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EDITED TRANSCRIPT

SIG - Q1 2015 Signet Group Earnings Release

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PRESENTATION

Operator

Welcome to the Signet Jewelers first-quarter fiscal 2015 results conference call. (Operator Instructions) I will now turn the call over to Mr. James Grant, VP of Investor Relations. Sir, you may begin.

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

Good morning and welcome to our first-quarter fiscal 2015 earnings call. On our call today are Mike Barnes, CEO, and Ron Ristau, CFO. The presentation deck we will be referencing is available under the Investors section of our website, SignetJewelers.com.

Following Mike and Ron's prepared remarks we will have a limited amount of time for your questions.

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, cautionary language, and other disclosures in the annual report on Form 10-K that was filed with the SEC on March 27, 2014. We also draw your attention to slide number 2 in today's presentation. Now I will turn the call over to Mike.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thanks, James, and good morning, everyone. We are very pleased with our first-quarter results.

For the quarter, comps at Signet increased by 3.3%, our US division comps grew 3.2%, and UK comps increased by 4.1%. That is compared to a 2.3% decrease last year, so it was another strong quarter for our UK division. E-commerce sales for Signet were also up 24.4% as our string of impressive double-digit growth rates continued through Q1.

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Signet delivered first-quarter profit driven by the strong execution of our strategies. Adjusted operating income was $159.1 million, up $16.3 million or 11.4%, and adjusted diluted earnings per share were $1.29, up $0.16 or 14.2%.

We remain pleased with our performance also for the first several weeks of May including Mother's Day. Customers have responded favorably to our new products and fresh collections, especially in the fashion jewelry category.

In planning, we really expected to end the second quarter with mid single-digit comps. However, our performance in the second quarter to date has actually been higher than that, both during the Mother's Day week and afterwards. Our team's consistent ability to execute our initiatives by focusing on our competitive strengths leaves us very well positioned to achieve our objectives this year.

Now let's take a closer look at the US division's first-quarter performance. US total sales were $903.5 million, up $46.3 million or 5.4%. Our same-store sales increased 3.2% in the first quarter of fiscal 2015. Kay comps led the way with a 4.2% increase, while Jared increased by 2.3%. The success was driven primarily by fashion diamonds, bridal brands, and watches.

The US e-commerce business performed well with sales up $5.3 million to $30.9 million, an increase of 20.7%. The US division operating profit increased 8.8% with an 18.4% margin. Ron is going to add a little bit more color on this here in a few minutes.

The drivers of our performance were our sustainable competitive strengths. In particular, our great customer experience, broad customer acceptance of our powerful merchandise offerings, investment in marketing, and our multichannel approach. The customer experience is very central to our success and we remain focused on the training and development of our store teams.

Our branded, differentiated, and exclusive merchandise continues to perform well in our stores. Our marketing efforts featured bridal, outlet initiatives, and fashion jewelry.

We also saw success across selling channels. As I mentioned, US e-commerce sales were up 20.7%. This was driven in part by 20.9 million visitors to our sites and over 40% of that was through mobile devices.

Now, our outlet business was another great success story as our outlets drove very strong sales during the quarter. There is one example I would like to particularly call out and that is to mention Jared Vault. Jared Vault is the new outlet store concept that we have for Jared.

We converted originally 18 of our Ultra stores during the first quarter to Jared Vault stores and, guess what? They have been terrific. So much so that we are now working on converting another 13 stores, or most of the portfolio, within the second quarter or by the end of the second quarter.

Now I will turn over to the UK. Total sales in the first quarter of fiscal 2015 were $151.7 million, that was up $16.7 million, or 12.4%, primarily driven by fashion jewelry, bridal brands, and fashion watches. Comp sales increased by 4.1% compared to a decrease of 2.3% last year and that is a great quarter. And that is following, if you recall, a very strong holiday fourth quarter finish last year.

