soon-to-be-engaged customer. And something else that's new for Signet, a multiple brand Kay spot that we call Brands in Motion. This commercial illustrates Kay's leadership position as the number one jewelry store in America and featuring the beauty and uniqueness of our differentiated brands. Take a look at Brands in Motion.

[Video Presentation] (51:15 – 51:44)

Once again, this is a first for us, a wonderful brand – branded merchandise ad, and we're very excited about it.

For Jared, we'll be showcasing a spot that we call Four Words. This commercial again targets our Gen Y customers and demonstrates in a humorous way how buying a gift can be a really daunting exercise, especially if you're a guy. Watch how this spot reinforces the trust in Jared store and here is that ad we call Four Words.

[Video Presentation] (52:17 – 52:47)

Speaking of the guy, that's reality. But hopefully, you'll like that spot also. We really feel confident that our – we know our people do and feel confident that consumer will.

Ladies and gentlemen, every strategic goal, every competitive stretch and every initiative that I've covered you this morning shows of our proof of accelerating – that we accelerate evolution of the jewel industry's greatest innovator. These are proof of our commitments to being the best in bridal. They are proof of our dedication of being the best and most effective company within the digital ecosystem.

And they all were together to serve one ultimate purpose, to maximize the mid-market. All of our tools, technology and resources, our sales and profit track record, our financeable strength, our long-term strategy, all of these dimensions of our business are what we believe compelling reasons for you to invest in Signet.

But one dimension above all drives everything we do, because strategies don't implement themselves, initiatives don't succeed without execution. And it's our team, the best unparalleled team in the business, that has delivered our record-breaking success year-after-year. It's our team, over 18,000 strong, including our team members in the UK, that possesses the passion and the motivation to continue to deliver that kind of unmet success as the future and our

strategic vision unfold.

We will continue to recruit, develop, train, retain and reward our people in order to continuously enhance the healthiest and most engaged team members in the jewelry business and in the retail industry, because our people are Signet's brands also. And that singular brand of mutual respect, dignity, compassion and engagement maximizes our team's productivity, efficiency and effectiveness. Ultimately, that professional engagement is what drives customer engagement and customer loyalty and industry-leading result and long-term growth.

Thank you for your time and attention. And we'll now take a 15-minute break before Seb Hobbs takes the stage to speak to you about our Signet UK business. Thank you all very much. 15-minute break.

[Break] (55:11 – 01:09:08)

## James M. Grant

Once again, ladies and gentlemen, we're ready to begin with our next speaker. So appreciate if everyone could take their seats. Thank you. As you're getting settled in, just one more reminder to please check your mobile phones and do ensure that those are on silent or off.

With that, I'll call up our next speaker, the Head of our UK Division, Managing Director, Seb Hobbs.

## Sebastian Hobbs

Welcome back. My name is Seb Hobbs. I'm the Managing Director of our UK business. It's a pleasure to be here today to meet you all, and I'm really excited about leading the UK business during this key transformational period. This morning, I'd like to give you some details regarding the strategic direction of our UK Division. And I'll also provide you with some details of some of the specific UK references Mike talked about a little earlier.

I'll start by providing some context for the UK market and Signet's UK Division. Then I'll explain the activities in place to deliver the long-term growth strategy and our goal of a 10% operating margin, specifically our people in stores and how the service they deliver is essential to our future and our growth; our merchandize program, including bridal and watches; our real estate activities; and our digital ecosystem. And finally, I'll talk about our marketing activities.

As some of you may not be as familiar with the UK market as you are with the jewelry market in the U.S. I'll start with a little – a brief overview of the market in the UK. Like the U.S., the UK market is very fragmented, with most of our competition coming from independents. Just under half the market is operated through specialty jewelers. This retail map gives you a feel for the key participants. Specialty jewelry retailers are shown in shades of blue and the largest non-specialty operator is Argos, which is a catalog showroom retailer and here shown in yellow. We are focused on the middle markets.

Ernest Jones competes in a slightly higher end-market for specialty jewelers, while H.Samuel is more value-driven, offering a wider range of merchandize, including jewelry, watches and also gifts. The only jewelry specialist of any of any size that competes with H.Samuel is F.Hinds which has about 100 stores. The rest of its competitors are independents and the catalog showroom retailer Argos.

There are three specialist chains that compete with Ernest Jones, particularly in the regional malls, the largest of which is Goldsmiths, part of the Aurum Group, followed by Beaverbrooks and Fraser Hart. Independents and department stores are also our competition.

Established over 150 years ago, H.Samuel is the most recognized jewelry retailer in the UK and the largest specialty jeweler by number of stores. With over 300 stores throughout the UK, we operate in almost every medium and large retail center with a typical store size of about 1,100 square feet. We're in the major regional mall with our newest formats and our larger-than-average stores. The H.Samuel customer base is mid-market male and female shoppers with a typical annual income of £15,000 to £40,000. In fiscal 2013, H.Samuel sales accounted for 54.5% of our UK sales.

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Ernest Jones is the number two jeweler by number of stores and the second most recognized brand in the UK. With nearly 200 stores throughout the UK, Ernest Jones is represented in most large retail centers with an average store size of 900 square feet at the last fiscal year-end. The Ernest Jones customer base is upper mid-market, male and female shoppers with a typical annual income of between £30,000 and £50,000. In fiscal 2013, Ernest Jones accounted for 45.5% of our UK sales.

We have a series of activities underway to deliver long-term sustained growth and to deliver the 10% operating margin target. At the heart of everything that we do is the in-store experience. Our people are the most valuable asset in our organization. And as Mark said earlier, we are committed to recruiting, retaining, developing and rewarding the best team in the industry.

Our investment strategy delivers outstanding training programs and technological solutions to enhance the customer experience, to maximize our productivity, efficiency and our effectiveness. For example, we're investing in our area and regional managers through a specifically tailored post-graduate program in partnership with Warwick University, which is a leading business school in the UK. And through this partnership, we've implemented process improvements related to retail reporting and our digital ecosystem.

We're also developing our next generation of leaders, investing in them through the use of outside organizations like the Institute for Learning and Management and the National Association of Goldsmiths, where they earn industry certification. In-house, we run the Signet Jewelry Academy through which sales associates get robust product knowledge, sales acumen and much, much more. We believe our programs are unmatched in our industry.

Just as in the U.S., being in bridal is a core element of our strategy. We are strong in the UK bridal market. We know how to sell it, but our goal is to be the destination jeweler for bridal jewelry. This strategy extends across our organization. Our activities are insightless after extensive research, and this will be a developing journey. We will achieve this by evolving a high quality and incredible brand, our marketing initiative and by evolving our selling systems in stores.

Our leading bridal brand in H.Samuel are the Forever Diamond and Perfect Fit. Both are exclusive to H.Samuel in the UK. Bridal is approximately 40% of the jewelry business. The Forever Diamond has a unique flower cut featuring 73 facets to provide exceptional sparkle and radiance. The Forever Diamond is the leading solitaire program in H.Samuel. The core range has been rolled out to a majority of our stores and all stores will carry key lines for the holiday season. Line extensions have been successful and a program of complementary jewelry is currently in test.

The Perfect Fit brand covers the growing trends for bridal sets, an engagement ring and matching wedding band for customers wanting that bigger, sparklier, blingier look. Starting at £299 going all the way through £2,000 and above, this ever expanding program is available in all stores and is increasingly important to H.Samuel.

