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EDITED TRANSCRIPT

SIG - Signet Jewelers at ICR XChange Conference

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PRESENTATION

David Wu - *Telsey Advisory Group - Analyst*

Good morning, everyone, my name is David Wu and I cover the luxury goods and PD sectors at Telsey Advisory Group. Very pleased to introduce Signet Jewelers this morning, which is the largest specialty jewelry retailer in the US and the UK and is well poised to continue to take market share.

I think what has made Signet best in class is their pioneering role in developing compelling differentiated merchandise and investing in effective TV advertising. Signet continues to evolve with its acquisition of Ultra last year as well as its recent vertical integration initiatives. Here to talk about the Company's exciting growth prospects, Mike Barnes, CEO; Ron Ristau, CFO; and James Grant, VP of IR. Thank you.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thank you very much, David. And welcome, everyone. Good morning; Happy New Year to everyone, great start to the New Year here. So appreciate you coming in for our presentation. As David said, I have with me here today Ron Ristau who will be available for questions at our breakout sessions, as well as James Grant, our VP of Investor Relations.

Before proceeding I would like to draw your attention to the following slide. During today's presentation I will from time to time 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. Please see the details on this slide which are also on our corporate website at SignetJewelers.com.

Okay. Our mission statement is a way for us to think about our customers visually. And that mission, as a Company, is to help our customers do two things -- very important things -- celebrate life and express love. At any given moment we are all about helping people to celebrate life and express love through the jewelry, watch products we offer that are supported by our talented team leading to a great customer experience.

That mission played itself fairly well during the holidays as last week we reported good sales, but we do anticipate modest profit growth for the quarter. Both Kay and Jared comps increased by 5.6% and the UK division increased by 5.2%. Our highly motivated and well-trained team, they did a great job and once again delivered outstanding customer experiences.

We had balanced strength across a variety of brands, categories and selling channels. Both our bridal and our non-bridal business were strong. Also both branded and non-branded businesses continued to be strong and were at about the same levels.

Colored diamonds, beads, watches and our bridal collections were among the leaders in what was again a rather balanced mix of strong products and brands across multiple categories. In the UK division holiday sales results were driven by greater transaction values and increased transactions. The two categories that helped drive these results were bridal, which was strong in both H. Samuel and Ernest Jones, and watches, which was particularly strong at Ernest Jones during the holiday season.

Our multichannel selling approach increased our exposure and allowed customers the convenience and the flexibility to shop and engage with us where and when they wanted to. Internet sales were up a strong 24.8% in the US and 37.5% in the UK for the holiday season.

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Relative to our expectations, November was a strong start to the holiday and the last week of December finished strong as well. But unfortunately in the three weeks of December beginning December we had lower-than-expected mall traffic which led to a bit more of a promotional environment. We responded with incremental discounting to better support our business.

It's key to note that these were not additional promotions. We didn't have advertised sales; we didn't have signs in the store saying take another X percent off. These were what I call quiet discounting in order to make the conversion and close at the point of sale. So it was not promotional in that sense whatsoever, but it was very tactical that we allowed our associates and are managers in the stores to get that deal closed and to help us gain market share.

We also project that we're going to have less than anticipated commodity cost benefits than originally projected. These factors along with projected sales, have led to guidance revisions for our fourth quarter and our full year. As a result we now expect earnings per share of $2.12 to $2.16 for the fourth quarter and for fiscal 2014 we expect earnings per share of $4.51 to $4.55.

So, having reviewed our latest results let's start by level setting our business model consisting of our major brand divisions in the US and the UK. Then I will discuss our high-level major strategies that will help us deliver on our mission statement message to our customers, which again is celebrate life and express love.

I will briefly review our main competitive strengths that will help us drive initiatives to deliver these strategies successfully. And then review our outlet stores and our regional mall stores. I will give you an overview of the UK business and what we're doing to improve and support our future in the UK market. And then I will finish with a brief overview of our capital structure and why we believe it is right for us in today's market.

Our competitive strengths, which I will discuss in a few moments, have made Signet the number one specialty jeweler in the US and the UK markets in which we face competition from thousands of competitors, including other specialty jewelers, independent jewelers, online retailers, department stores, mass merchants, shopping clubs and club stores.