Our e-commerce sales were $7.8 million, that is up $2.3 million or a strong 41.8%. Operating income was breakeven for the quarter and that is an improvement of $4.1 million from the prior year. Operating margin increased by 300 basis points, a great sign that our turnaround program in the UK remains on track.

Among the drivers of these improved results were a merchandise focus, very focused on bridal and diamond programs. Our field operations team was very focused on selling, rather than on tasking. Along with that a renewed teamwork effort, sharing of best practices including with the United States and the great job the leadership team has done there.

Overall, we are well-positioned to achieve our fiscal 2015 objectives. This is really due to, first off, our very strong first-quarter results in both the top and the bottom line, and our consistent ability to execute our key strategies around maximizing the midmarket, being best in bridal, our digital ecosystem, the expansion of our footprint, and most importantly, our people. Executing these strategies allows us to achieve our mission statement, which, put simply, is to help our customers do two things: celebrate life and express love.

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In closing, we continue to be a very excited about our pending acquisition of Zales. On May 29, Zales shareholders will vote on our proposed acquisition. We believe our offer provides compelling and immediate value to Zales' stockholders while eliminating business execution risk.

We are very pleased that Institutional Investor Services has recommended for our acquisition to Zales and we encourage all Zales stockholders to support the transaction. Now I will turn the call over to Ron.

Ron Ristau - *Signet Jewelers Limited - CFO*

Thank you, Mike, and good morning, everyone. I will start by reviewing first-quarter sales in a little more detail.

For the quarter, total sales for Signet increased 6.3% to $1.0561 billion compared to $993.6 million last year. Same-store sales increased 3.3% compared to 6.4% growth last year.

In the United States, total sales increased 5.4%, or $46.3 million, to $903.5 million, which included a same-store sales increase of 3.2%. Our non-same-store sales were up by 2.2%.

Sales increases were driven primarily by fashion diamond, bridal brands, and watches. Importantly, the number of merchandise transactions increased in both Kay and Jared and the average merchandise transaction value increased slightly in Kay while declining slightly in Jared. The decline in the average merchandise transaction value in Jared was primarily driven by sales mix, including significantly higher bead sales.

Signet launched 18 new Jared Vault stores in outlet centers in this quarter which were converted from Ultra and expects to convert another 13 in the second quarter, which will complete the transition of all Ultra nameplates within our business.

In the UK total sales increased 12.4%, or $16.7 million, to $151.7 million. Comp store sales increased 4.1%. UK sales performance in the first quarter was primarily driven by fashion jewelry, bridal brands, and fashion watches. The number of merchandise transactions increased primarily due to beads and gold jewelry in H. Samuel and fashion watches in Ernest Jones. The average merchandise transaction value declined slightly, primarily driven by sales mix.

Importantly, Signet e-commerce sales were $38.7 million, up $7.6 million or 24.4%, as Mike had indicated earlier.

Now let's take a quick look at the components of operating income. Signet gross margin was $407.2 million, an increase of $24.4 million, and the gross margin rate was 38.6%, up 10 basis points.

In the US gross margin dollars increased $19.3 million compared to the first quarter of fiscal 2014, reflecting higher sales and primarily the impact of lower gold prices on average commodity costs. This benefit was partially offset by the recognition of gold hedge losses incurred in fiscal 2014 and lower gold spot prices that reduced the recovery on trade-ins and inventory. The US net bad debt expense to US sales ratio was consistent with the prior-year first quarter at 2.5% with a credit portfolio continuing to perform strongly.

In the UK, gross margin dollars increased $5.4 million compared to the prior-year first quarter, primarily reflecting higher sales and store occupancy cost savings associated with store closures and rent renegotiations. This was partially offset by planned promotional activity.

Signet's selling, general, and administrative expenses were $310.5 million compared to $287 million in the prior-year first quarter, an increase of $23.5 million, and as a percentage of sales increased 50 basis points to 29.4%. I will discuss this in more detail on the next slide as the increase is primarily driven by transaction costs.