Importantly, we are now collaborating with our U.S. partners wherever possible. We want to identify where we can leverage great ideas. Our strengthened partnership will be key to our success.

The key bridal brands Mark mentioned earlier are also sold in Earnest Jones. The Leo offerings have been a particular successes in the UK. And this month, we're extending new ranges of 18-carat gold four and six-pronged setting solitaires and channel set rings to provide the bigger look at an affordable price, whilst maintaining the quality, beauty and brightness that our Leo Diamond guarantees.

Tolkowsky has been extended to three-quarters of the Earnest Jones stores. It's an ideal cut brands that resonates with consumers. Continuous testing of products and settings and quality is part of our merchandize detail. And this month, we extend Tolkowsky bridal sets, diamond wedding bands and rings with diamond set shoulders.

The Neil Lane brand was tested in UK earlier this year. Drawing on the incredible success that we saw in the U.S., we were able to test the product to find which ones were the right for the UK market, and the brand will roll out to 60% of the UK stores this month.

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Fashion jewelry initiative helped to differentiate Ernest Jones and H.Samuel from our competition. Branded, differentiated and exclusive merchandise account for about 20% of jewelry sales.

In Ernest Jones, the association with Amanda Wakeley, who is a leading British bridal gown designer, continues to be successful. New color tones and stackable Italian bracelets with Italian-made rings to complement, semiprecious stones to both rings and necklace have tested well and the continual evolution of the long pendant is the center piece of our range.

The Le Vian that continues to grow quickly in the UK introduced only a few years ago, we are now establishing the brand in the UK market and it's exclusive to Ernest Jones. Investment in marketing, training and product development have helped us position Le Vian as a premium fashion jewelry brand. Chocolate diamonds remain the firm favorite and testing is continuous with other colors to complement the season's fashion.

In H.Samuel, the development of Radiance is important. This is a new in-house brand made with Swarovski crystal. Vibrant purples, blues, reds as well as classic-look merchandise across all jewelry types, these are fantastic looks at affordable prices with branded quality crystal and rolling out to all stores for the holiday season.

Watches represent approximately a third of sales in the UK business. The sale of both H.Samuel and Ernest Jones makes them highly attractive to watch brand vendors in their respective markets. H.Samuel leads the UK mid-market in watches and has first-to-market developments with brands such as Radley and Vince Camuto to provide that differentiation.

Continuous product refinement with strong brands like DKNY, Armani Exchange, Rosary, Citizen, all further strengthen H.Samuel's position in the market, and this season sees the rollout of brands like Skagen, Ice and Anne Klein to name just a few.

The luxury sector of the Ernest Jones watch business is driven by strong relationships with Tag Heuer, Amiga, Breitling, Cartier and others. Unique shop-in-shop in-store features have been devoted to these brands, raising the profile and average ticket price of transactions. Michael Kors is one of the key brands that's going to drive the Ernest Jones fashion watch business this fall, and jewelry will also be added to this line in time for the holiday season.

So in summary of the merchandise initiatives in the UK, continuous customer research and product testing, more differentiated brands and exclusive merchandise, faster response to fashion trends, clear path to best in bridal, these will extend our position as leader in mid to upper-mid markets.

Moving onto real estate, we've been working hard on rationalizing our portfolio because of the changing way the consumer in the UK is shopping. It's not that different to what you've seen in the U.S. over recent years. The UK consumers are changing the way they shop. Small market high street or main street locations have become much less relevant and regional malls are increasing the gravitational pull. High street locations accounted for 35% of sales in fiscal 2013 and regional malls 65%. As a result, today we are more focused on regional malls than we have ever been. We're accelerating our remodels and our refits. Strategic investment has been made into the larger markets for both H.Samuel and Ernest Jones.

Over 50 stores have closed in the UK since 2011. And we will continue to rationalize our underperforming stores. But most important, we are evolving our best performing stores to make many of them bigger and all of them better. And as in the U.S., our IRR hurdle rate is 20% for a new store.

Here's one example of our retail real estate evolution. The new Ernest Jones concept store launched two years ago, it is successful and it continues to evolve. Bluewater is a regional shopping center outside of London. This store was refitted during the summer and is the latest evolution of the Ernest Jones concept. The key differentiating factors here are the strong presentation of brands, you'll see Cartier, Longines, maybe Le Vian in the photo as well as an enhanced diamond area in the middle of the shot. Different grades of investment have been developed for different markets to optimize our return.

Here's another illustration of our real estate plan. We opened our first airport store this summer. Gatwick is London's second largest international airport. The redevelopment of the South Terminal Airside zone enabled us to open the only

specialist jeweler in this tax-free shopping area. This is a new venture for the UK. Early signs are encouraging, and we will of course be studying the opportunity carefully.

As you can see, we're focused on growing the productivity of our existing base and we will see more of this in the months and years to come.

Moving to H.Samuel, following extensive research, an updated concept for H.Samuel has been developed, which will be tested this fall. This slide shows a render drawing of the first store, which is due to open over the next couple of weeks. It retains the brand identity whilst adding modern features. Clear navigation will guide the customer to the product area. Technology will be embedded into the store design. And feature space would be created to highlight new product, great brands and outstanding offers. We are really excited about collaborating with the U.S. business on our real estate strategy. We're blending a global branding attitude with local execution to best fit the needs of our customers.

This brings me to our evolution with the digital ecosystem. H.Samuel and Ernest Jones websites are the most visited jewelry specialist websites in the UK. And the digital ecosystem is paramount to our future growth. Seeking to optimize the customer experience, we have delivered three major initiatives this year. Firstly, customers can now order the entire merchandise range regardless of their location, a home in a small store and the back on their mobile. And they can choose where the product will be delivered, and that's entirely up to them, either to another store or to any UK postal address. This technology extends the range available to the customer and to every store.

Secondly, as mobile and tablets account for almost half of e-commerce traffic, our website designed for mobile phones was launched earlier this summer, with layouts and functionality designed specifically for the mobile users.

As brands become increasingly more important, the third key initiative this year was to develop online shop-in-shops or microsites, as I referred to earlier. Enhancing the brand message in a digital format differentiates the sites and delivers improved conversion. Our intention is to deliver a content-rich socially-driven shopping experience. We're delivering more social media activity than we ever had, including one-to-one conversations, trailing store events and activities, competitions, trends and much, much more.

In marketing, we carefully measure the effectiveness of our efforts in delivering the best mix across TV, press, CRM, door drops, media inserts and in-store catalogues. Research-backed insight improves our advertising campaign. The campaign mix will provide outstanding creative execution for the key Christmas product and bridal messages. H.Samuel will continue to deliver the helps you say it better brand essence in all our Christmas and holiday season creations.

We have secured more high-quality TV spots across varied rotations. Our impressions will increase. This year's campaign will take the Forever Diamond brand on TV for the first time, which is extremely exciting.

Press executions or print ads are the most productive for Ernest Jones to express love and life, with bridal, fashion and watches featured in appropriate publication.

In conclusion, we're resolute in our determination to deliver our strategic and financial goals. We have a clear plan. The UK business is positioned to deliver our medium-term strategic and 10% operating margin target. Collaborating closely with the U.S. division, we are focused on continuing to develop our people, selling systems and customer service.

