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EDITED TRANSCRIPT

SIG - Signet Group at Telsey Advisory Group Spring Conference

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PRESENTATION

David Wu - *Telsey Advisory Group - Analyst*

Good morning, everyone. I am David Wu and I cover the luxury goods and cosmetic sectors here at TAG. Very pleased to introduce Signet Jewelers, which as many of you know is the world's largest specialty jewelry retailer, with operations in the US as well as the UK. Here with us to talk more about the Company's growth opportunities, CEO, Mike Barnes, CFO, Ron Ristau. Thanks for being with us today.

Mike Barnes - *Signet Group - CEO*

Thank you, David. I appreciate that introduction, and welcome, everybody. Thank you all for coming this morning. We really appreciate it. There should be some copies of the presentation deck in the room somewhere. But in addition, it is available online at our website, which is SignetJewelers.com, if you need to retrieve that.

During today's presentation, I will just kind of point to the slide in front of us. We will discuss Signet's business outlook and make certain forward-looking statements. Any statements that are not historical facts are subject to a number of risk and uncertainties and actual results may differ materially. So please read the risk factors, the cautionary language and other disclosures in our Form 10-K filed with the SEC on March 28.

Now we will get to the good stuff. I will turn to the excellent results that we saw in fiscal 2013. We saw same-store sales increase by 3.3%. The US, which represents about 82% of our total sales for the year, delivered a 4% comp store sales performance, and that was on top of an outstanding performance of 11.1% the previous year. In the UK, we did comp slightly positive at 0.3% for the year as well.

We delivered record profit for the year. Our operating income climbed by 10.5%. And diluted earnings per share came in at $4.35, which was up 16.6% for the year.

There are some other highlights too, aside from just the income statement. With our stock repurchase program, we bought back in about 7.4% of our outstanding shares during fiscal 2013. We also increased our dividend in the first quarter of fiscal 2013 by 20%. And I am really pleased to say that a couple of weeks ago when we met with the Board, we increased the dividend again, this year in fiscal 2014, by another 25%, or $0.03 per share per quarter.

During the year, we had a very strong operational performance as well. We increased our square footage globally by 8.2%. Much of this was through the acquisition of Ultra Stores, which gave us a leadership position in the outlet channel of distribution. But also organically, as we opened up about 46 new Kay and seven new Jared stores for a total of 53 new stores during the year. So we had a very strong year in real estate last year.

Now let's take a quick look at our cash position. We began fiscal 2013 with $486.8 million in cash. During the course of the year, net cash provided by operating activities was a source of $312.7 million. Our first priority in using cash, as always, is to invest it back into our business, and to that end, our capital spending totaled $134.2 million for the year, driven by new stores, remodel efforts and information technology investments to support our growing business.

We also invested in the long-term growth of Signet by purchasing Ultra for $456.7 million, using our available cash to quickly close that deal.

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We have taken a strong, shareholder-friendly view towards the use of cash. In fiscal 2013, we returned value to shareholders in the form of both stock buybacks, which I discussed, as well as dividends paid, which together totaled $325.6 million. We ended the year with cash of $301 million, or about 7.6% of sales, and that is consistent with our objective of targeting cash in the level of 7% to 9% of annual sales at year-end.

We announced last month on our earnings call that we are pleased with our quarter-to-date results as we have moved into fiscal 2014. To that point, we guided for the first quarter of fiscal 2014 to achieve same-store sales growth of 5% to 7%. We are also forecasting that Q1 fiscal 2014 diluted earnings per share will range between $1.07 per share to $1.12 per share.

Our capital spending for fiscal 2014 is anticipated to be $180 million to $195 million, which includes opening 65 to 75 new Kay and Jared stores, continued remodels, the Ultra integration and investment in information technology as we continue to focus on growth and productivity.

Of these new stores, we anticipate about 10 to 12 Jared and the rest will be Kay. At a high level, our financial objectives for the business in fiscal 2014 are as follows - to increase sales and gain profitable market share, to manage our gross margin by increasing sales productivity and balancing commodity cost increases with our price adjustments, and developing unique multichannel advertising programs and supporting new initiatives while appropriately continuing to manage our SG&A ratio. We believe we are well-positioned for another very strong year of accomplishment this year.