We operate over 1,900 stores mostly in our flagship brands. Kay is the number one brand in the US and it targets of the middle market demographically. Kay's customer target has a household income ranging from about $35,000 to $100,000 for a family. Jared is the leader in the upper middle market and our target customer has a household income ranging from about $50,000 to $150,000 or slightly higher than that of Kay.

Overall our US store portfolio is very well diversified with over 65% regional mall-based stores and nearly 35% off mall. The US accounts for approximately 80% of our overall sales and about 90% of our profits. In the UK H. Samuel is the market leader and it's targeted also at the middle market while Ernest Jones competes in the upper middle market segment within the UK market.

In the UK about 60% of our store portfolio is in regional malls and the other 40% continues to be in traditional High Street locations. While the High Street locations once dominated the retail landscape, much like Main Street did in America many years ago, that has been changing dramatically over time to more regional mall-based real estate.

So let's discuss our major strategies to drive our business in the future. We will start with maximize the midmarket, our number one strategy. It is our goal to be the leading retailer and to maximize our business directed to the mid and upper midmarket consumers in all markets that we choose to operate in, which is currently in the US and the UK.

While we are already the number one specialty retail jeweler in both geographies, there is much more that we can do to obtain a greater share of customers' disposable income. We will continue to build upon our previous successful strategies that have served us well. We will work also to test and expand new sales concepts within our stores and through our digital ecosystem. We will continue to grow our service capabilities, both existing and new, while staying true to the heritage of our core brands. And we will remain flexible to delivering new executions of our store brands to keep them fresh and relevant in today's marketplace.

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Our second major strategy revolves around being the absolute best in bridal. While we believe we are number one in the bridal category in both the US and the UK, we have established a strategic goal to be recognized by our customers and our industry as being the very best in bridal. In fact, we believe our US market share of the bridal market to be around 15% as of the end of calendar 2012.

We will make every customer think about our stores first when they think about that bridal purchase. We will be their destination. From customer research to our trade in, to our in-house credit programs and 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 and then to the absolute best. We are building on the outstanding work that our team members already deliver in this area and on our already strong bridal brands.

And the bridal brands we source, design, sell and service will inspire our customers and team members alike to turn this goal into a reality. We have a great selection of branded bridal programs which include Neil Lane Bridal, Tolkowsky diamond and The Leo Diamond.

With Neil Lane we are expanding by introducing new bridal sets with larger center stones. With Tolkowsky we are expanding into ideal cut diamond inserts and wraps. And with Leo we are responding to the growing demand for higher quality diamonds by extending the Leo Artisan Diamond from Jared into our Kay mall stores where we are seeing a lot of success.

Our investment in technology means that our stores now have access to thousands of loose stones through our virtual inventory systems. It's also significantly enhanced the in-store customer experience for our bridal customers. The bridal category is particularly important as it establishes long-term customer relationships and long-term loyalty.

Our third major strategy to support our mission is to be best in class in the digital ecosystem. Let me update you on a few key developments here.

We have evolved Kay.com and Jared.com from last year's redesign. We optimized the customer experiences for both desktop and mobile devices. And we created US mobile apps which have a variety of features such as allowing customers to pay their credit balances from their mobile phones. We've also created an online education center called JewelryWise.com, which is an excellent resource for customers who want to know more about jewelry in a more objective softer sell type of environment.

We surround the customer with eCommerce and social media touch points and we focus on simplifying and accelerating customer engagement with our brands. We are engaged in digital ecosystem marketing, not only through Kay and Jared.com, but also through Facebook, twitter, YouTube and many other points of interaction.

As a result of all this digital ecosystem activity we launched new products and services for customers via all touch points now. And we create outstanding customer experiences in all of our channels. The culmination of all the great initiatives we have been working on can be better understood by viewing our past three years' historical growth which has increased from year to year to year.

Now let me talk a little bit about our Signet's competitive strengths and how it drives our growth in a variety of ways. We provide outstanding customer experience driven by our in-store sales teams. We have successfully developed and grown branded and differentiated and exclusive merchandise.

Another strength is our sector leading advertising that provides a very distinctive advantage to us versus the competition. Our high-quality and diversified store base, which is driven by disciplined real estate evaluation continues to be very successful for us. Our leadership within the supply chain and our in-house customer finance programs that really meet the specific needs of our customers. Let make it a little bit more and each one.