We are focused on merchandise initiatives, best in bridal, which will continue to develop the product and brands, reinforcing our leading position; ongoing development of our jewelry – fashion jewelry programs; and partnering with the watch brands; the ongoing investments in key real estate and rolling out of new store and in-store designs; continuing to develop our growing digital ecosystem business. And finally, marketing remains a key element for our performance improvement.

Ladies and gentlemen, thank you very much. I will now had proceedings over to Ron Ristau.

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## Ronald W. Ristau

Well, good morning, everybody. Thank you for your interest and attendance this morning. I really hope you share our enthusiasm for all these plans you're hearing about. We believe they're very strong and there's really movement forward on a wide variety of fronts. I hope you agree.

I'd like to begin briefly by reviewing our track record of proven financial performance with a few highlights over the past few years. We've improved our gross margin from 32% of sales in fiscal 2009 to 38.6% last year, which is attributable to merchandise margin enhancement, our credit performance and leverage on expenses.

SG&A as a percentage of sales has improved from 29.1% to 28.6%, driven by expense control, while making the targeted investments necessary to drive sales and increase our competitive strengths.

Our operating income has grown consistently over the last five years. And in fiscal 2013, we reported record operating income of $560.5 million, a 27% compound annual growth rate since fiscal 2009. Our diluted EPS [indiscernible] (01:30:53) $4.35, a compound annual growth rate of 31% since fiscal 2009. And we reported further growth in fiscal 2014 year-to-date, that is to the end of our second quarter.

Operating profit was $248.3 million, an increase of $8 million or 3.3%. And earnings per share were $1.97, an increase of $0.16 or 8.8% over the comparable period. In fact, if we exclude Ultra, which had a one-time short-term impact, EPS was $2.06, an increase of $0.25 or 13.8% in the first half of the year.

But now I want to look forward in what would drive our financial performance as we look to the future. As always, our goal remains profitable growth and the consistent improvement in operating performance, which increases shareholder value. We intend to delight our customers and be their jewelry destination of choice as they celebrate life and express love.

Our financial objectives, as always, are driven by four key goals. First, growth in retail store and digital ecosystem productivity, this is absolutely key with the current store base of over 1,900 stores. Second, growth in new stores, where investment returns meet our criteria of a 20% IRR over the first five years of performance, which will continue to strengthen and diversify our store portfolio. Consistent improvement in the efficiency, effectiveness and relevance of all aspects of our excellent operations is also a goal, all of which leads to increased financial strength and flexibility, while driving shareholder value.

As you can see and as Mark mentioned, we have continued on our productivity drive with sales per store in the U.S. in Kay reaching $2 million and $5.2 million in Jared in fiscal 2013. This represents impressive growth consistently since 2009. And with store productivity remaining a cornerstone of our growth, we believe these numbers have considerable opportunity for continued expansion.

But what would drive this productivity? Well, today you heard about many initiatives, and let me summarize them for you. The key drivers of productivity increases will be, first and foremost, investment in our team. Our teams are essential to everything we do and everything we accomplish, and this is still a personal selling business requiring a highly trained skilled workforce.

The continual development of our digital ecosystem, which we've spoken about extensively, strengthening and evolving the best in bridal program, our commitment to successful product innovation and branding, impactful advertising, enhanced technology across all aspect of our operations, and importantly innovation in store design and enabling sales with our credit programs.

New store growth remains a key driver of future sales and earnings, particularly in the U.S., whereas you can see from the slide, the potential currently exists for up to 1,850 stores, which represents approximately a 25% increase from where we are today. I remind you that our investment criteria is 20% IRR and that our existing store portfolio is among the best in all of retail.

Kay mall and importantly off-mall, which includes power centers, outlets, lifestyle and street stores and Jared, represent the key real estate growth areas in the United States. In our regional U.S. brands and in the UK, as we've discussed, our

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strategy is to have a more productive and profitable business with fewer stores.

In the U.S., by the end of fiscal 2014, interestingly enough, 43% of our square footage will be in regional malls, and 57% of our square footage will be off-mall. In the future, as you can see from this slide, we believe that we will grow square footage much faster off-mall than in the regional malls as this trend continues.

We remain committed to our goal of achieving operating income of 15% over the next several years. We laid out this objective last year, and it's still our objective as we talk this year. Our progress continues. As you can see on the slide, we achieved a 14.1% operating income percentage in fiscal 2013. In the future, importantly as productivity climbs and we add stores and control expenses, the results will be evident.

As we move towards our goal, we expect gross margins to improve modestly, benefiting mostly from expense leverage due to productivity growth. Merchandise margin benefits from slower growth and commodity pricing, while helpful, are difficult to predict long term. However, we'll be focused on our goal to maintain and improve these margins where possible.

I would like to point out that as we look to the future, we'd be dealing with some mix changes, as I point out that outlets and diamond manufacturing impacts, we have the offset by improvements in the U.S. business by proprietary branding and initiatives such as the custom design, for example.

Further in gross margin, we do expect to see some slight increase in bad debt expense due to growth in the receivable balance and the mix of programs that our customers are selective. This of course will be more than offset by increases in credit income, which is reported in other operating income on our P&L. I'd like to again note that bad debt is in gross margin, while credit income is in other operating income. Knowing this, the expense management and leverage driven by store productivity will be important contributors to gross margin expansion.

We intend to continue to drive for efficiency effectiveness in our SG&A expense structure and ensure these funded activities and internal functions drive value and incremental sales as our business evolves. All expenses would be prudently evaluated, and we're also focused on enhanced asset management. We have a wide variety of initiatives underway in order to drive efficiency. Let me just point out a few.

We will be undertaking over the next two years a comprehensive upgrade of our merchandise planning diamond inventory and merchandise allocation systems. Design and repair labor control systems will be enhanced and upgraded to control labor expenses and enable us to effectively manage the custom activities that you heard about.

Purchasing integration between the U.S. and the UK will further reduce costs. And we remain focused on our long-term program in the UK, as Seb mentioned, to optimize real estate and restructure the operating costs. We believe the U.S. can achieve operating income margins in excess of 17%, and we expect UK to achieve our goal of 10% over time. As we move towards these targets, we are very confident we'll accomplish our goal of a 15% operating target at a minimum.

Well, I couldn't do a presentation without talking about credit. A few words about credit. Our credit operation is an important underpinning to our business, as I'm sure you're all aware, and it plays an important role in enabling our customers to buy the jewelry they really desire. Approximately 58% of our sales in the U.S. are made through our in-house credit program. For bridal customers, the credit penetration can reach 70%. This is a natural intersection of our product quality, our sales experience and our financial strength.

We welcome the increase in the use of our credit programs, as we have very definitive approval criteria and fully understand the credit risk and profitability of our decisions. We take great care in our decisions, and our credit approval rate remains at approximately 50%.

We are short-term lenders. Our programs are designed for the rapid repayment of outstanding balances, which helps manage the credit risk. And in fact, we collect anywhere from 12% to 13% of the outstanding balance monthly, which means on average, we get repaid in less than a year, quite different than your MasterCard. I looked at mine the other day, I think he told me it took me 28 years to pay it off. So it's a little better.