Now turning to the US performance, this belief really is based by the strong precedent set by our US business. Let's take a look at the annual performance. In general for the year, we saw broad-based strength across many merchandise categories in both Kay and Jared, as well as the Ultra acquisition which occurred at the beginning of the fourth quarter.

US total sales were approximately $3.3 billion, which was up $239.8 million over the prior year, or an increase of 7.9%. Kay comp store sales grew by 6.4%, and that was over an 11.8% growth in the prior year, fiscal 2012. Jared comps were up 1.6% for the year, following an increase of 12.1% in the prior year.

Fiscal 2013 Jared comps were adversely affected by about 3.5% due to the one-time Rolex clearance event that we held in fiscal 2012 that is nonrecurring due to the discontinuation of that particular watch line. The event's impact created a decline in average merchandise transaction value as well for fiscal 2013, but importantly, the number of transactions of Jared increased by 5.7% for the year.

Overall, US same-store sales increased by 4% for fiscal 2013 compared to 11.1% in the prior year. And finally, the record Signet operating profit was driven by the US, which delivered nearly 15% growth and a 16.7% operating margin for the year.

Now let's take a look at some of the great initiatives that drove that performance, and start with our merchandise offerings. The merchandise sales growth, it was very broad-based for us during the year, with strong growth across many of the categories, including bridal, fashion jewelry. And that also includes colored diamonds and then watches as well.

In fiscal 2013, our branded, differentiated and exclusive merchandise continued to gain relative share within our product portfolio. The category grew by 9.7% and ended the year accounting for 27.4% of our merchandise sales mix in the US, which was up 110 basis points. This growth was led by brands such as LeVian, Neil Lane Bridal, Neil Lane Design, Jane Seymour Open-Hearts collections, as well as Tolkowsky Ideal-Cut Diamonds, Shades of Wonder. All these great brands were significant drivers for us. And also included in there were the colored diamonds that I mentioned previously, the Artistry colored diamond collection in Kay and the Vivid colored diamond collection in Jared.

Our watch business, excluding the impact of the Rolex discontinuation in fiscal 2012, was also very strong for us, as it was up double digits in many of the brands that we carry.

Our leadership in marketing and advertising continues to be a very important driver for our US sales. Everyone knows that Every Kiss Begins with Kay and He Went to Jared. For the holiday season, we invested in eight new creative TV ads, and they were very, very well received by the general public out there.

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In fiscal 2013, our advertising investment was $224 million. This was driven by Kay and Jared, of course, which had the scale and the level of profitability to invest significantly back into our businesses. Our branded, differentiated and exclusive merchandise continues to provide us with compelling stories that we can use to effectively communicate throughout this messaging for the Kay and the Jared. This drives very strong purchase intent.

We are also investing aggressively in growing and developing our digital ecosystem. Two of these major initiatives include our in-store technology, as well as building on our e-commerce and social media capability in order to build our multichannel offering. Kay and Jared stores went through their first holiday season in fiscal 2013 in which they were armed with computer- assisted selling devices. These touch screen devices were seen by both our sales associates and our customers as highly successful selling tools, and they are something that we will continue with for the future. We believe that the technology train has left the station and we don't want to just be on it, but we want to lead it.

In social media, we remain pleased with our customers' response to the content that we are delivering. Our fan base and followers continue to climb at great rates, and social media outlets are driving more traffic to our stores and our e-commerce sites. We will continue to provide customers who visit our digital environments with an outstanding shopping experience.

For Kay and Jared, we operated newly relaunched websites during the back half of the year, as well as new mobile enhanced applications. And for the year, our e-commerce sales in the US grew 48% to $101.4 million; fantastic growth.

Another very important part of our multichannel offering has been our expansion in the outlet channel with the acquisition of Ultra Stores last year. With this goal -- we acquired Ultra with the goal in mind to be the number one jeweler in outlet malls, and that has put us into a leadership position today and we are very pleased with that acquisition.

Our strategy is to leverage the Kay Brand with Ultra's outlet expertise. We will convert the majority of these stores to Kay by mid-year, and this will give us the ability to leverage our advertising, increase productivity and drive sales through the great merchandise offerings that we have to add into the mix as well.

