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EDITED TRANSCRIPT

SIG - Signet Group Holiday Sales Conference Call

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OVERVIEW:

SIG announced nine-week holiday sales of $1.2376b. Management narrowed 4Q13 EPS guidance to $2.05-2.10, and announced FY13 EPS guidance of $4.28-4.33.

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PRESENTATION

Operator

Good day and welcome to the Signet holiday season sales results call. At this time, I would like to turn the conference over to James Grant. Please go ahead, sir.

James Grant - *Signet Jewelers Ltd. - VP, IR*

Good morning and welcome to our holiday season sales call. On our call today are Mike Barnes, CEO and Ron Ristau, CFO. The presentation deck we will be referencing is available from the webcast section of our website, signetjewelers.com.

During today's presentation, we will in places discuss Signet's business outlook and make certain forward-looking statements. Any statements that are not historical facts are subject to a number of risks and uncertainties and actual results may differ materially. We urge you to read the risk factors and other disclosures in the Annual Report on Form 10-K that was filed with the SEC on March 22, 2012. We also draw your attention to slide number 2 in today's presentation. I will now turn the call over to Mike.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Thanks, James and happy New Year to all of you. We are pleased with our holiday performance led by our US division with same-store sales up 4.7%. We saw particularly strong performance in the weeks and even the days leading up to Christmas. Business trends continue to be encouraging in the US and have improved in the UK after the holiday season.

In the US, the outstanding customer experience, exciting product offerings and the terrific marketing drove increased demand and enabled us to increase sales and capture high margins. We believe our strong performance was due largely to the exceptional execution of our teams and I would like to take the time now to thank all of them very much for their dedication and hard work.

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Looking at the US in a little bit more detail, the 4.7% US same-store sales gain was against US increases in the last two holiday seasons of 9.2% and 11.7%. That is an outstanding three-year comp. This year's result was led by another strong performance in Kay, up 5.8% against a 9.8% increase last holiday season. Jared's same-store sales were up 4.8% and by the way, they strengthened the closer we got to Christmas. This was against an increase of 10% in the comparable period, a great performance and very encouraging increase from the first three quarters of fiscal 2013. Our regional brands declined by 4% against a 3.1% increase last holiday season.

For the 48 weeks, same-store sales rose 3.9% driven by an increase of 6.4% at Kay. While Ultra is not in the same-store sales numbers, we are pleased with the pace and effectiveness of the Ultra stores' integration and the results continue to be in line with our expectations.

Our highly motivated and well-trained team did a great job and once again delivered an outstanding customer experience. We experienced broad-based strength across our merchandise offerings led by our initiatives in bridal, branded and exclusive merchandise, colored diamonds, fashion jewelry and watches. We benefited from continued investment in advertising, which helped us stand out in the marketplace. Our multichannel selling approach increased our exposure and allowed customers to shop and engage with us where and when they wanted. The redesigned Kay and Jared websites performed very well and Internet sales were up 49% for the holiday season. Our in-house customer finance program again was instrumental in helping to drive profitable sales growth. Overall, we believe the excellent execution of our teams helped us continue to grow profitable marketshare.

Now I am turning to the UK. The same-store sales decreased 2.6% in the holiday season compared to an increase of 1.8% in the comparable period last year. The business strengthened late in the holiday season; however, it was insufficient to offset earlier traffic declines. We believe UK consumers seem to direct their spending in favor of other retail categories, including the technology category. Internet sales increased by 8% and the underperformance of stores in the smaller centers continued.

For the year to date, same-store sales were up a positive 0.3% against an increase last year of 0.8%. The UK performance this holiday season saw a divergence across store brands in a variety of merchandise categories. A favorable watch and branded jewelry performance was offset by the performance in categories such as bridal, gold and fashion diamond merchandise. Even with the challenging holiday season, we believe our team did a great job in defending our market-leading position and that we are well placed for the future. I will now hand it over to Ron to run through our guidance.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Thank you, Mike. I will provide some further detail on our nine-week sales performance. Total sales were $1,237.6 million, an increase of 7.1%. Please note that $37 million of non-comparable Ultra sales are included in this total. This compares to a total sales increase last year of 7.5%.

In the US, as Mike mentioned, comparable store sales increased 4.7% reflecting primarily the strong performance of Kay and Jared, up 5.8% and 4.8% respectively. Kay was driven by increased transactions and an increase in average transaction price and Jared was driven by an increase in the number of transactions. Non-same-store sales, which include new non-comp stores and Ultra sales, were up 5.2% resulting in an increase of total US sales of 9.9%.