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Presenting here on this slide are three components of credit we provide on our external statements. The first is the net bad debt expense, which is reported in gross margin. The second is late charge income, which is also a component of gross margin. Sometimes people don't focus on that as much. The third component is interest income, which comprises the majority of our other operating income on the P&L.

Between 2012 and 2013, the net impact of these items is an increase of $19.3 million in operating income, as the net impact as a percentage of sales moved from 1.5% to 2%. My message here is that both the dollars of bad debt and the levels of interest income are increasing primarily due to growth of the credit receivable, and they more than offset, resulting in a net benefit to our operation.

Credit receivables have been growing due to increased usage and customer selecting our regular payment terms versus our 12-month interest-free program. For instance and as of the second quarter, our receivables increased to 11.6% over the last year as a result of these two phenomena. Other components of our credit program primarily the operating costs were not disclosed separately, as we do not manage credit as a separate segment. It's an integral component of our business. So our message here is credit is profitable. It's integral to enabling sales in the business and the main benefit of our credit program is its overall impact on driving sales.

So we have a proven ability to generate cash over a variety of business cycles. Reinvesting in our business has always been our first priority. Our capital is being directed at projects that build sales, develop world-class infrastructure capabilities, enhance our customers' experience and create operating efficiencies. This year, we expect to invest between $180 million and $195 million in capital investment. This year, as Mark mentioned, we project 75 to 85 new stores. And for next year, we currently expect we'll be in approximately the same range. The new store development is getting very aggressive.

We currently expect our overall capital spend next year to trend up to $195 million to perhaps $215 million versus the $180 million to $195 million we were spending this year. This is because of the increasing U.S. remodels due to the cycle of lease renewal. We generally remodel stores when leases come up, and the level will be up higher over the next several years.

This will be of course finalized during our budget cycle, but this represents a great opportunity, because as Mark mentioned, we're working on the store of the future. It's another opportunity to drive new more productive formats, driving comps, driving sales and improving the profitability of the business.

Our capital spend again will be focused on those items maximizing sales, and we're committed to multi-year IT investment. We're spending in excess of approximately $45 million annually, driving forward the social media, the Internet, all aspects of the operational improvements I talked about. A few people can afford to do that in this business.

To further drive shareholder returns, we introduced the quarterly dividend in fiscal 2012, which we increased early last year by 20% and again this year by another 25%. Our design programs are effective in increasing shareholder value. And in June 2013, we authorized a new share repurchase program of $350 million dollars, of which $325 million was outstanding as of the end of the second quarter. Cumulatively, we have repurchased over $375 million of shares via the buyback programs initiated in 2012.

This program has managed to drive long-term shareholder value. The board monitors the cash position of the business and of course will take appropriate steps to maintain it within target levels. I'll remind you we have a year-end cash target of 79% of sales, as we believe a strong balance sheet is an important competitive strength. We believe this level of cash provides us with the necessary operating and financial flexibility to manage the business very effectively.

So in summary, let me just restate some key points. We are the number one jeweler in the specialty market in the U.S. and in the UK. Over time, we have a record of gaining market share, and we're committed to gaining further increases in profitable market share via our people, our products and our marketing. We have a proven ability to prudent and thoughtfully manage our [indiscernible] (01:45:14) and expenses in all phases of the economic cycle. We believe earnings will grow as we focus on improving our productivity, open new space and generate leverage on the business model.

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Our ability to generate cash flow provides many financial options for creating shareholder value now and in the future. We believe that this is a powerful compelling business model, and we hope you agree.

The last thing I'll close with is that in a few days, we will be launching a new corporate website with enhanced navigation and improved functionality. We hope you all find the updated website will be of benefit to you as you seek to obtain information about our company.

Thank you for your attention this morning. I'm now going to turn it back to Mike. Thank you.

## Michael W. Barnes

Thank you very much. I mean I hope you guys got all that information, because that was a great presentation by Mark and Seb and Ron. And there is so much to the business model that we have, and it really is something that we believe in 100%, we're going to drive it, we're going to make it happen. So stay with us and stay in touch and stay tuned, because it's very exciting.

So at this point, I would throw it out to Q&A, and we'll have all of our business partners here involved in the answers, because I certainly don't want to give all alone. Number one?

# Q&A

**<Q - Oliver Chen>**: Thanks a lot. Hi, it's Oliver Chen from Citigroup.

**<A - Michael W. Barnes>**: Hi, Oliver.

**<Q - Oliver Chen>**: What are your thoughts on traffic and volatility and what you're seeing in the marketplace right now? Also, regarding holiday with one less weekend and fewer days, is that going to be something we should think about when we model? And a final question is about supply chain. As you engage in these great transformation, how should we think about the gross margin line and if you're going to reinvest in the business or reinvest in product, or if that will go straight down to the bottom line? Thanks.

**<A - Michael W. Barnes>**: Thank you. Very good question, Oliver. From a traffic perspective, Mark, do you want to talk about what you think about in the U.S. and with one fewer week or one less week for the holiday season all that.

**<A - Mark S. Light>**: Sure.

**<A - Michael W. Barnes>**: Do you have a – do we have a mic here.

**<A - Mark S. Light>**: I've got the mic. Hello, Oliver, how are you? As far as traffic in the malls, first of all, we all know what's going on in the U.S. marketplace and we're very confident that we have a great plan and we're ready in the fourth quarter. So whatever is out there we're going to get the lion share of what's out there. So we can't predict the traffic that's going into the malls, but what we can predict is the quality of our plan and our people and we're ready for the fourth quarter, Oliver.

What was the – oh, the shortened calendar, it's something we deal with every year. And it seems that what happens is that consumers basically just react to the calendar. If there is five less shopping days, they do the shopping. We've done this for a lot of time and the consumers just react to the calendar and they realize that Christmas is two days away or 10 days away and their shopping patterns replicate that. Last year we had the extra days and we didn't get any major spike for it. So we believe that with the shortened calendar, we'll react the way the consumers react, by the way they always will get their gifts when they need them.

**<A - Michael W. Barnes>**: Yeah. The other thing I would add to that is that the consumer has just over the last two years they've really driven themselves to buy closer to the event anyway. So as Mark's point is a lot of people just haven't done their shopping even in the last two days, so it doesn't matter if there is three weeks, four weeks whatever, so many of the consumers wait until the very last minute before they're going to make that purchase anyway. And then

on the supply chain what was it, Oliver, that you had?

**<Q - Oliver Chen>**: [indiscernible] (01:49:13 – 01:49:21) the gross margin or reinvestment in product.

**<A - Michael W. Barnes>**: Yeah. You want to talk about?

**<A - Mark S. Light>**: About commodity costs?

**<Q - Oliver Chen>**: Yeah. And also...

**<A - Michael W. Barnes>**: And the supply chain initiative...

**<Q - Oliver Chen>**: On a longer-term basis.

**<A - Mark S. Light>**: That we're working...

**<A - Mark S. Light>**: Well, obviously the supply chain initiative will help margins in several ways. Number one, it will make us more vertically integrated so is the margin that we don't currently get that we would pick up. There are some aspects to it that are lower margin in the sense that there is a component of diamonds that you buy, but you end up not using within your own business and you have to sell off and that is a lower margin business. So there's a yin and a yang to both of that. And the main driver will be having the right diamonds available to drive retail sales. To make sure that we're never out of the types of diamonds that we need. So we believe that that is going to be the overall major benefit to the overall business model, okay. So there is a little bit of margin pickup, a little bit of negative on the margin relative to selling off the diamonds, but overall a big benefit is having the right diamonds available uniquely for our customers and the qualities and quantities that we need.