The integration is continuing to progress on track and our teams are doing a great job with it. We remain very excited about this business and we look forward to the future and expect significant growth in this area.

Now let's turn to the UK for a moment. Fiscal 2013 total sales were $709.5 million, which was down $5.6 million or 0.8%. But the same-store sales increased by 0.3%. Our e-commerce sales were $28.4 million; that was up $4.6 million or a strong double-digit 19.3%.

The UK experienced sales growth primarily in the fashion and the bridal jewelry, as well as fashion and prestige watches. Sales were unfavorable in nonbranded jewelry and beads. The economic environment remained challenging and customer traffic was particularly lower in the fourth quarter. In addition, customers continued to gravitate towards the promotional merchandise, which reduced the effectiveness of price increases and impacted gross margins. Store closures and foreign-currency fluctuations were also unfavorable to the sales line.

Our operating income was $40 million, which was down $16.1 million from the prior year. Operating margin decreased by 220 basis points to 5.6% compared to 7.8% in the prior year. This was primarily due to lower gross margins.

Our review of the UK business in the fourth quarter and during last year reaffirmed our commitment to our three-part long-term strategy focused on merchandise, real estate and channel optimization and cost controls. In our review of the fourth-quarter results, we realized that there are opportunities to further strengthen our merchandise offerings by testing and implementing new and improved bead programs, re-focusing our merchandise efforts on continued innovation overall, with a focus on our opening price points, and building off the strength and prestige in fashion watches to enhance the future business model.

We are going to stay focused on the merchandise assortment; that is going to be the most important part of driving a successful business in the UK market. We do believe that we have the right programs in place to also achieve our targeted real estate and cost saving initiatives. Therefore, we will maintain our commitment in these areas as well.

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This market remains challenging, and while we continue to have an achievement of 10% operating margin as our goal, it may take a little longer to achieve than we originally thought.

Our goal continues to be to enhance Signet's market-leading position. We intend to achieve that through initiatives around our people, by continuing to attract the best talent, train and develop them, and help them build towards a long-term career path with our Company, continuing to develop our core store brands of Kay and Jared in the US, H.Samuel and Ernest Jones in the UK.

Merchandise brands and the overall strength of our entire merchandise offering is going to be very important for our future. We will continue to build upon and evolve our infrastructure to support continued long-term growth and our strong financial position.

So that concludes my prepared remarks. We can probably take a few questions here, and then we will continue on to the breakout room after that. And Ron is available to help me with any questions that you may have, so please feel free.

QUESTIONS AND ANSWERS

Unidentified Audience Member

So your first-quarter comp guidance, that obviously implies that you are seeing an acceleration in current sales trends. Can you talk about what you are seeing in the market, how ticket versus transactions are performing, and which product categories are faring well?

Mike Barnes - *Signet Group - CEO*

Sure. Do you want to talk about transactions versus average ticket (multiple speakers)?

Ron Ristau - *Signet Group - CFO*

Without being too specific about it, we indicated in the fourth quarter that our transaction counts were strong. Those are patterns that we have continued to see as we go into the first quarter. I really couldn't go into it further than that. We provided our guidance for the first quarter and you have to make your own judgments about how that is working.

Mike Barnes - *Signet Group - CEO*

I think you could also extrapolate the successes that we saw during the holiday selling season and what we saw during last year. We talked a lot about our exclusive and differentiated brands. We continue to drive those very strongly. We are on the right track as far as the merchandise offerings that we are driving. And we have just got a fantastic sales team out in the field that is very experienced and does a great job for us. So we are going to continue to drive all of the core strengths that we have been driving during the past year.

Unidentified Audience Member

Can you go into some detail about the Ultra acquisition and maybe talk a little bit about what the opportunities are to improve their sales rates or margins or anything else? Obviously, you are rebranding at Kay, but what does that imply for the financial implications over a period of time, and maybe growth from 100-store base that currently exists?

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Mike Barnes - *Signet Group - CEO*

Let me give you a little bit of background on that. When Ron and I came to the Company, him a little over three years ago and me about 2.5 years ago, one of the things we identified is that there is big opportunity in the outlet malls. And we were not really driving towards a leadership position at that time. We had some outlet stores, but, quite frankly, we were running in a third place in a three-horse race to some extent in outlet mall channel of distribution.

