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EDITED TRANSCRIPT

SIG - Signet Jewelers Ltd to Acquire Zale Corp Conference Call

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James Grant *Signet Jewelers Limited - VP of IR*

Mike Barnes *Signet Jewelers Limited - CEO & Director*

Ron Ristau *Signet Jewelers Limited - CFO*

PRESENTATION

Operator

Welcome to the Signet Jewelers conference call. My name is Ellen and I will be your operator for today's call. At this time all participants are in a listen-only mode. I will now turn the call over to Mr. James Grant, Vice President of Investor Relations. Sir, you may begin.

James Grant - *Signet Jewelers Limited - VP of IR*

Good morning and welcome to the Signet Zale acquisition call. On our call today are Mike Barnes, Signet's CEO, and Ron Ristau, Signet's CFO. The presentation deck we will be referencing is available under the Investor section of our website, SignetJewelers.com. Mike and Ron will have prepared remarks and then our call will conclude. Today's presentation will not be followed by a question-and-answer session.

During today's presentation we will in places discuss our business outlook and make certain forward-looking statements relating to the proposed transaction. Any statements that are not historical facts are subject to a number of risks and uncertainties and actual results may differ materially.

We urge you to read the risk factors, cautionary language and other disclosures in the latest Signet and Zale annual reports on Form 10-K. 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 Limited - CEO & Director*

Thank you, James, and good morning to everyone out there. We are extremely excited about today's announcement. It has been a lot of hard work by the teams on both sides and months in the making. And we are very pleased to have come to a definitive agreement with Zale at this time.

I will start by providing an overview of both companies before I move into how this deal complements Signet's strategy and creates additional value for all stakeholders. That's for team members, business partners, shareholders and importantly our customers.

Collectively Signet and Zale generate approximately $6 billion in sales and over $700 million in EBITDA. Globally we will operate together over 3,600 locations under a variety of strong brand names. The major retail store brands are Kay, Jared and Zale in the US, along with H.Samuel and Ernest Jones in the UK and Peoples in Canada.

Importantly, Zale also operates very successful kiosks in the US under the brand Piercing Pagoda. These brands operate in different formats in a variety of real estate types providing a complementary presence serving midmarket and the upper midmarket customers.

Signet is the leading jeweler in the US and UK, while Zale is number one in Canada and has a leading position in the US as well. And behind it all are the nearly 30,000 associates combined between Signet and Zale.

Signet is the number one specialty jeweler in the US and UK markets where we face competition from thousands of competitors, including other specialty jewelry chains, independent jewelers, online retailers, department stores, mass merchants, shopping clubs and even television.

Kay is the number one brand in the US that targets the middle market. Demographically Kay's target customer has a household income ranging from about $35,000 to about $100,000.

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Jared is the leader in the upper middle market and our target customer has a household income there ranging from about $50,000 to $150,000.

Overall our US sales are well diversified with over 40% coming from off mall locations and less than 60% from the mall. The US accounts for approximately 80% of our total sales and over 90% of our profits.

In the UK H.Samuel is the market leader and is targeted at the middle market while Ernest Jones competes in the upper middle market segment. Within the UK, two-thirds of our store sales come from regional malls while a third come from traditional High Street locations.

Today's acquisition feeds directly into the Signet growth strategies many of you heard me introduce at our October investor conference and referenced in many other investment community venues. The addition of Zale will help us maximize our midmarket success in a variety of ways around merchandise, innovation and testing, new formats, service programs, custom design and that is just to name a few.

This deal directly supports our strategy of being the best in bridal. Zale has a strong and complementary bridal business that will dovetail perfectly into this strategic objective. The addition of popular brands, such as Vera Wang Love and the Celebration Diamond, will add to and strengthen the overall exclusive brand portfolio within this very important category of business.

In addition, our continuing strategic diamond initiative will allow us to further support all of our diamond businesses going forward. Today's announcement also helps us build upon our digital ecosystem. The combined e-commerce sales of both companies is approaching $300 million today with imminent growth still ahead. We have opportunities to improve operational efficiencies and add best-in-class additional functionality to help drive this business.

And finally, another strategic pillar for our long-term strategy is geographic expansion. As I mentioned, we are not only number one in the US and the UK; this acquisition will also make our newly combined Company number one in Canada as well and it will allow us to continue building a platform for potential future geographic expansion.

When you consider the strengths of Signet and Zale, they are very complementary and support all the core Signet strategies. The retail brands are iconic, each with a loyal following in the mid and the upper mid markets. Branded programs such as Tolkowsky, Neil Lane, Vera Wang Love and the Celebration Diamond create a unique proposition for our customers. Together we are well-positioned in all selling channels, including digital.

Our service is best-in-class and our real estate portfolio, while already strong, will get stronger as we continue to optimize it. Signet has delivered strong free cash flow while Zale has turned the corner to profitability. The combined Company, led by strong and experienced management teams on both sides, will execute these strategies and drive future growth.

The combination of Signet and Zale is powerful and compelling. As I discussed, it delivers scale and geography expansion. We will maintain the strong Zale's brand and benefit from the awareness it has earned to further optimize all of our long-term strategies.

Our intent is to continue to run Zale brand as a separate standalone division within the Signet group of companies led by Zale's CEO, Theo Killion. This union strengthens our existing brand portfolio and allows for further opportunities including shared innovation, product development and cross-selling, and we will benefit from leveraging our service expertise, access to capital and brand management.