Other operating income was $54 million, or 5.1% of sales, compared to $47 million, or 4.8% of sales, last year. This increase of $7 million was primarily due to higher interest income earned on higher outstanding receivable balances. So our consolidated operating income in the first quarter was $150.7 million, representing 14.3% of sales.

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When we exclude the $8.4 million of pre-acquisition transaction costs, operating income was $159.1 million or 15.1% of sales. Fully diluted earnings per share were $1.20, but excluding the pre-acquisition transaction and financing costs of $7.3 million net of tax, adjusted diluted earnings per share were $1.29 compared to $1.13 in the first quarter of fiscal 2014, an increase of 14.2%.

Now some additional detail on SG&A expenses. As I stated earlier, SG&A expenses were $310.5 million compared to $287 million in the first quarter last year, up $23.5 million as a percentage of sales, increasing 50 basis points.

In the US, SG&A expenses increased $13 million. The primary reason was higher advertising expense of $10.2 million due to timing of production costs and higher store staff costs that flex with sales. The overall SG&A expense in the UK was higher primarily due to the impact of foreign currency translation.

Pre-acquisition transaction costs in the first quarter were $8.4 million. These are costs associated with legal, tax, accounting, and consulting expenses incurred with the announced potential acquisition of Zale Corporation. Excluding these pre-acquisition transaction costs, SG&A was $302.1 million and as a percentage of sales was 28.6%, compared to 28.9% in the prior-year first quarter. Our SG&A remains effectively controlled and focused.

Net inventories ended the quarter at $1.5239 billion compared to $1.4264 billion in the first quarter last year, an increase of $97.5 million or 6.8%. UK inventory, which actually decreased in local currency but increased $22.3 million due to the impact of foreign currency translation, had some significant impact. When we exclude the impact of foreign currency, inventory increased by 5.3%.

Some other key drivers of our inventory position were an increase of $19.4 million due to new stores; our diamond sourcing initiative, where we have continued to build inventory throughout last year, year-over-year is up $16.7 million; and support for sales growth initiatives which increased our inventory by $39.1 million. When we compare the fiscal to year-end fiscal 2014 our inventory is increased 2.4%, or 1.8% excluding the impact of currency. Our inventory is well positioned as we go forward.

Now let me quickly touch on credit metrics. Credit remains an important component of our business. Net accounts receivable increased to $1.3082 billion compared to $1.1575 billion last year, up 13% for the quarter, driven primarily by higher sales and an increase in the credit penetration rate.

In the quarter, credit penetration in the US was 58.1% compared to 57.7% last year, which excludes the sales of Ultra where credit was not offered. This increase was primarily attributed to increased outlet credit penetration and strong customer acceptance of our credit offerings. The average monthly collection rate this quarter was 13.2% compared to 13.4% last year, as customers continued to opt for our regular credit terms which require lower monthly payments as opposed to the 12-month interest-free program.

Our net bad debt expense was $22.3 million for the first quarter compared to $21.3 million last year, an increase of $1 million, driven primarily by growth in receivable balance from increased credit penetration that I mentioned earlier. The US net bad debt expense to US sales ratio was consistent with the prior first quarter at 2.5% with the credit portfolio continuing to perform strongly. 96.7% of the portfolio is classified as performing versus 96.3% as of last year's fiscal 2014 year-end.

Other operating income was $54 million compared to $47 million last year, an increase of $7 million, which is primarily interest income on the higher outstanding receivables and, again, the shift away from the interest-free programs. As a percentage of sales, other operating income increased 5.1% from 4.8% last year. So the net impact of these two items was income of $31.7 million in the first quarter compared to $25.7 million in the prior year, an increase of $6 million.

Now turning to our guidance. Signet is providing guidance for its current business, including the expected acquisition and financing costs it will incur. The potential Zale acquisition will result in the realization of incremental expenses. These expenses will primarily be transaction-related costs, i.e., advisor fees for legal, tax, accounting, and consulting, and financing fees which we will incur to support the new capital structure.