So we identified this as a great growth area, and we started organically really pushing it. And over the last couple of years, we have opened quite a few of the Kay stores that we opened were in the outlet malls. And I believe at the time of the acquisition, we had grown to 34 or 36 stores organically, Ron?

Ron Ristau - *Signet Group - CFO*

About 34, yes.

Mike Barnes - *Signet Group - CEO*

34 stores organically. And then by the end of the fiscal 2013, Ultra was 110 stores. So immediately, we are in the 144 range in number of stores in the outlet mall. Immediately, it thrust us into a leadership position. And what we want to do is we really want to optimize that business.

Now, what we have seen out there is that Ultra brought great real estate locations to us with 110 stores, and they had many years of outlet expertise, and they had some specific marketing programs and initiatives that are developed for the outlet mall, as opposed to just taking a regular-price mall store, putting it in an outlet mall and operating it the same way. So we are still in the learning stages of how to optimize that business, and we think there is a lot more that we can do with it.

Having said that, what Kay brings to the table in the 34 organic stores is productivity similar to that that we do see in the full-price malls. So the productivity per store was much higher than where Ultra was at, even though Ultra had great real estate.

So we believe by putting our very successful merchandise offerings into Ultra -- when we put things like Jane Seymour Open Hearts, Neil Lane Bridal and Neil Lane Fashion, Tolkowsky, LeVian, et cetera, we believe that we are going to see -- between the equity of the Kay brand name, the marketing that drives it, the great merchandise offerings, the great field team that we have got out there, the highly trained, successful field group, that we are going to see the productivity come up in all these stores that we took over.

So I think there is a big opportunity for us there. And we want to continue driving a leadership position in that channel of distribution, just like we are in the full-price mall channel of distribution. And we have been increasing our off-mall presence as well with both Kay as well as Jared.

Ron Ristau - *Signet Group - CFO*

Just one other point, adding to what Mike said also. Once we convert to Kay and put in our POS systems, which will be complete by midyear, they will pick up our credit offering, which is also very important to driving productivity within the stores.

Mike Barnes - *Signet Group - CEO*

Good point. Any other questions?

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Unidentified Audience Member

In terms of your in-house credit program, obviously, huge sales enabler for you guys. Can you talk about any updates or changes to the program that you have planned?

Ron Ristau - *Signet Group - CFO*

Sure, happy to talk about the program. Number one, there are no changes to the program. It has been a very long-term successful program for us. We do approximately 57% of our business last year using our own proprietary in-house credit. Our program has been and always will be designed to facilitate the sale of jewelry.

We are not like a bank, where we are trying to build outstanding credit balances and earn interest. What basically happens is we lend people money to facilitate the sale of jewelry. And our credit penetration, particularly in bridal, as you can imagine, is even higher than 57%, because young people oftentimes need credit. They are getting married. These days, they are paying for their own wedding, they are paying for their own honeymoon, they are moving out from their parents' house for the first time. So it is a financial stress point. So we are there to help people with the credit offering that we have.

But basically, we designed it so that people rapidly repay us. And on average, we get repaid in less than a year, and our average outstanding balance is about $1100. So it is basically a very rapidly-moving, short-term lending facility that we give people. And it works very effectively. It really helps to supplant all the efforts of our people in-store.

And we are very pleased with the program. And the performance has been very strong over a number of years. It did get a little bad during the good old days of 2008 and 2009, but it rapidly recovered, because it is a very short-term program. So it rapidly recovered over the next couple of years, and this year was another great year for us.

Unidentified Audience Member

I have two questions. The first one is it doesn't appear to be the case, but have you noticed any issues in your sales related to the tax rate change earlier this year and the slow returns of some tax returns?

And the second thing is I think your advertising is very exciting, very interesting. Can you flesh out a little bit what your outlook is for your total advertising budget and maybe where you might be shifting some of those dollars to?