Central to our store success and our biggest competitive strength is our great sales team who are well experienced, well trained and highly motivated and they deliver best in class comprehensive customer service for that great experience. They are so important because jewelry requires a tremendous knowledge based sales approach.

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We have sector leading proprietary training to support our store teams and our field management. This means we provide customers with the product knowledge they desire, a feeling of satisfaction and of personal engagement with our teams. By providing a great experience, it allows us to build long-term customer relationships that are so important to our future.

Our growing leadership in the application of technology to sales also adds to the customer experience and it means we can execute more efficiently while allowing our customers to interact with us in any way that they choose.

Another large driver of our growth is the evolution of our branded merchandise. Consumers want a reason to buy; they desire innovation, newness and products that make a statement. The development of differentiated and exclusive merchandise brands is an ongoing initiative for us and we are still in the early stages of developing a powerful portfolio.

The differentiated ranges create purchase intent through fresh new stories that appeal to distinct customer needs and emotions. The brands provide powerful selling propositions for our sales associates. Our ability to cost effectively use television advertising and digital media also assists us in developing these brands.

Some of the latest developments within our merchandise portfolio include bridal line extensions in Neil Lane, Tolkowsky and Leo, the expansion of Le Vian to incorporate new colors and designs, the expansion of Artistry and Vivid colored diamonds which have been extremely successful for us through the holiday selling period.

And Open Hearts Waves by Jane Seymour, another extension of the Jane Seymour Open Hearts collection that has found great success for us and continues to drive our business. You can see on the chart here the tremendous growth we have experienced in these brands over the past three years as a mix of our total US merchandise sales.

Following on from brands to advertising, our leadership in advertising is a very important driver of sales for us. Everyone knows Every Kiss Begins with Kay and He Went to Jared. These campaigns are well established and have an outstanding record of success. In many ways these catchphrases have now been woven into the fabric of the jewelry buying public. Let's face it, we have great creative that engages the customer both emotionally and rationally in an entertaining manner and that drives sales.

We also have industry leading share of voice. With both Kay and Jared we have the ability to invest significantly. This drives stop of mind and purchase intent for our customers. Through 2013 we were on national TV advertising not only Kay and Jared but also highlighting specific brands during all the major holiday time slots. We had some new and exciting programs that ran in October; these included bridal continuity television advertising spots focused on Leo, Tolkowsky and Neil Lane.

In addition, we had billboards on the NFL and commercials on CBS and Fox on Thanksgiving day. And we were a presenting sponsor for both the Big Ten and the SEC championship game.

Now in turning to real estate -- by fiscal 2014 end we will have net square footage growth and the US of over 4% and we will continue to optimize our footprint in the UK by reducing space by about 3% leading to global growth of around 3% overall. We continue to selectively add Kay mall store locations, but the big opportunity for Kay is to add space and power centers and outlet malls. We see at the long-term potential for 1,300 to 1,450 Kay stores across all formats.

Jared currently has the potential for 250 to 300 stores long-term. We had an exciting milestone this year for Jared as we opened our 200th store. Our space growth ambitions are well-balanced by our extremely disciplined capital allocation procedures as we require a 20% IRR over five years for new stores. We are also investing aggressively in growing our eCommerce and omni-channel businesses as they work hand-in-hand with our brick-and-mortar presence out there.

We have continued to work toward better securing and managing our supply chain to feed our long-term needs here at Signet. We are aggressively moving up the supply chain to secure our own long-term supply diamonds for the mid- to upper mid-market that we serve. Direct access gives us much more control of the diamond supply that we need for the long-term.

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We have a presence at the Indian Diamond Bourse where over 80% of the world's diamonds are cut and polished. Having a permanent presence is important in our supply chain markets because it is an imperative need for the future. This allows us to expand our supplier base, take advantage of daily market fluctuations and accumulate goods on a consistent basis.

We have also strengthened our supply chain capability by acquiring our own rough to polished diamond factory in Gaborone, Botswana. This acquisition will enable us to secure additional reliable and consistent supplies of diamonds for our customers for years to come. It will also help us to achieve further efficiencies in the supply chain while we continue to strengthen our relationships with our existing vendors.