In the UK, comparable store sales declined 2.6% primarily as a result of transaction declines in both concepts and lower average prices in Ernest Jones due to mix changes. Non-same-store sales reflecting closed stores were down 5.5%. Total sales at constant rates were down 8.1% as a result and offsetting these results, the exchange rate was favorable 3.1% leading to a total sales decline of 5%.

E-commerce sales across both groups increased 39% during this timeframe.

Turning now to our expectations for the rest of this fiscal year, we have narrowed our quarterly earnings guidance within the range originally set. Based upon our excellent sales and margin performance, we currently expect fourth-quarter earnings per share of $2.05 to $2.10, a growth rate over prior year of 15% to 17%. Earnings per share for the 53 weeks are projected at $4.28 to $4.33, an increase of 15% to 16%. And we now expect fiscal year 2013 capital spending to range from $138 million to $142 million, reflecting the current estimates of project timing as compared to our previous estimate of $155 million to $160 million.

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Reflecting the Board's confidence in the strength of the business and its commitment to building long-term shareholder value, the Board approved a $0.12 quarterly dividend, which we announced today. We also continue to maintain $50 million worth of authorization to repurchase our stock. Over the life of the program through the third quarter, we have bought back 7.7% of our outstanding shares and now I will turn the call back over to Mike.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Thanks, Ron. In conclusion, I would like to once again thank the Signet team worldwide for their contributions to what has been a very successful year-to-date. We would now be pleased to take any questions that you have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jessica Schoen, Barclays.

Jessica Schoen - *Barclays Capital - Analyst*

Good morning. I was wondering, on the gross margin, you said you were pleased with margins during the period and I was wondering if you could give a little bit of color on what drove that. And also you mentioned that activity picked up closer to Christmas. I was wondering if there was any change in promotional activity during the holiday period.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

There was really no change in promotional activity. We pretty well followed our plans that we had out there and we did not see any need to make any changes. We were pretty well aware of how the calendar was moving on us with the extra couple of selling days before Christmas, as well as Christmas falling on a Tuesday with the last weekend being so close as opposed to last year when it fell on a Sunday. And I think that helped us drive a strong performance.

The bottom line here is we didn't drive these strong same-store sales by overpromoting. We were able to maintain our margins and have strong margin performance, as well as sales performance. I don't know, Ron, if you want to add to the margin comment?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Yes, no, I would just say that again, as Mike pointed out, and the reason to make the point is that with our great comp performance, particularly in the US, we did have good margin performance and that will be able to more than offset any weakness that we might have in the UK.

Jessica Schoen - *Barclays Capital - Analyst*

Okay, great. And then on the recent Ultra acquisition, I think you had mentioned before that you were not planning to make any changes during the holiday season and the focus was going to be on execution. Could you give us a little bit more color on the performance you saw there and what your expectations kind of are going forward as these transitions are implemented through the middle of next year?

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Mike Barnes - *Signet Jewelers Ltd. - CEO*

We laid out what our expectations were and basically, as I mentioned in my remarks, we are tracking to our expectations right now and we are very pleased with the transition that is going on with that. You are absolutely correct. During the holiday season, we wanted them to have heads down and just go out there and drive the business as they have been driving it and have a great holiday season.

So they are tracking to our expectations. We are in a six to nine-month transition period where most of the stores are being turned into Kay so that we can leverage the power of the brand and the power of the advertising that we do with the Kay concept. So I don't think we will see a lot of difference and hopefully, we will continue to track to our expectations as we go through the successful transition of those stores. And then by the time we get to the fourth quarter, we expect that it will become an accretive piece of our business.

Jessica Schoen - *Barclays Capital - Analyst*

Okay, great. And then just one last quick one on the revision in CapEx. If it is due to a change in timing of the projects, can we expect that to occur in the next year rather than those projects -- rather than it be canceled?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

That would be correct. It is more of a timing shift. The projects will move forward into fiscal 2014 and of course, at the end of 2014, we will get some shift to those projects back again. But that is what will happen; yes, you are right.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Year-to-year, in every business I have worked, you always see these kind of shifts in the capital spending and usually you have one thing shift from one year to another and then it happens the next year and it just seems to be the way it works out.

Jessica Schoen - *Barclays Capital - Analyst*

Okay, great. Understood. Thanks so much for taking my question.

Operator

Rick Patel, Bank of America.