Mike Barnes - *Signet Group - CEO*

Sure. For the first question, we saw a lot of the noise early in the year, like everybody did, coming into January and then early February. How much of it is related to the fact that tax returns were later or that the payroll tax increase went into effect and maybe people had some sticker shock, I don't know. There was a little noise there and I think the whole world of retail saw it in January and early February.

But as we said, we had a great Valentine's Day. We were very pleased -- two weeks ago when we did our earnings announcement, we stated openly we were very pleased with our quarter-to-date results and we felt really good and that we were positioned well to meet our objectives for the year.

So that is what we saw out there and we still believed at the time that we put that guidance out that that is exactly what our objective was, was to make our quarter, make the year and have another great year. And so that is what we hope to do.

As far as the advertising, we had a lot of great new creative this past year. We had eight brand-new ads out there, and we are continuing to drive. The tag lines I mentioned earlier, Every Kiss Begins with Kay and He Went to Jared, these are like woven into the fabric of America. You see them

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mentioned on TV programs that have nothing to do with advertising. So it is pretty exciting how the American public has really reacted and embraced our brands of Kay and Jared.

And we are starting to evolve them a little bit. For instance, I will give you an example in Jared. Some of the new creative is more about the store and more about what the Jared environment has to offer the customer and the great customer experience that they can find there. And it talks a lot about the broad merchandise offerings and the great service, et cetera.

And at the end of it, because we have built so much equity in the tag line He Went to Jared, we started to build off of that, and the commercial ends by saying, and that is why he went to Jared. So we are able to start evolving that message a little bit and building on it. We will always have that tag line I am sure, but we believe that there are ways like that for us to continue to build upon that.

And we think the advertising that we are driving is a huge competitive strength for our Company, because we can do it on a national basis. We go to the upfront advertising meetings in May and June, we buy at very attractive rates for the season. We locked down great time slots on great programs, and we are very pleased with that.

As far as our investment in advertising, we have continued to target in that 6% to 6.5% of sales range to be our target advertising spend and investment. And that is pretty much in line with where we intend to stay for the future. Right, Ron?

Ron Ristau - *Signet Group - CFO*

Yes, that provides us with -- given the growth in the business -- it gives us a very robust advertising budget. And the advertising budget is primarily, of course, supporting TV, as Mike indicated. But it continues to morph and change as social media and the Internet and the mix is shifting a little bit. But still for the foreseeable future, it is primarily driven by TV.

David Wu - *Telsey Advisory Group - Analyst*

So during the past recession we have seen pretty rapid industry consolidation, seeing store closures in the specialty jewelry space, 800 to 1200 a year. And now obviously, during the recovery phase, we have seen that rate of consolidation start to normalize a bit. And I was wondering if we can get your thoughts on the outlook of the specialty jewelry industry in the US? Thank you.

Mike Barnes - *Signet Group - CEO*

Sure, David. You are right. During the recession, they were closing at a pace of thousands per year. And the latest numbers I have seen have that much better. But still, the last number I saw -- and I don't remember the exact time period -- it was about 800 on an annual basis closing.

I think the industry will continue to consolidate. I believe that there is an evolution in the specialty retail jewelry channel that is going on that we are leading, that is going to continue for the long term. This business is very fragmented and it has been forever. I believe a lot of that has to do with the fact that it has been primarily a nonbranded business for years and years and years.

And as I like to tell people, this is not your grandmother's jewelry store anymore. We are moving into the future, we are evolving, we are embracing technology, we are embracing branding. We are embracing taking everything forward in a very innovative way. And we believe that is going to help us continue to consolidate the industry.

Because in the old environment of a nonbranded jewelry store, the independents can go and buy diamonds of whatever size and quality; we can do the same. They can buy gold, they can buy silver. So they were kind of on an even footing to some to degree, and they worked off of relationships that they built in their respective communities.

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In today's world, if you want a Jane Seymour Open Hearts necklace for your mother for Mother's Day, there is only one place to go get it. If you want Neil Lane, who is known as jeweler to the stars, either fashion design jewelry or bridal jewelry, there is only one place to get that, and that is at Signet. So we believe that these branding initiatives, and especially the exclusive and the differentiated merchandise, is going to help this business continue to consolidate.