This acquisition combines strong management teams from both companies and together these teams have a precedent of success in turnarounds and acquisition integration. In addition, with best-in-class training, merchandise assortment and systems, our teams in the field will be on the leading edge in the retail sector.

In summary, this transformational acquisition will expand our footprint geographically as we become the number one specialty jeweler in Canada, as you can see on this slide. In addition, it will add to our already strong portfolio of brands that we've discussed and it will allow the opportunity to drive more innovation and choice for our customers.

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That concludes my remarks on the strategies of this acquisition. I would now like to turn the call over to Ron for some remarks on the financial transaction and the structure. Ron.

Ron Ristau - *Signet Jewelers Limited - CFO*

Thank you, Mike, good morning to everyone. This transaction will provide $21 a share to Zale's stockholders, implying approximately a $1.4 billion enterprise value which may fluctuate depending upon the timing of the closing and the working capital financing outstanding.

This represents an estimated enterprise value to adjusted EBITDA multiple of 7.4 times using the October 2013 results. J.P. Morgan has underwritten a term loan facility and has committed to provide bridge financing for the deal. The combined Company, based upon the trailing October 2013 12-month financial performance will have approximately $6.2 billion in sales.

We expect the transaction will generate approximately $100 million of synergies by the end of the third full fiscal year of operation. In the first full Signet fiscal year after close, we expect the transaction to be high-single-digit percentage accretive to diluted earnings per share excluding one-time transaction costs and acquisition accounting adjustments.

The transaction has been approved by the Boards of Directors of both companies and is subject to Zale stockholder approval as well as customer closing conditions and regulatory approvals. We expect it will close within calendar 2014.

This combined financial overview demonstrates the growth of Signet EBITDA over the past five years and illustrates the initial improvement caused by the acquisition. Additional distribution points and geographic reach will provide a solid platform for top-line growth. Operating efficiencies will increase gross margin and expense reduction opportunities and drive value creation.

Now I'll explain the value creation proposition in greater detail. Of the $100 million synergy potential estimated, we believe 50% is due to improved product sourcing and purchasing leading to cost improvement, 20% will be due to SG&A expense reduction with the residual 30% split between repair service sales and margin growth and incremental margin from brand cross-selling.

Let me explain further. In the supply chain, Signet's manufacturing knowledge, buying processes and proprietary systems, in partnership with Zale's team, will accelerate and ensure gross margin improvement. We also believe that proprietary inventory management processes will improve inventory utilization and turn.

Relative to expense reduction, best practice sharing will improve the cost and efficiency of operations and advertising buys. Overhead will be optimized while strengthening the infrastructure to support growth of the Zales brands.

Finally, add-on services in brands are very important in the jewelry business, Signet's repair and custom design business processes will be utilized to lower the cost and improve sales performance in these key areas. We also intend to capture increased sales opportunities via expanded distribution of current brands and new brand concepts which will be created in our innovative combined Company.

In addition to the $100 million in estimated synergies we have identified, we will also benefit from Zale's previously announced agreement with Alliance Data Systems expected to be fully implemented in October 2015.

We have tremendous respect for the Alliance Data Systems team and we expect the Alliance Data Systems agreement and our internal knowledge of credit will improve Zale's credit offering and lower the future cost of credit by approximately $22 million.

We expect to realize enhanced credit approval rates, strengthened lifecycle marketing and improved in-store credit presentation as a result of this exciting new partnership. These activities will all drive increases in sales and productivity.

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The real estate portfolio is key to any retailer. Over the past three years Zale's has undertaken the closure of a significant portion of its low performing stores and significantly improved productivity per store. Portfolio optimization remains critical to enhancing future sales productivity and allowing management to focus on high-quality real estate locations. This activity will continue.

Once the business model further stabilizes we believe real estate expansion will again be possible. So therefore we are committed to driving productivity via a number of initiatives.

The financing for this transaction will include a combination of bank debt, other debt financing and a significant securitization of our accounts receivable. J.P. Morgan has committed to provide financing for the transaction and we expect to achieve investment-grade rating after the transaction given our strong cash flow generation and projected earnings growth.

With that I will now turn the call back over to Mike. Well, it seems like we may have lost Mike. So I will just sum up what he was going to say.

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Ron, I'm sorry about that. Thank you very much, Ron, I am back. I apologize for that.

To sum up, this acquisition strengthens our Company and it unlocks new sources of growth. We're going to invest in and grow the Zale brands along with our existing brands. We will be armed with the best exclusive and differentiated brands in the jewelry industry which include brands such as Le Vian, Open Hearts by Jane Seymour, Vera Wang Love Collection, the Celebration Diamond collection, Neil Lane both bridal and designs, Forever Diamonds and others.

The sales mix for these important brands has continued to grow over the last few years. The opportunity for much additional future growth is still in front of us particularly with Zale, which is still less penetrated primarily due to being in an earlier stage within this category of products. There is a lot of opportunity there and the further development of the exclusive brands will also greatly benefit all of our customers.

We are going to take advantage of significant opportunities for both growth and for savings. Finally, we will do all this while achieving an appropriate capital structure balance. We will continue to have strong cash flow characteristics, allowing us flexibility for future capital structure decisions.

We are very confident we will maintain an investment grade to ensure borrowing costs are low and we also believe we can continue to utilize our stock buyback authorization.

As a final note, please see the following slide number 16, which discusses additional information that will be filed by Zale with the SEC in connection with the acquisition and the participants in the proxy solicitation.

That concludes our remarks for today. Thank you again; we appreciate your time and your attention on the call. Thanks and enjoy your day.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for participating, you may now disconnect.

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