Rick Patel - *Bank of America-Merrill Lynch - Analyst*

Thank you. Good morning, everyone and happy New Year. You talked about the UK comps improving after the holiday. Could you just give us some more color there? Did comps turn positive after the holiday and did you do anything different from either a merchandising or a marketing perspective to perhaps drive that change?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Well, comps turned positive; that is true and we did not do anything different. Of course, we do go into our normal post-holiday promotional stance in the UK after Christmas and that is going on right now, but we did see the business pick up and we would expect that by the time we get to the end of the fourth quarter that comps will have improved from what they are being reported at this interim holiday timeframe.

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Rick Patel - *Bank of America-Merrill Lynch - Analyst*

And then can you talk about your key strategies for Valentine's Day this year? Perhaps anything you are doing differently than last year from either a marketing or merchandising point of view and do your learnings from holiday change your outlook or strategy at all for Valentine's Day?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Well, I believe that the execution of our Valentine's programs this year will be fairly consistent with the way that we planned them. We, of course, ran our merchandise sales and have done everything we can to prepare the best selling merchandise to do even more business for us. So there is always some things moving around in there regarding what we are putting out there for merchandise, what we are promoting. But in terms of the cadence of how we are going to deliver Valentine's Day, I believe it will be in line with what we have seen in the past.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

And remember that Valentine's Day is more of a US phenomenon than UK, so strong performance in Kay and Jared bodes well for Valentine's Day.

Rick Patel - *Bank of America-Merrill Lynch - Analyst*

Okay, great. And just one last one if I may. Just a question on the health of your customers. Can you talk about the impact you think that higher payroll taxes will have on your business? I am just curious if you are planning for a modest hit to your sales earlier this year as people deal with having a little bit less discretionary income.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

The answer is no we are not planning for any impact to our business. Our customers are not affected by the main part of the tax increase. In the main, they will be affected, of course, as you point out, by the payroll tax increases. We believe that people will adjust as they always do and people will continue to want to celebrate occasions in their life and we are not making any changes to our planning processes to account for any of the macroeconomic situations going on right now.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

We believe that if the overall economy stays fairly strong in the US that, as Ron put it, the customers will adjust and we expect to get our share of the business on a go-forward basis. We will see how it all plays out, but we believe that we are still well-positioned. We believe the category is still strong and we are the market leader within the category. So with that in mind, we obviously have not put out any data on next year, but we believe we will be able to deliver. If the macro environment stays as strong or gets stronger that we will be able to deliver another good year.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

And I would point out that our credit programs stand ready to support customers who want to buy jewelry and we believe that that remains a competitive strength and especially in a situation like this, that is a tremendous competitive strength. So we are there to work with our customers and help them to facilitate sales as they need.

Rick Patel - *Bank of America-Merrill Lynch - Analyst*

Great, thank you very much.

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Operator

David Wu, Telsey Advisory Group.

David Wu - *Telsey Advisory Group - Analyst*

Thanks. Hi, good morning, everyone. First, you mentioned that the watch category continued to fare well and just wanted to get a bit more color on which brands and price segments resonated the most with customers and perhaps if you could update us on your distribution strategy for some of the brands, whether it is TAG Heuer, Michele or Gucci at Jared and how many additional doors did you really expand into for these brands during the past few months and what you see as sort of the door opportunity over the next year.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Well, in the US, I mean I am not going to go brand by brand and talk about what was strong. Let me try to give you a couple of characterizations to help you out a little bit. Minus the Rolex impact, which we no longer carry in the Jared stores, in the US, we had an extremely strong watch business and most of our top six or seven brands comped either strong double-digit or very high single digits. So they were certainly, even though it is a small part of the overall sales mix, that was a strong category for us in the US.

In the UK, we also had a strong watch business, particularly in HS where a lot of the fashion brands really drove the business. We did have fewer Rolex stores in the UK than we had in the previous holiday period and that affected that brand's sales in that market, but we had some other -- aside from that, we had strong positive comps in many of the other luxury brands in the EJ. Single-digit comps, but still nice positive comps. So the watches in general were a very strong category again for us.

David Wu - *Telsey Advisory Group - Analyst*

Excellent. And can you perhaps share with us about sort of new sort of door expansion opportunities with some of the watch brands?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Well, we have recently expanded in the last six to nine months. I know that Michele went from 26 to 40 doors and continues to look like it is performing in line with our expectations. And I am not really sure where we are going with further rollouts at this point in time, but we will talk about those as appropriate.