No one has the scale to market on a national basis, other than maybe one competitor, and the scale is not near the scale that we have at Signet. So we have the ability to drive branded merchandise and drive our well-known store brands on a national basis, and I think that is going to help this industry continue to consolidate. But it is going to take some time because it is very fragmented and there are a lot of independents out there.

Unidentified Audience Member

Can you talk a little bit about your e-commerce offerings? And I guess first, are you noticing any difference in the customer profile that is going to your websites versus visiting the stores? How much of a differentiator do you see that going forward? You talked about the multichannel opportunity.

And just wondering -- more of an accounting question -- but how do you actually account for, for example, somebody designed something on a website and picks it up in the store. Is that an e-commerce sale or not? Just talk a little bit about how you can see this developing over time.

Mike Barnes - *Signet Group - CEO*

I will give you a few broad-based answers to that question and let Ron chime in here. We are very excited with what is going on with our technology initiatives. And we look at the Internet and everything associated with it, and we refer to it actually as a digital ecosystem. We are developing a robust digital ecosystem to take us into the future.

And part of that is our e-commerce initiatives, with our new websites that have better navigation, they are more user-friendly. The mobile enhanced sites that we have designed and developed. A lot of these younger generations, we spend a lot of time and money studying the Gen Y, Millenial generations. And they've completely skipped the computer; they don't even want to look at a computer. Everything is in their hand. They use their mobile phones.

And it is kind of interesting, because mobile phones, which went from the bricks when they came out, when I remember them in the early '80s, got smaller and smaller and smaller. Now they are getting bigger again. My wife has a Samsung phone that I don't know how she holds it in her hand and puts it up to her ear. But it is like having a combination of a phone and a tablet all in one. And a lot of the younger generation don't even want to use the computers; they just stick to their phones.

So all of these technologies are important. We got behind social media, which is a big support for us for all of our business, both our brick-and-mortar and our online business. And we launched Facebook and Twitter in the US for the first time last year. It is hard to believe it has only been about 14 months since we launched it. And we grew to an enormous number of followers on Facebook, for example, in a very short period of time. In fact, they wanted to do a case study on us, because they couldn't believe how quickly we amassed the number of followers that we did.

But we believe all these things working together have really enhanced our e-commerce capabilities. And as I mentioned in my remarks, in the US, we were up 48% in one year, and we have just really been pushing this hard for the last couple of years. When Ron and I came onboard, that was another area, along with the outlet stores, that we weren't really focused on. And we said, let's get focused on this because this is huge. There is a big opportunity here for us to take a major leadership position in this very important part of the business.

And that is what the team did. They did a fantastic job. They brought in new talent. We invested more money into it. We support all these initiatives very strongly. A lot of that capital budget that we talked about goes towards IT initiatives that support our online or social capabilities, et cetera, as well as the back-office infrastructure for our future growth. But we think that there is a huge opportunity for us to grow at a very nice pace for many years to come in that area because it is still a relatively small piece of the business, very small piece of the business. So there is big opportunity there. Ron, do you want to talk about how we account for the sales?

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Ron Ristau - *Signet Group - CFO*

Sure. We have designed our whole system to be seamless, so that a customer can interact with us however he or she chooses to do so. So if you are at home and you order something and you want it shipped to the store to be picked up -- and many people do that -- they still want to look at the jewelry on their body and so on, so they will check it in-store and then buy it -- that will be recorded as an Internet sale.

Likewise, if you are in the store, we have Internet technology available to people, and if there is something that the store doesn't have that you wish to order, you can order it through our tablet systems, which connect to our Internet sites and that will be recorded as an Internet sale. So it is designed to be relatively seamless -- and very important. Because the old days, people would wonder, well, is the store in competition with the Internet. Is the Internet going to win? It is all designed so everybody works together. And the Internet does nothing and all these social media things make our whole store operation stronger. Because the people in-store know that we have close to -- I think the numbers last year -- like 150 million pages viewed, where people are shopping through their mobile devices and computers and so on. They walk into the store and they will show it to the store associate and say, I would like to buy this or I would like to buy that. I mean, the trend is such -- it is just a powerful trend. So we tried to design it so nothing stands in the way. They don't compete with each other and the store people support the Internet and the Internet supports the store.