**<A - Michael W. Barnes>**: I think that's a very important component of this is that the supply chain initiatives that we're taking on especially in relation to what Ed is driving in terms of the manufacturing that we're doing and where we want to go with that. It's really about being able to have a consistent long-term supply of the quality of diamonds that we need for our customers long-term. I mean, we buy over a $1 billion worth of diamonds every year and everything that we can do to get closer to our partners, and it's not just about opening our own manufacturing, that's a big piece, but it's about getting closer to all of our partners in the supply chain when it comes to, especially, diamond purchases because that is the biggest part of our business. And when you look at best in bridal like we talked about earlier, we look at the supply chain initiatives that we're taking on with manufacturing to be a major supporter of our best in bridal initiatives and so that's really where we're going and we just think it's going to support our business and help us remain not only competitive, but be the leader when it comes to selling diamond product in the future. Next?

**<Q - Jennifer M. Davis>**: Hey, Jennifer Davis from Lazard. A follow-up to Oliver's questions, first regarding the rough diamond initiative, I guess if you're going to buy the factory, I assume you're going to grow that. So how large do you see that getting over time? And then secondly on outlets, I believe that margins are currently lower. I assume as you convert some to Kay they'll probably get up to the U.S. level. So I guess, what are your thoughts there? And then finally, Ron, this is a great side you have with the credit. I know that credit has been a big concern for a lot of people. So it looks like, as your credit – even though your net bad debt expense increases, your interest income is increasing more, so it's a net positive. Just wondering, as that receivable balance grows, is the operating expense, the people behind, the support, is that relatively stable? Thanks.

**<A - Michael W. Barnes>**: Thank you, Jen. I'll take the first thought that you threw out there. On the manufacturing side, just to kind of finish that off. We are starting small. The manufacturing operation that we are looking at is not a large organization, and we're going to do it the same way that we do everything else. We're going to test before we invest, and that's the way we do everything. But we have to start somewhere and we do believe that over time it can become a significant part of our diamond sourcing through this manufacturing operations. But you have to start somewhere, but we're going to take it slow. We're going to do it correctly. We're going to test everything that we do.

We've been pretty happy. We've been working for the last, Ed, how long?

**<A - Edward Hrabak>**: Two years.

**<A - Michael W. Barnes>**: Two years. With the contract partner that we're looking at acquiring and it's been a pretty good operation. So we're pretty excited about it and it's not going to be a major part of our buying for a while, but it will grow over time. And this is where we're starting and we'll go from there. In terms of credit, Ron, you want to.

**<A - Ronald W. Ristau>**: Yeah, I'm not sure I understood the question, but it is true that the bad debt increase has come as a result of the receivable increasing and anytime you extend the time and the regular credit terms are a little bit longer than the 12-month interest rate, there is a little bit more credit risk that goes in with that; offsetting it, there's more income that comes in through the other operating income line and they more than offset. So that's what's occurring.

When you asked a question about the operating cost, I won't really go into a lot of detail about that, but credit operating costs are primarily driven by the volume that you have to do. So it is a people intensive operation, so as the credit portfolio grows, it does bring along some additional costs to collect and to stay in contact with your customers because everything can't be automated. So it is somewhat dependent on the volume growth in the portfolio. I hope that answers your question.

**<Q - Dorothy S. Lakner>**: Thanks, Dorothy Lakner from Topeka. Just looking at the store productivity figures you've put up, I wondered if you had some goals as to where that can go in the U.S., specifically. I think Jared has been as high as $5.7 million per store in the past. So what about Kay, where do you think that can go? And then on the operating margin side, your goal remains 15%, but you look like you're getting pretty close to that 15% mark and if the U.S. can go to 17%, if the UK gets to 10%, doesn't that suggest maybe you could be a little bit higher than your current goal?

**<A - Ronald W. Ristau>**: All goals are made to be broken. I think we take it in steps, we think that that's the next logical step for us to move the business towards 15%. You can see we have a pretty good track record and I'm glad you agree with me that it looks very possible that we could certainly do those types of numbers, so that's good. So the first..

**<A - Michael W. Barnes>**: Productivity of the stores.

**<A - Ronald W. Ristau>**: The productivity of stores, let me give you an answer to that and that's how I answer it, I'd love to hear Mark's answer to it. But from a financial perspective, I'd say, well, the most productive Kay store is $9 million and then the most productive Jared store might be $15 million, so if I'm averaging $5 million, they've got a long way to go.

**<A - Michael W. Barnes>**: Mark, do you have any ceilings there?

**<A - Mark S. Light>**: I'm sorry.

**<A - Michael W. Barnes>**: Do you have any ceilings on your productivity.

**<A - Mark S. Light>**: No. If you would have talked to us six years ago then we think Kay will be averaging $2 million, I would say we were pushing for it, but we didn't put the number out there. What we do is we focus on enhancing our business and continuous improvement in everything we do and in turn we will focus on continuing to enhance our productivity by store. Like we have a lot of plans of new concepts for Kay that we think have the opportunity of taking the Kay average up higher. We have plans for Jared that can help us expand Jared, but may not take the price of the [indiscernible] (01:57:08) there may be other alternatives. We're just looking to drive the business and continuously improve on what we do, that's where we focus on.

**<A - Michael W. Barnes>**: My answer will be shorter than Mark's and that is we ain't done yet Dorothy. We have more room to go in terms of productivity and the whole team is excited about the opportunity that we have there. So we don't see any imminent feeling in terms of where we can go with either Kay or Jared at this point.

**<A - Mark S. Light>**: We have really no physical planned limitations necessarily, what I would say.

**<A - Michael W. Barnes>**: Next?

**<Q - Simon Bowler>**: Hi. It's Simon Bowler from Exane. I just wanted to touch on branded and differentiated merchandise, now approaching 30% of the business. And I don't know if you can perhaps give us some color on where

you think that you may go to? And perhaps also talk about penetration by key category, bridal et cetera and what trends you're seeing within that?

**<A - Michael W. Barnes>**: Do you want to talk about the branded and differentiated merchandise?

**<A - Mark S. Light>**: First of all we're going to push it as far as the consumer takes us. As Mike said, we always – we test before investing any brand that we have and each opportunity we have, we test it and we push it as far as the consumer takes us. Is there opportunity to bridals, is there our Neil Lane brand, Tolkowsky brand, Leo Diamond all doing very, very well. We're putting colored diamonds in our Artistry brand and in the bridal category. So we see a lot of upside opportunity and we're going to push it as far as the consumer will take us.

**<A - Michael W. Barnes>**: I mean we finished last year at, help me with the number...

**<A - Mark S. Light>**: 27.4%.

**<A - Michael W. Barnes>**: 27.4% in the U.S. of our business was in exclusive and differentiated merchandise. We still think it's going to go above that and we still think that there is a growth opportunity there. We think brands are a huge opportunity for the future because it really is a differentiating factor.

If you want to buy a Jane Seymour Open Hearts, there is only one place to go. You got to come to Kay or you got to come to Jared. If you want to buy Neil Lane bridal, you got come to us. If you want to buy a Tolkowsky ideal cut diamond, you got to come here.