David Wu - *Telsey Advisory Group - Analyst*

Excellent. And given that diamond prices obviously began to meaningfully decline in May and June of last year, can you perhaps talk about sort of the timing of when commodity costs should start to become a tailwind to the gross margin?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Well, I think that, as we said, our margins in the fourth quarter were -- we are very pleased with. As we move forward into the fiscal 2014, we always point out that a lot of these trends -- we are not sure how sustainable they are and we still believe that the long-term trend in diamond prices is up and we do foresee that diamond prices will start to recover once again in fiscal 2014. So we will see. We are going to -- we will adjust only when commodity prices have a long-term sustained movement one way or another. A couple months really doesn't mean that much to us. With the prices coming down in the short term, it will be a little helpful to our margins go forward, but we will see how much it nets out as we make our total line decisions.

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David Wu - *Telsey Advisory Group - Analyst*

Great. And just lastly, can you talk about the credit sales performance and approval rates, how they are tracking during the holiday season?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

The credit approval rates were consistent with previous years. The penetration went up because our bridal business, particularly in the United States, was terrific and of course, our bridal penetration on credit is higher than our overall lines. So the percentage penetration will be up in the range of probably 50 to 70 basis points. But it was because of the driver being bridal. Bridal was really strong in the US, which is great to see.

David Wu - *Telsey Advisory Group - Analyst*

Great, thank you very much.

Operator

Jennifer Davis, Lazard Capital Markets.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Hi, good morning. Let me add my congratulations. It sounds like the weakness in the UK was maybe due to other categories like electronics being maybe more giftable items this holiday season compared to jewelry. Is that fair to say and does anything change regarding your longer-term outlook for the UK and your 10% operating margin goal there?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Well, I think there was a lot of competition out there for the few dollars that some of the UK consumers had to spend at holiday time and there was a lot of new things. Technology is one of them. It is not the only thing that was up against. Apparel was also strong. There are some reports out -- shoes were strong as well. Those were two other strong categories in the UK market and I think that the electronics did have an effect though. We did some Cyber Monday research or we got some Cyber Monday research that showed that basically 13 out of the top 20 searches were for technology-based products. So we do feel like that had some effect on our business, especially at EJ based on the price points that people purchased there and less effect on HS overall.

The business, as we have mentioned, did improve right at Christmas and especially after the Christmas time period. I think that shows us that the consumers, as our guy has been telling us for a long time, in this environment are continuing to bargain hunt in the UK. A lot of people waited until after Christmas and we have seen improvement.

So we would expect that the comp sales that we see, if this trend continues as we expect it to through January, that the comp sales that we see for the quarter would be better than the holiday sales. Albeit it is a smaller selling period in January, so we will just have to see how much effect that has.

But that is kind of where we sit with the UK right now. We are continuing to focus on our product offerings in that market, on our branding in that market. The watch business was pretty strong in that market, which is, of course, a branded business. In terms of -- we wouldn't give any guidance on where we see it going beyond what we have already said at this point in time until the time is appropriate for us to do so.

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Jennifer Davis - *Lazard Capital Markets - Analyst*

Okay, great. I was wondering if you could talk a little bit about the Kay comp. I think you said it was driven by both transactions and price. Was it about evenly split and was the price increase due to kind of a mix to higher ticket items? Like I assume if bridal did well, then maybe that is some higher ticket items and I was just wondering --.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Yes, so it is driven more by mix and it is stuff like 60/40 towards price driven by mix, particularly with the bridal mix increasing. And very importantly, and a story I want to make sure you get is that Jared, which is where we had been experiencing some declines, particularly in the third quarter, we were down 4.1%, really turned around and came in with that 4.8% comp and was driven by a 10% transaction increase. So Jared was really very strong. The new advertising we turned on there, the new products that we introduced in Jared really were terrific for us and that is a story we don't want anybody to miss.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Yes, I would just point out again that 4.8% comp during the holiday time period was not up against an easy compare; it was up against 10% from last year.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Right.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

So that was really a very good result for us.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Yes, yes. Definitely saw the people in the stores at Jared. Best of luck for Valentine's Day. Thanks.

Operator

Jeff Stein, Northcoast Research.

Jeff Stein - *Northcoast Research - Analyst*

Good morning, guys. Mike, wondering if the performance of the regionals might prompt you guys to perhaps accelerate the downsizing of that business. Maybe you can give us some of your thoughts there and if not, if that is not the case, how do you improve the performance of that business given that you really don't support it with television advertising?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Yes, the regionals obviously had a negative comp. We have pretty much laid out there that we think that they will go over time based mostly on lease expiration from probably approximately 200 regional stores to approximately 100 so that they would still be cut in half from where they currently stand today. And we still believe that to be the case based on where we sit.

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As far as would we accelerate, I mean the regional stores are not a big -- they are not a drag on profits. They are a drag on comps and our teams continue to operate them very effectively, but they are up against situations out there such as the fact that, at holiday selling period, they have got to compete against their sister company, Kay, who has got the best and the most advertising in the industry.