Unidentified Audience Member

(inaudible - microphone inaccessible)

Ron Ristau - *Signet Group - CFO*

I'm sorry. It is a similar customer, but we do lower price -- in the sales we do specifically on the Internet, they tend to be a little lower-priced. They are not our higher-priced (inaudible). So our bridal business, for instance, is not that big on the Internet. It is our smaller, more giftable items I would say.

Mike Barnes - *Signet Group - CEO*

A lot of gift-giving brands, like Jane Seymour, and fashion brands, self-purchased brands, more so than the bridal or the engagement piece of the business.

Unidentified Audience Member

Can you talk about your pricing strategy and if it differs across the two concepts? Or is sale price negotiable? Do you look to get a premium price for exclusive products? Are you looking to drive volume with the lower price offering? Kind of what your general view on price/value, your desire and ability to take price. Or is that not something you look to do? Thanks.

Mike Barnes - *Signet Group - CEO*

Thank you for the question. We have, the Kay and the Jared have two pricing concepts. Kay is based upon a typical specialty retail jeweler model, whereby we have on a regular basis promotions going on within the store in terms of percentages off on various product lines throughout the year and during the holidays, et cetera.

From an overall broad perspective, it is important to note that we set our pricing to basically obtain our goal of maintaining -- at least maintaining our gross merchandise margins. So we do take pricing on a regular basis as we see the cost inputs increase on a fairly regular basis.

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There has been a lot of talk about cost inputs decreasing and what are you going to do if they continue to decrease. First off, our inventory runs on an average basis. So it takes, with our turns, pretty much a full year for any price increases or decreases to go through the system. And the important piece of that is if you look at this over a very long time period, there is an overall average increase in input cost, especially the cost of the products like diamonds and gold, that we expect will continue. And we have not yet seen a decrease that has been sustainable enough to really drive the average costing down in any large way or material way. So we believe costs will continue to slowly go up over time in diamonds and gold, and therefore, we will continue to take pricing to meet our initiatives of at least maintaining our gross merchandise margin.

Jared, I talked about Kay is kind of a normalized jewelry environment where there is regular promotions ongoing. Jared is an all time low price environment that has continual low pricing.

Within both of these environments, our sales associates and managers in the stores have an ability to negotiate up to a certain extent to make them competitive with all of the other jewelry stores that are out there in the marketplace. And the team does a really good job of managing that process, maintaining their margins on an aggregate basis throughout that process, and it works very well for us. So that is in general how we view the pricing on a go-forward basis and where we are at right now. Did that answer all your questions pretty much?

We have the about five more minutes, if there are any more questions. Yes, David?

David Wu - *Telsey Advisory Group - Analyst*

On the watch category, obviously your Fossil watch brand is doing really well, high-single-digit, double-digit growth. Can you talk about the longer-term opportunity for watch (inaudible) testing at Jared, whether it is the Gucci brand or Tag Heuer. Maybe talk about the longer-term opportunities (inaudible).

Mike Barnes - *Signet Group - CEO*

Watches are an important category and they are actually a very strong category right now. Even in the UK, where business is very tough, watches is a big part of what was successful for us over there, and it will continue to be. In the UK, it is about a third of our business, so it is pretty material as well.

The US, it is a smaller category. It is about 7% of our business, but it is very strong. And we are looking for ways to continue to develop it for the future. You mentioned Gucci, we are testing Gucci in Jared, David, and we will see how that works out for us and how many doors we end up rolling that into. We have also had Michele for a while now in Jared and it continues to do better and better for us.

Watches I believe help to create a destination place. Because they are all branded merchandise, and they are really all third party brands. And most of the brands that we carry are global in nature and very well-known. So it does drive people into these stores with purchase intent, and it makes the stores a destination for them.

The TAG shop-in-shops that we have done in Jared have done very well for us and have helped us drive that business very strongly forward. But a lot of our brands are really doing well and continue to grow in the double-digit area. So watches will be important to us in the future. We have some more ideas that as they develop and as we move forward, we will talk about at an appropriate time. So it is something that we are focused on.

If there is no more questions, then we are going to head across the hall to our breakout room over here. You are welcome to join us there, and we will be glad to talk to you about the business. Thank you.

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