Second-quarter comparable store sales are expected to increase in the 3% to 5% range. Second-quarter adjusted EPS is expected to be $0.95 to $1.01, an increase of 13.1% to 20.2% as compared to last year's second quarter.

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Acquisition costs are expected to increase -- I am sorry, expected to impact EPS negatively by $0.15 to $0.13 and financing costs are expected to negatively impact EPS by approximately $0.10. This should result in a total fully diluted second-quarter EPS in the range of $0.70 to $0.78 based on an estimated 80.2 million weighted average common shares outstanding.

For the full year, the Company continues to expect the range of capital expenditures from $180 million to $200 million, which includes the opening of 75 to 85 new Kay and Jared stores and five stores in the UK. This includes our costs for store remodeling and important investments in the digital and information technology infrastructure.

Thank you and I will now turn the call back to Mike.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thanks, Ron. In conclusion, I would like to once again thank the Signet team worldwide for their contributions to a successful quarter. And now we will take some time for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Simeon Siegel, Nomura Securities.

Simeon Siegel - *Nomura Securities - Analyst*

Great, thanks. Good morning, guys, and congrats. So, Mike, it is clearly early, but any initial reads on the productivity improvements from the Jared Vaults following those conversions, or perhaps what you would expect given the success of Kay? Then (multiple speakers) I was just going to ask Ron something after, so I will follow-up after that.

Mike Barnes - *Signet Jewelers Limited - CEO*

Listen, Simeon, we are really excited about what we have seen in Jared Vaults. It is early days, and I don't want to get too far in front of it, but I mean it was pretty dramatic the changes that we saw as we changed the name plates. We had some stores where we tested changing out different merchandise assortments as well and saw a big impact there.

But I would tell you that they look great. The logo looks fantastic out there. It gives it a wonderful feel for an outlet store type or an outlet center type store. Vault certainly gives it the feeling that you are getting something valuable and not just discounted merchandise.

So we are pretty excited about the initial response that we have had, and as both Ron and I mentioned, we are quickly going to turn some more Ultra stores into that. Pretty much the entire portfolio, maybe with the exception of one or two stores for various reasons on timing.

But we are excited; we think that it is a big opportunity for us. Listen, our outlet business in general, not just the Jared Vault test that we did, but our outlet business was very strong during the quarter and really helped drive our business. We look forward to continuing to build that business, because, as you know, we have really only gotten into the outlet business in a very big way since our initial Ultra acquisition. And we are going to have so much more opportunity going forward I am just really excited about it.

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Simeon Siegel - *Nomura Securities - Analyst*

That is great. It sounds really exciting. If I can just follow-up quickly with Ron.

So you locked in a pretty attractive interest rate, especially on the receivables facility. Any thoughts on monetizing that, I guess more of the receivables, whether paying down debt, repurchasing shares, etc.? I guess just the right way to think about that facility.

Ron Ristau - *Signet Jewelers Limited - CFO*

I think the right way to think about it is, as we have announced, we have decided to securitize approximately $600 million of the receivable and we have no current thoughts of going beyond that. Let's get that done first and then we will see.

But it is a very attractive interest rate, no question about that, but we think that the overall leverage ratios and targets that we are working within the Company are where they should be at this point in time.

Simeon Siegel - *Nomura Securities - Analyst*

Perfect. Thanks a lot, guys. Good luck for the rest of the year.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thank you.

Operator

Rick Patel, Stephens Inc.

Rick Patel - *Stephens Inc. - Analyst*

Good morning, everyone, and congrats on a strong first quarter and strong start to the second. Can you talk about the health of your consumer this year and the potential for price increases? I am curious if this is something you are looking to do this year as you have in prior years.

And then, as you think about your outlook, to what extent comps will be driven by AUR versus transactions?

Mike Barnes - *Signet Jewelers Limited - CEO*

I will take the first part of that question and see if Ron wants to a little bit more color on there, especially including AUR. You know, the health of our customer is pretty strong right now I think. The terminology that I have used for it is resilient.