So we think that this whole branding opportunity is bigger yet, and that we still have room to grow with that, and that it will set us apart from all of our competitors including chain stores as well as all the independents out there that just don't have the opportunity to be involved with strong brand names like we do.

**<Q - Lorraine Maikis Hutchinson>**: Thanks. Lorraine Hutchinson from BofA. I wanted to ask one to Seb actually. You talked about a lot of initiatives for the UK. As the macro begins to stabilize, what are the one or two things that you are most excited about to trying in the business?

**<A - Sebastian Hobbs>**: Thank you, I'd say the two or three things, if I'm allowed three, would be the work we're doing with [indiscernible] (02:00:10) and the U.S. operations team about our ability to really drive our productivity through stores and how we deliver the customer service experience in stores. The best in bridal initiative and how we take that forward and the digital ecosystem, where at about 4% of sale is currently in the UK of our e-commerce, digital ecosystem, as Mike said earlier, is broader than that, but really how we take that forward and how that can become a really major part of our platform.

**<Q - Lorraine Maikis Hutchinson>**: And then one for Ron maybe, what type of capital investments you plan to make in the polishing business and is that included in your CapEx forecast?

**<A - Ronald W. Ristau>**: The capital investments are really be not as great as one might think. The major investment will come in the form of inventory and where we'll be buying essentially a layer of inventory back buying more rough diamonds than we currently do. And we currently benchmark that for this year, I believe it's around $40 million of incremental raw material purchases that will be in our asset base, okay. The capital investment is not really significant in this initial purchase price of buying a factory which will disclose one or if we ever complete that transaction, but the ongoing capital support is really quite de minimis.

**<A - Michael W. Barnes>**: Yeah, I mean the great thing about this business is that it's not capital intensive. The investments that we need to make are not significant in terms of the results that we're going to get out of it and the benefit that we're going to get out of it.

So having this control of the supply chain and having a manufacturing operation which actually is a big deal in terms of the negotiations that we have with the rough diamonds suppliers and Ed would tell you that whether we're working with Rio Tinto, where we have a great partner or some of the other diamond suppliers, De Beers is out there, ALROSA et cetera.

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We're talking to everyone all the time and it's all about long-term consistent supply and the ability to serve our customers the way that we need to serve them for the future. So this is an exciting operation, but not capital intensive and I think the benefit that we drive from it is going to be so much more than what we have to put into.

**<Q - Simeon A. Siegel>**: Hi. Thanks guys. Simeon Siegel, Nomura. So two quick questions I guess. Sorry, if I missed it, but as you expand the outlet channel, can you just talk about what the economics and the productivity should look like relative to the full priced stores?

And then secondly, can you give us your color and the thought process around the overlapping nature of Kay and Jared and how you approach using success at one to grow into another. You spoke about the Leo Artisan. So maybe any results that you've seen and the lifts you got as you take one successful product and transfer?

**<A - Michael W. Barnes>**: Yeah, I mean from the outlet perspective, we're so excited about this because, and again, just to put in perspective, we made an acquisition last year that put us into a leadership position in the outlet model. And outlet stores are one of the big growth drivers in American retail right now. As far as we know, there is one full-priced mall under development. There is about 40 outlet malls under development right now and the ones that are already existing drive huge productivity. So how does it compare to our normal Kay productivity? It's somewhat similar in terms of sales and profitability, right Ron?

**<A - Ronald W. Ristau>**: Yeah, I would say that we do have Kay outlet stores that generically develop Kay that are actually more productive than our regional stores. And as you know from the outlet channels. Many retailers experienced outlet stores that have higher productivity levels than their more base stores. So we'll see how it all nets out. Right now, we're trying do is move it on average close to the more average as a group, but there is potential if we really get it right, even draw it higher within the outlet channel distribution.

**<Q - Simeon A. Siegel>**: Sure.

**<A - Michael W. Barnes>**: Sorry. What was the second question?

**<Q - Simeon A. Siegel>**: The idea of using successes at one brand into another and the results you've seen there and the lifts you've seen there?

**<A - Michael W. Barnes>**: Are you talking about Kay versus Jared?

**<Q - Simeon A. Siegel>**: Yeah, you mention Leo Artisan for example today.

**<A - Michael W. Barnes>**: Mark, Ed?

**<A - Edward Hrabak>**: With Jared and Kay, to keep the differentiation there, for example with, we have a tested program for Leo Artisan that's been in Jared for several years now, it's done well. So yes we're rolling it into our mall stores. At the same token to make sure that we maintain that differentiation, we're in the test of yet and even higher quality Leo for the Jared stores, so that we're going to continue to evolve that product, make that product better. So again, we're going to look to again successes in one division rolling to the other, but always trying to maintain some level of differentiation with quality, with price point, with assortment cycles out there.

**<A - Mark S. Light>**: It's been a very successful model for us. The Le Vian brand, which is one of our most successful brands, started in Jared 10 years ago. We've tested it in 25 stores and it grew in Jared and we saw that it had the capability of going our mall stores. And then as Ed said, with Le Vian the same thing, we differentiated at higher price points in Jared. But it's been a very good model for us and a nice testing ground in the Jared world for the mall.

**<Q - David W. Wu>**: Hi, this is David Wu at Telsey. I have two questions. Number one, as you look out longer term and you obviously will command a greater presence in the outlet channel, how are you thinking about managing the Kay brand and strengthening the equity there? And talk about perhaps sort of the merchandise overlap that you have between the outlet versus the mall-based locations and also the pricing differential if there is any? And then my second question is on international opportunity excluding the UK whether or not you've taken a longer-term look at Canada? Thanks.

**<A - Michael W. Barnes>**: Thank you, David. On the first question, we have really put a big focus on our outlet store business, as Ed and Mark would attest to. And just to be frank about this, prior to really making this acquisition and getting more and more focused on the outlet, our outlet stores were kind of a copy of our full-priced mall stores and we didn't have any differentiation there, but we are working on that.

We're working on made for product for the outlet stores so that we can give value to the consumers that they're looking for when they go outlet shopping. We're looking at differentiating the marketing for the outlet stores, and George can certainly talk about that. And in fact George, why don't you grab a mic and talk a little bit about what we're doing on the marketing aspect for our outlet stores, because I think this is important point going forward.

**<A - George W. Murray>**: Yes, okay. Thanks. Yeah, so in the outlet side we're looking at billboards and landlord based program or things that we hadn't done in the past that helped to drive to that location. We're also doing some international tourist activities where we're seeing a lot of activity, where Chinese tourists, the tourists coming to the U.S. and their top destination is shopping at outlets. So they look for the value in the outlet channel. So we're participating and working with some of the landlords and programs there in developing our own programs. So from a marketing standpoint, we think there is a lot of opportunity to leverage the national media that we do and bring it to the mall level at a much more local ground basis.

I think the other question in terms of the brands and how do we make sure that is additive? People do go to the outlet malls with a different mindset. There is this treasure hunting mindset and we want to participate in that, and we are looking at more product offerings that will fulfill those kinds of mindset offers. And it is, it's not seen as a negative from our research. It's actually an additive piece. So it should work well with our Kay core brand.