So that is a tough thing to go up against and also some of the other advantages that we added into holiday this year. We started off with the touchscreens, for instance, the technology that we added rolled into Kay and Jared first. We have some regional stores that will be receiving that technology next and then we will see how far we go from there, but they definitely have been at somewhat of a disadvantage. That is a fact, but our teams continue to operate them extremely well and overall, they are doing well for us. So that is -- our plans really haven't changed on how we are going to deal with that over time. And keep in mind that on an overall store base, it is a relatively small number of doors.

Jeff Stein - *Northcoast Research - Analyst*

Okay. Can you talk a little bit about the performance of the charm category, which seemed to have suffered earlier in the year? Wondering how that performed and where do you think that category is in the product lifecycle.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Well, speaking to -- if we speak to Pandora, which usually comes up in Jared, we saw a very strong performance there. What we saw, and I have got -- was that there was an increase sequentially that was -- the business was better than all three of the first three quarters of the year during the holiday selling period. So we did see kind of a turnaround and a much stronger performance in Pandora in Jared.

In Kay, Charmed Memories was weaker and I believe a lot of that has to do with the fact that now that it has completely comped itself and there is a lot of other alternatives within the store, including a lot of the new brands that we have been launching such as Shades of Wonder and Artistry Blue Diamonds, Neil Lane fashion and Jane -- the addition of the Family Collection to Jane, all the brands that we talked about during our investor relations day, they all did very well for us.

And so there is a lot more competition out there for the business and I think with Charmed Memories just comping now and having to lap all that, it's a little bit more complicated. But Pandora again had a very strong comeback based upon the results of the first three quarters of the year.

Jeff Stein - *Northcoast Research - Analyst*

And why do you think that is? Was there anything new or different about the offering in Q4 relative to the first nine months?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Yes, we had a lot of new beads in the assortment, a lot of innovative looks in there. We were able to work with the Pandora team to help us develop products that are more specific to the American market. With them being a European-based company, things like some of the sport categories over here, they weren't hitting anything there. Whereas it is kind of important in this marketplace when you are talking about football, baseball, whatever it might be. So they helped us develop and deliver a lot of new exciting styles. I believe it was in the 60 plus range in terms of the new beads that we added to the collection this year and they were -- I think they were welcomed by the consumers and our customers in the stores.

Jeff Stein - *Northcoast Research - Analyst*

Got it. Thank you very much.

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Operator

Simeon Siegel, JPMorgan.

Simeon Siegel - *JPMorgan Chase - Analyst*

Thanks, good morning. I think you mentioned Jared transactions were up 10, so was the delta the ASP and maybe how was the promotional level compared to last year there? I think you had previously guided -- sorry.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Let me take your questions one at a time, all right? Jared had a terrific increase in transactions, okay? And the ASPs were down not because of promotion, but because of mix. As Mike indicated just a few seconds ago, the Pandora business was very strong. It tends to be a little lower ASP and some of our newer items that we rolled out there -- our Lois Hill line, our Shades of Wonder line -- those tend to be a little bit lower price points. So we just got a little bit lower mix and of course, Jared was impacted by Rolex in the fourth quarter because it did have about $5 million worth of Rolex sales last year, which didn't occur. So it was just a change in mix, not a change in the promotional environment.

Simeon Siegel - *JPMorgan Chase - Analyst*

Okay, got it. Yes, because I think previously you had guided merch margins up for the quarter and kind of given the comments around margins you have made today and (inaudible) EPS guidance, I assume it is still safe to assume that holds true.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

I don't think I gave any guidance for the fourth quarter, but I would tell you that we are pleased with our margin performance, particularly in the US for the holiday season.

Simeon Siegel - *JPMorgan Chase - Analyst*

Okay, great. And then just quickly, any updates on the net bad debt ratio? I don't know if I missed it earlier in the call, just quarter-to-date.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

No, no updates. We think it is going to be in line with our expectations. Our credit portfolio continues to perform very, very strongly. Credit was a very important part of the holiday season, again, as I mentioned, because of the bridal sales and so our credit portfolio is doing very well. We didn't give a specific number, but it is no change from what has been happening over the first couple of quarters of the year.

Simeon Siegel - *JPMorgan Chase - Analyst*

All right, great. Thanks a lot, guys.

Operator

Bill Armstrong, CL King & Associates.

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Ron Ristau - *Signet Jewelers Ltd. - CFO*

Hello?

Bill Armstrong - *CL King & Associates - Analyst*

Sorry, can you hear me?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Hi, Bill. Yes, we can hear you.