Established vendors of polished diamonds and diamonds jewelry, they will continue to account for the majority of our diamond sourcing. But this ability that we have garnered in the supply chain is something that we will build upon for the future for many years.

In the US our customer finance is important in enabling the sale of jewelry and we have the scale, the experience and the expertise to do this in-house. Over many years we have developed highly proficient systems with specialized scoring run by an outstanding group of team members in our credit department. About 57% of our US sales utilize our in-house customer finance program which makes it a major sales driver. The average outstanding balance is relatively small, a little over $1,100, and we have a monthly collection rate of more than 12%.

Our goal is to sell jewelry, not credit. We would like to have our customers repay their credit balance as soon as possible so they can buy more jewelry from us in the future. Our credit customer has a higher average purchase price and a lifetime value of more than 3.5 times than our noncredit users. Our success in offering credit does result in significant working capital builds, we and the Board though are very much focused on this unique situation and this comes up often in discussions with our shareholders as well.

Together with the Board we review on a regular basis what to do with our AR portfolio and the alternative structures that could be employed evaluating both the appropriate use and the appropriate timing to achieve maximum long-term shareholder value. In doing so we take into account our strategic priorities, risk management and the current and projected business cycle. This is something we will continue to do given the importance of the credit operation to our business and to our capital structure.

Now I will move on to discuss other retail concepts starting with the outlet business. Our organic Kay outlets are performing particularly well and benefiting from many of our learnings over the past year. Similarly, our Kay Outlet's developed via acquisition are also delivering very strong financial results. These results are validating our outlet strategy and our team did a great job in managing this transition.

We have leveraged the Kay brand name along with Kay's best in class training and credit programs around merchandising and advertising to maximize the productivity within the outlet channel. Our acquired outlet stores as a group should be accretive to earnings in the fourth quarter as anticipated. So all in all it was a great job by the team in how to manage a very successful acquisition.

By the end of this year we expect to have approximately 160 outlet stores consisting of about 125 branded as Kay and we also expect good long-term potential for more locations to come. We also sell in the US through approximately 200 other branded stores known as our US regional store division. Our regional store group consists of many store brands that were gathered through acquisitions made over the years. They operate under a variety of different names.

These stores remain as a group highly profitable and contribute significant cash to our Company but they do suffer from limited advertising and tend to have lower comp performance than Kay and Jared. We will continue to develop programs to improve these stores' performance, especially when we feel the real estate has great value for us. We are also testing new concepts that are better aligned with our national brands and if successful could provide a great opportunity to rollout further and take better advantage of much of this valuable real estate. We will keep you updated as these tasks develop.

On the UK division our UK business is the number one in the market. The stores have remained profitable from both an operating profit and a cash flow contribution perspective. New management was installed this year with a new CEO and CFO and head of stores put into place and we've seen some great opportunities develop in the UK for us.

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We have taken a three-part stance in how we are going to bring the UK back to the level of profitability that we anticipate for the future and we are doing this through merchandise and store operations, real estate optimization and cost controls. We believe that this business, which delivered solid holiday season sales, can return to double-digit margins within a few years.

And then finally on our capital structure, this is -- we've taken an approach that is chosen based upon our experiences, based back to 2008-2009 with private placement debt and the credit marketplace. We are mindful of future lease capitalization accounting rules as well.

We do consider all forms of capital structure but also understand that debt capacity can only be utilized once, therefore we look at all options before committing the enterprise to a nonrecourse direction which would significantly alter our risk portfolio. We have chosen the operation discipline of self financing as our cash flows have enabled us to fund acquisition growth and investment while initiating dividends and stock buybacks and returning cash above specified targets.

As I stated before, our success in offering credit provides the Company with significant advantages and opportunities which we continue to evaluate. And in conclusion, I would like to say our competitive strengths have enabled us to grow comparable store sales and productivity, we have demonstrated our ability to drive profitability, our successful capital allocation disciplines have driven high returns growth and shareholder value. And in conclusion, we have proven financial strength and we've delivered long-term financial results.

I would like to thank you all for coming today. I appreciate your time, your interest and your support. Have a great rest of the conference and I hope to see you later. Thank you.

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