**<A - Michael W. Barnes>**: Yeah, I think that just to follow that up, the brand actually I believe gets enhanced even having these outlet stores, especially having these outlet store. I mean, you look at some of the biggest brands in the world, and some of their biggest success are in their outlets stores. So, nobody looks at that negatively. In fact, I think that as we do made-for product, and we have this treasure hunt mentality that George is talking about and we get people involved in that, they're going to get excited about it. And it just going to make the brand that much more special to people.

And it's a different customer, really is. George mentioned the international aspect. We believe that up to 25% of the business, George, its international tourism that comes in here. I mean, I have friends that come in from Europe and they bring empty suitcases to go to the outlet malls and fill them up and take them home. It's just such a special event for them. So I think there's a lot of opportunity for us to really bring in a new customer and an international customer.

And to your second question about where we're going to go internationally, we have openly stated that we're going to be open to opportunities in the international marketplaces. If the right opportunity comes along, we want to look at it and we want to study it and we want to think about where to go from there, but we're not going to chase it, we're not going just go after something because, gosh darn, we need to be here or we need to be there.

We wanted to be the right opportunity and we want to make sure that it meets our criteria on return on investment for our company. We owe that to our shareholders and we're going to take that very seriously, and we're not going to just chase opportunities just to be chasing them. If a great one comes along, we're open and looking at it. That's where we're at on the international front, basically.

**<A - Mark S. Light>**: And that's over killed the discussion on outlet, but just to let you know, we do have this as Mark said dedicated merchandising and a marketing team focused only on outlet. And in the short period of time that we really looked at it strategically, over half of the merchandise or already over 50% of the merchandise in the outlet division are different from the Kay stores, between the clearance to previously owned as well as the product we've already sourced. So in a short period of time, we've done quite a bit and we'll continue to look at that and be more aggressive there. The other thing it allows us to do with this outlet channel is, we can get even more aggressive with our testing in our Kay and Jared stores, because we now have a vehicle or channel to move some of that product through. So we see it as a very synergistic and a great add-on to our normal business.

**<Q - David W. Wu>**: Yeah. Great point.

**<Q - Matthew S. Lilling>**: Hi. Matt Lilling, ClearBridge Investments. Congratulations on multiyear success. You guys have obviously done a great job operating the business. My question is on capital allocation. And so, on the balance sheet you have a significantly underutilized asset in the $1.1 billion loan book, that's a 100% financed by equity. So I've never actually seen a loan book of that size financed completely by equity. And I'm just wondering what the strategy is there, or there's an opportunity to more correctly fund it maybe a conservative use of debt not to be over aggressive, but still to fund it appropriately and maximize returns on equity?

**<A - Michael W. Barnes>**: Thanks. A good question.

**<A - Ronald W. Ristau>**: I think that's a good question and obviously people ask us that question often. What I would say is, number one, we are fortunate to be able to fund this operation internally with the cash that we generate, because our receivable is a very fast-moving receivable, which is what facilitates us even having a shot at doing that. To your point on whether or not we would take on debt, we're not totally against that, but we've taken a look at and what we say is, we got to make that decision really once, because once you borrow the money and you've used it for some use, you want to make sure that you've got the best use of funds and you really are not doing something that you regret, okay? So I would say that we're studying a lot of options and we want to make sure that we only do that or engage in those borrowing activities, when we know exactly where we can apply the cash, and we think that that's the right thing to do for the long-term interest of the shareholders, but it certainly is something that is available to us for sure.

**<A - Michael W. Barnes>**: I mean, I think that, as Ron said, we are so fortunate that we can afford to do that, and to fund it the way that we have, and totally understand where you're coming from on that. And again to Ron's point, we are open to doing something else for the right opportunity. But hey, it's a great dry powder to have there. If the right opportunity comes along in the sense that we could securitize our receivables and not – just carry a mall on our own bag. But until we see a good reason to do that, we're going to kind of hold tight for now and continue the path that we're on.

**<Q - Andrew W. Hughes>**: I think it's – its Andy Hughes from UBS. Just in the same sort of topic as the last couple of questions looking at your target for store numbers. It might be a bit unfair to hit you with your low-end target. But if you take the low-end target, you've only got two years' worth of store openings. I mean how should we look at it in terms of whether you think you're maturing this business and specifically, a little bit of CapEx on a five-year basis, presumably it could tail-off quite sharply towards the end of that period if you hit your store target earlier rather than later?

**<A - Michael W. Barnes>**: Well, as far as store openings, I mean that's something that we've really kind of pushed the pedal down on lately. Mark, you want to – you want to address that and how we're doing with real estate store openings?

**<A - Mark S. Light>**: Yeah. Andy, if you've noticed, we just had – we're coming out of 75 to 85 this year, which is stronger than we originally expected. Next year, we will run on high voltage 75 to 85 next year and we're seeing good momentum in that area. We see a lot of opportunities off-mall. We see a lot of opportunities in the outlet arena. We see a lot of opportunities out there. So we're fairly confident that our new store opening program is pretty vibrant right now. And we're I am giving numbers beyond that, we're feeling stronger.

**<A - Ronald W. Ristau>**: I would say that that's presented as the potential what we think the market is against the current formats that we're working with, all right? As time goes on, it's not unlimited to your point. It does – it's not like there is 10,000, there is about 1,850. So stay with us and see as we go through the years that we come up with other formats, we come up with other brands, we come up with other ways in order to grow the real estate portfolio further. For now, we think certainly within the foreseeable future, let's call it three years to five years, we've got plenty of whitespace ahead of us relative to new store openings within the existing U.S. geographic footprint.

**<A - Michael W. Barnes>**: But we do understand that we need to be thinking very long-term, and that's why we developed this whole Vision 2020. That's not a one-year plan, three-year plan, five-year plan. That's seven years. And actually that's just kind of a place mark, because we're thinking about 2020 and beyond is really where we're at. We do think that we've got some whitespace on new store openings. We are testing some new concepts. So stay in touch with

us on that, because there may be some new exciting ideas that come out of that. And we're going to continue moving forward.

We know that we have to grow this business for the long term, and there's two ways we're going to grow it. Number one, we are going to grow our comp sales, because we're going to have exciting new products, innovative products. We're going to really drive that into our stores, our existing stores, which happen to be the best stores in the world anyway. We're going to drive it by marketing it. You guys saw some of the new ads that we have. I mean they're pretty exciting. And we think that we're going to have great fall season with the marketing that we have, with the merchandise that we have, which is just incredible, and with the store chains that we have.

So we're going to drive the comp sales, we're going to open new stores, and we're going to look for new ideas going forward. We're not just going to sit and rest on the laurels of what we've already driven. We're going to drive it forward from here. So that's very important.

**<Q - Matthew S. Lilling>**: Okay thanks. Just got one follow up, if I may, on Ultra. Ultra, you picked up some losses there in the first couple of quarters and a little bit more in Q3. When we look ahead to next year, can we just add those losses straight back on the basis of the Ultra, converts will be nicely [indiscernible] (02:18:45).

**<A - Ronald W. Ristau>**: Yeah, sure the losses on me [indiscernible] (02:18:47)?

**<Q - Matthew S. Lilling>**: Yeah, it does not.

**<A - Michael W. Barnes>**: $0.09.

**<A - Ronald W. Ristau>**: I think they're – that's a one-time loss. So when I build a plan, I'm going to add back $0.09 through the first half of the year. Yes, I think they are one-time in nature. And I think that's the way you should think about it.