Bill Armstrong - *CL King & Associates - Analyst*

Sorry. I had the mute on. Anyway, most of mine have been answered, but I had a question on the regionals. As you close those locations, does that perhaps give an opening to other competitors like Zale, Helzberg, etc. to move into those spaces and bring advertising support to those spaces and perhaps turn those spaces into effective competitors for Kay?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

I mean it is hard to say, Bill, because who knows what new company is going to come into a closed space. But I'll tell you another thing that we have done and we will continue to look at doing, which is also fair enough been an impact on the regionals versus Kay, and that is, in malls where we have a regional and a Kay and we feel like we only need to have one brand in that mall, that many times what we will do is the regionals from a historical standpoint may actually have a better location and so we will at times close a worse-located Kay store within that mall and then turn the regional into the Kay store for that mall.

And clearly we believe that in places where we feel like the mall doesn't need any more jewelry stores, we will continue to close the underperforming regionals, but we don't just close the regionals, we look to see if there is an opportunity to uplift the Kay by moving into the regional space and closing the Kay store. And there are always going to be some malls, as we said -- we expect about 100 where it is practical to have both a Kay and a regional store and those will be the places that we are protecting against other competitors coming in. We believe that that is the appropriate thing to do.

Bill Armstrong - *CL King & Associates - Analyst*

Makes sense. Okay, thanks.

Operator

Anthony Lebiedzinski, Sidoti & Company.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Good morning and happy New Year. Just a couple of quick questions here if I may. First, on the UK, I think you guys mentioned that you saw underperformance at a lot of your smaller stores. So I was wondering if there was an opportunity to perhaps accelerate the closings of those stores.

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Mike Barnes - *Signet Jewelers Ltd. - CEO*

Well, we have continued to look at the closings of those stores and we have quite a few. I don't know if you have a number, Ron.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Off the top of my head right now, I don't know.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

We don't have the number right here off the top of our head, but we have quite a few that we have targeted that would be closing in the future. We have spent a lot of time on the rationalization of the UK stores and we will continue to look at that very, very closely, but it is something that is at the forefront of our mind.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Okay.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

We have accelerated. I'm sorry I don't have the number. (multiple speakers).

Mike Barnes - *Signet Jewelers Ltd. - CEO*

We have accelerated the numbers over the last year in terms of how many we would be closing over the next two, three years.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Okay, well thanks. And in regards to the in-house credit, I just wanted to check in. Has the mix of finance programs that are selected by your consumers -- has that been consistent in the holiday season as what you saw through the first three quarters of the year?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Yes, the credit portfolio and its mix and so on was very consistent with what we have seen over the first three quarters of the year. There has been no substantial changes.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Got it, okay. And the proprietary product sales overall for the US, can you give us some color? I know the quarter is not yet over, but as far as the penetration levels of the proprietary products, I was wondering if you could give us some comment about that.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

We prefer to do that at the end of the fourth quarter and that is where we have typically given those numbers, but our performance this year was more broad-based, as Mike has indicated repeatedly.

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Mike Barnes - *Signet Jewelers Ltd. - CEO*

But the proprietary and exclusive brands did very well. I mean the ones that we talked about a lot, Neil Lane Bridal did extremely well. Tolkowsky did very well. We were pleased with the performance of Jane Seymour and I just talked to our merchandising guys recently and the Family Collection that we added to Jane Seymour that we talked about in previous calls did very well and helped drive that business also.

Some of the new brands that we launched for the first time in holiday did very well for especially being in their infancy and we believe there is a lot of things that we can tweak to make them even better. But to call out a few -- the Artistry Blue Diamonds, the Shades of Wonder that we have talked about, the Neil Lane fashion -- they all did very well for us. So we are very pleased with the proprietary brands that we have got and the performance they had during the holiday season. And as Ron indicated, we will update the mix numbers at the end of the year, which is consistent with how we have reported in the past.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Okay, thank you very much.

Operator

Simon Bowler, Exane.

Simon Bowler - *Exane Paribas - Analyst*

Hi, good morning, all. A couple of questions from myself, if that is okay. First of all, I was just wondering if you can update us on where you are in terms of the new store pipeline for fiscal '14, how many you have committed to so far and what kind of level of opportunity you are seeing out there.

And then secondly just when it comes to the cash position and you've kind of highlighted in the reports, you saw a bit of flex built into the current buyback allowance, but thereafter what are your thoughts for the year ahead assuming a similar level of cash generation in the absence of any material acquisitions? Should we expect to continue to see a similar level of cash returns?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Yes, I think our expectations for new store openings in the pipeline have not changed and if my memory serves me because I don't have that sheet right in front of me, it was somewhere in the 60 to 70 range that we talked about at our investor day. So that hasn't changed, so again a stronger opening of new stores next year than this year just as this year was much stronger than last year. So we believe there is still some opportunity there for us for sure. I am sorry; what was the other question you had about?

Simon Bowler - *Exane Paribas - Analyst*

The other question just on cash with you kind of coming up towards the end of your current buyback allowance and what your thoughts would be on cash generated over the next 12 months, how that could be used?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Well, we are going to follow the same game plan that we have had for the last two years that Ron and I have put together. And that is, number one, we are going to invest it back in the business, opening these stores, looking for other opportunities. Just like we had the opportunity for the

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Ultra acquisition to come upon us and we were fortunate that we could go out and pay $57 million in cash for that opportunity. We had the powder to do it.

So we are going to invest back into our business, number one and we will continue having ongoing conversations with our Board on other ways to return value to shareholders just as we have done. We have the dividend in place now, which we actually raised earlier in this fiscal year, at the beginning of the fiscal year, I believe, by 20% and then we completed $300 million of a $350 million total authorization that we have had from the Board earlier this year as well. We will continue looking at what opportunities there are over and beyond investing back in our business and we are still committed to remaining generally in line with keeping cash on hand of 7% to 9% of our sales on an ongoing basis. And as Ron indicated earlier, we feel like that is probably -- that we are tracking that as we speak.

Simon Bowler - *Exane Paribas - Analyst*

Okay, that's great. Very clear. Thank you.

Operator

Oliver Chen, Citigroup.

Oliver Chen - *Citigroup - Analyst*

Hi, guys. Congratulations on a great holiday. Our first question is related to your guidance range and raising towards the upper end. In terms of modeling, how should we think about the key factors that drove your optimism in terms of reaching the high end? Should we also be thinking about fixed cost leverage and gross margin [on that side] or what are you thinking there and your rationale?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Well, as I have been indicating on the call, I think number one is sales were good. Number two is that the margins particularly in the US were strong and will probably more than offset any particular difficulty we have in the UK. And although we haven't really talked about SG&A, our cost controls remain, as always, very strong. So we will get a little bit from each thing.

Oliver Chen - *Citigroup - Analyst*

Okay, thanks. And over a medium to longer-term basis, what are your thoughts on your key comp drivers and how we should think strategically about where we will see potential upside as we model the Company out on a long-term basis regarding AUR versus transaction?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Well, from an overall perspective, at our investor day, what we did was lay out an overall goal for operating income of around 15% for the Company and we continue to march towards that goal. This year will be no different. We will see some progress towards that goal. That is a long-term structural goal that we have for the Company. Our leverage points remain as they always are. We look for a constant improvement in our model. We look for some improvement in our margins and our SG&A, our leveraging ability. We usually leverage our expenses while continuing to invest in growth drivers, but it is also very flexible to what we spend on advertising. And as you can see from the results this quarter, which will reflect increased advertising, the results were pretty good.

So there is no -- it is not like just a structure we are going to leverage and we don't promise anybody that because it is dependent upon how we intend to move the advertising numbers around. But we often will get more than paid for that. So that might be a little bit (multiple speakers) you

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were looking for. It's like we continue to consistently improve our operating margins year in and year out. We will continue to do that as we look forward into 2014.

Oliver Chen - *Citigroup - Analyst*

Okay, thanks. And I mean dissecting that in relation to the comp drivers, does that imply that you have the most enthusiasm for the transaction, the number of transactions versus average unit retail? It sounds like your -- the catalysts aren't (multiple speakers).

Ron Ristau - *Signet Jewelers Ltd. - CFO*

We are always up for both. We don't have any predisposition towards one over the other. I would say that we are looking for both price increases and transactional increases as we go forward.

Oliver Chen - *Citigroup - Analyst*

So is there anything we should be thinking of in terms of mix changes?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Overall mix changes? No, I don't think so. I don't think there is any substantial product mix changes. I wouldn't say that there would be anything that, at the level you are looking at the Company, would change radically.