**<Q - Matthew S. Lilling>**: Great. Thank you.

**<Q - Ike B. Boruchow>**: Ike Boruchow, Sterne, Agee. Want to focus on the advertising budget. It's clearly part of a competitive mode, double the industry average. My question is you made some mentions about holiday and upping the impressions and – how do you guys monitor, just to make sure you're not being unproductive with some of the advertising? How – do you – the flexibility you have around some of the advertising things you put out and how do you measure the returns and just making sure that the dollars you're spending are earning the right return?

**<A - Michael W. Barnes>**: That's a great question, and I'm going to turn it over to George to answer that, because he knows better than anyone that we are very focused on understanding that one of the biggest investments that we make has a good return for us. George, how do you do that?

**<A - George W. Murray>**: Yes, thank you. Actually my own background, I started in financial planning and analysis, doing econometric modeling, and I've always believed that advertising has to pay out. We run a very sophisticated set of models. We test the weights. We test the times of the year. We test the sales list. We're looking for the productivity out of the advertising. And as part of that, we are also looking at the mix. We've been moving some of our impressions over to digital delivery, but not overly aggressive, because we still need to make sure that they're highly productive.

So we go through correlation coefficients. We do a whole lot of work around the individual brands and the levels we spend on the brands. And as you can see, what we talked about, we're actually extending out the timing of the advertising by adding some weight in a continuity test this fall. So we test constantly the mix, the elements, the weights and the actual creative is tested as well, making sure it's persuasive, that it drives dissipation intent. And we look at the digital ecosystem to try to understand where are people starting their journey in the purchase. There is a strong sense of our sales moving later and later into the holiday season around the retail in general. And as we look at that, therefore we're advertising against those actual behaviors going ahead.

**<A - Michael W. Barnes>**: The thing I would add to that is when you talk about continuity advertising, what we're talking about is stretching out our advertising beyond the traditional time periods that we have advertised in the past

that is just totally related to holiday, whether it be Christmas, Valentine's or Mother's Day. And so now, really for the first time, we're moving some advertising into the third quarter, into October, which gives us the opportunity for continuity advertising, which means that there's one business that we have that is a year-long business, right, that's bridal, and it's about half our business in total. So that gives us the opportunity to get additional advertising out there.

If we have any challenges, George, it's that we have so many great brands to advertise. We've got the Kay and the Jared stores to advertise. And then we've got the Neil Lane, the Jane Seymours, the Tolkowskys, the Le Vians. We're – it's hard to find enough room to put them all out there quite frankly. And so extending our advertising a little bit, we think that gives us a good opportunity to look at the future and how we can maybe move more of our bridal advertising into different timeframes, giving us more time on the gift giving advertising.

One more? Okay, one more question.

**<Q>**: [ph] Michael Freedman (02:23:02) from Cumberland. Mike, that was my exact question. As you focus on bridal, obviously your advertising is in windows now, but people are getting engaged all the time. Will that necessitate an increase in your overall advertising budget? And then the second question is since you have a few independent directors in the room, can you just share your timing for the 10% UK operating margin target?

**<A - Michael W. Barnes>**: Sure, how about tomorrow? But seriously, first question, on the advertising, the idea of continuity advertising is how far can we stretch our advertising and what kind of a payback do we get. The question, I think, earlier was very good. And George understands this that we have to measure the return on investment that we get for every investment that we make. And advertising is a huge investment.

So I think that we can't stretch it out some. How far? I don't know. That's what these guys are working on. They're testing it. And as always, thank god, they test it before they make the big investments. This year, we're going to stretch into October a little bit. We'll see how that goes. We haven't gotten there yet. And hopefully, it will be very successful and it'll give us some ideas on where we can go further with that. So we're definitely going to keep our eye on that.

In terms of getting back to 10% operating income in the UK, Seb has been extremely focused on what we can do from many standpoints. Number one, focused on the expense structure in the UK and making sure that we have the right expense structure for the size of the business that we have. We have been focused on the correct rationalization of our real estate in the UK. And as Seb mentioned earlier, the real phase change there reflect what happened here 20 years, 30 years ago. A lot of the main street or high street, as they call it in the UK, locations in some of the more moderate cities have kind of started to go away. And you guys have seen this in main street USA, right, where there used to be thriving successful retail businesses and now there are thrift shops, pawn shops, government offices, whatever they are. It's kind of the same thing that's happening in the UK. And more and more the business has been driven into these high-trafficked, regional mall-type locations.

The good news is you guys have done a great job, Seb, of really focusing on building high class, larger stores, more modern stores, more technology, all of that, into the thriving locations that are driving the business today. So I – we haven't put an exact time on it, but I would say over the next coming years, two or three years, I would expect that we're going to get back to double-digit operating income.

Seb, do you have anything to add to that.

**<A - Sebastian Hobbs>**: Thanks for the target.

**<A - Michael W. Barnes>**: Somebody has got to take it.

**<A - Sebastian Hobbs>**: Yeah, sure. I think the really exciting things for us, the things that really give us a buzz of the things that we can really get by and just to build on what I said earlier, we have an incredible group of people that we're reorganizing and reintegrating into where we want to go and what this Vision 2020 is all about. And that will be a fundamental part of how we take this forward, and the additional collaboration that we're doing with the – with our U.S. colleagues in the U.S. division. We are learning a huge amount from the activities that have started over the last few months, and that is a great opportunity for us. The combination of these things, with fair winds, we'll deliver the targets that Mike and Ron have spoken about.

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**<A - Michael W. Barnes>**: Thank you, Seb.

**<A - Ronald W. Ristau>**: Just one other thing I'd just like to add to this and that is when you look at the UK, it is a complex problem. And as we have moved towards integration, one of the -the couple of things that – there's new products that are going to be required. One of the most important things is the retraining and reenergizing, if you will, of the UK sales force along the lines of the techniques that we use within the U.S. And that's a very, very important point and that's what Mark and Tryna and Seb have been very actively collaborating on over the last several months.

Training of the sales force to the level that we have in the U.S. is not a short-term activity, it could take 18, 24 months. It's a long-term structural change that we are going to be making in the UK. So not that we don't want to put out these projects, we don't want to be long, okay? Some of these things we just can't predict. Believe me, I really think that the important partnership is really going to make a huge difference in our ability to turn that business around, because with everything else that we've been doing, we've just been fantastic, but all partnerships take some time to develop.

## Michael W. Barnes

Yeah. Thank you, Ron. The thing that I want to leave you with here and then we'll adjourn and have some lunch, I'm sure everybody is getting a little bit hungry by now, is that the steps that we're making as a company and have been making over the last few years and where we're going to the future, they're important. They are so important to our future and they are not – as I mentioned earlier, they're not incremental. They're bold, and that's what we need to be is bold.

We're going to go out there and we have some great ideas that we're going to work on and Mark is excited about them, Ed is excited about them, I'm excited about them, I can tell you that, it's – there're just so many opportunities for us out there. We have the ability to make that happen. We've got the talent in place. We've got the financial balance sheet to go out there and do the testing that we need to do and then invest when we find those successes. So it's exciting where we are going for the future.

So we appreciate your time and we appreciate you coming here today. Thank you so much. And please join us for lunch and enjoy it. And again, thanks.

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