Oliver Chen - *Citigroup - Analyst*

Okay, thanks. Regarding Ultra, how should we think about the modeling at large? It sounds like there is an opportunity to improve profitability there. I mean will that be something we should monitor in terms of how we should model your overall Company gross margins?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Well, here is what I would do. When you are thinking about Ultra, I would follow what we had previously given as our expectation. When we look at Ultra this quarter and for the next two, maybe three quarters, we are in what is called the transitional phase. We will be taking Ultra in. We are keeping an eye on operating the company in line with our expectations over this timeframe, but we are not expecting substantial changes in product mix or operations. That will come after around midyear when we convert the stores to Kay outlet. Once we have converted them to Kay outlet and made substantial changes to the product mix within the Ultra stores, as well as with our selling techniques and our advertising support, as well as credit support to those chains, we would expect by the fourth quarter the business to start to accelerate. And that is when we said the business would start to generate some additional accretion in terms of EPS and start moving. So think of fiscal 2014, which is our next fiscal year, as a transitional year with the fourth quarter starting to realize improvement in the Ultra operation.

Oliver Chen - *Citigroup - Analyst*

Okay, thank you, thank you very much. And our last question is in relation to the competitive landscape. It does sound like other national scale competitors have done a better improving job in their execution of bridal and colored diamonds. Have you had changes in terms of your features or your promotions in regards to you maintaining your competitive edge?

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Mike Barnes - *Signet Jewelers Ltd. - CEO*

I will tell you, Oliver, this is Mike. One thing I have learned in business is you better keep moving forward or else you're going to fall behind at some point. And as over the years, we have developed some great merchandise programs on some of the categories that you just mentioned, in fact, we know that we have to keep evolving and we have to keep innovating. We can't slow down. Coming from a fashion business background, I know that very well; it can move very fast. So we are continuously working on our merchandise offerings. We are always looking at how we can expand the success of the brands that we have just as we have expanded Neil from being a bridal collection to now a bridal collection and a fashion collection. We have expanded the offerings within the Jane Seymour collection. We have more things in the pipeline that I wouldn't want to discuss at this time for competitive reasons. But we are not going to slow down. We are going to defend our marketshare fiercely and we are going to continue to try and grow it profitably over time as always.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

And as evidenced by our comp, even though your judgment as to whether people are getting better or worse, but our comps have been terrific in all of our core businesses. Our bridal business was very, very strong. Our colored diamond businesses were very strong. So we don't feel we have given anything to anybody. We believe we continue to take share.

Oliver Chen - *Citigroup - Analyst*

Thanks a lot. A final, final thing, if I could ask, regarding, Mike, your comments, are you guys rolling out any of these brands in particular to the other banners that we should be aware of when we think about our modeling? Like are there some opportunities where you can put some of these prop brands in UK and which ones and/or Jared?

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Yes, I mean we have -- some of the brands are carried frankly in Jared and in Kay in the US such as Artistry Blue Diamonds, Shades of Wonder and we are also moving into the UK with some of the successful brands. We have Tolkowsky there already. Generally speaking, we are obviously not as far along in the UK because when we find something that is very successful and we know it is successful here, then we begin testing generally in the UK and then we roll it out.

So we are definitely moving -- if you look over a long time period, say over the last three years, there is more crossover than there has been in the past between the UK and the US businesses. So we are looking for ways to expand our success in every way that we can while still protecting the brands and the image of the brands depending on where they live and where they sit. Some brands are just not appropriate to be in both Kay and Jared and some are.

Oliver Chen - *Citigroup - Analyst*

Thank you. Congratulations on all the execution.

Operator

(Operator Instructions). Jennifer Davis, Lazard Capital Markets.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Hey, just a quick follow-up. I was just wondering if you could talk about the performance of the high street locations versus some of the newer stores in the regional malls in the UK. Thanks.

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Mike Barnes - *Signet Jewelers Ltd. - CEO*

I mentioned this briefly in my comments, but the smaller town, high streets, which is kind of an oxymoron I guess, but they do have high streets even in the small towns, they have continued to underperform and that is where you're going to see a lot of our store closings, our accelerated store closings especially in the UK market. There is no doubt that the business continues as it has been moving away from some of these smaller high streets and into big regional malls that can also service a lot of the smaller towns around the mall. So that continues. We are continuing to see strong performance in our larger mall concept stores and I believe that we will continue to see that move in that direction just as it did many years ago in the US.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Great, thanks and best of luck.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

You're welcome. Thank you.

Operator

As there are no further questions in the queue, that will conclude today's question-and-answer session. I would now like to turn the call back to Mr. Mike Barnes, CEO.

Mike Barnes - *Signet Jewelers Ltd. - CEO*

Thank you, operator. I appreciate that and thank you all for taking part in this call. Our next scheduled call is going to be on March 28 and we will review our full-year and fourth-quarter results. I would also like to remind you that we will present at the ICR Exchange conference on January 16, which will be webcast live and archived on signetjewelers.com. Thanks again, goodbye and have a great week.

Operator

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

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