As we went through that first quarter you guys all know that we had a lot of weather challenges through that quarter and you have seen other retailers come out and talk about weather challenges. But we felt the impact of it when there was a giant snowstorm and the customers stayed home, but they were very resilient. They kept bouncing back and they kept coming back into the stores. We have seen the momentum build as we talked about going into the second quarter.

Here we are almost a month into the second quarter and, as we told you, our expectations were that we expected and guided to 3% to 5% of comp store sales for the quarter. But, quite frankly, on a month-to-date basis we are beating that number.

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Whether that will hold or not we will see, but we feel pretty good about our customer and our position with our customer at the current time with all the great offerings that we have got out there, the great marketing initiatives that we are driving, and the power of our multichannel distribution with outlet stores, regular malls, off-mall stores and online.

That is it from customer. I don't know about AUR, Ron?

Ron Ristau - *Signet Jewelers Limited - CFO*

I'll tell you, if you go back to my comments about what drove the comp this quarter, it was transaction increases in both Kay and Jared and our UK businesses. So transactions have become a much stronger driver of comp, as we predicted they would be this year, because it is true that with commodity prices under somewhat more of a control that price increases we were more reluctant.

I wouldn't speak to you about what our future price increase plans are, but we always thought that it was going to be important to bring people into the franchise and drive transactions, because we couldn't be as reliant on price increases. And that is exactly what is happening. We are very pleased with the configuration of our comps in the first quarter and I would expect that that should continue as we go through the year.

Rick Patel - *Stephens Inc. - Analyst*

And, Ron, can you talk about gold hedge losses? I am just curious how much longer this is going to be a drag on gross margins and to what extent gross margins could potentially increase for the remainder of the year given the flow-through of lower gold prices and perhaps your ability to leverage costs.

Ron Ristau - *Signet Jewelers Limited - CFO*

Well, I agree with you. First of all, I hope that the gold hedge losses would stop cycling through the P&L as soon as possible, but we have approximately another $11 million to go as we finish. So it will affect us for the next three quarters by about $11 million as I recall and then we are pretty much done with it.

Now we don't have any -- it has not happened again so we are in pretty good shape with all of that. And gold does seem to be behaving itself, but we will see what happens.

Rick Patel - *Stephens Inc. - Analyst*

Great, thank you and good luck with everything.

Operator

Brian Tunick, JPMorgan.

Unidentified Participant

Good morning. This is (inaudible) filling in for Brian. Thanks for taking our question.

I guess we wanted to ask about the UK. Obviously, the 4.2% comp was great but just yesterday Tiffany's comments on the UK or Europe was a little less bullish, so I wanted to get your view on the macro or the consumer environment in the UK. Do you think your strength is purely driven by the improvements you make to your own business, or do you think your target customer in the UK is actually strengthening?

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Mike Barnes - *Signet Jewelers Limited - CEO*

I think we have a little bit of both there going, quite frankly. I like to give our team as much of that credit as possible, because they have done a terrific job turning that business around and starting in the direction that we have been aiming at there.

I think that we have gotten some help from the macro economy, that things have settled down in the UK and started improving. But really the things that I called out, the focus that they have had starting really in the fourth quarter and back toward the middle of last year when they really got moving, the focus they have had on diamonds and driving that diamond business has been terrific. And they have seen a lot of great results from that.

They are doing well with their fashion businesses. Watches continue to perform in that market.

They have partnered with our US team very closely. Mark Light and his team here in the US have worked with Seb Hobbs and his team as partners, and they have found best practices to share with one another. The teams have been a lot more focused on a selling approach, as I mentioned in my prepared remarks, rather than a tasking approach or an operational approach.

So we feel really good about the way and the direction that the team is going in the UK. We do believe that they are getting better, slowly but surely again. I don't want to get the cart before the horse here and say, hey, everything is great and robust in the UK. Two good quarters still does not a very long-term trend make, but we continue to make progress and that is what we need to do.

We will keep the teams focused on what they need to be focused on and we will keep driving it forward.

Unidentified Participant

Great. Then on the outlets, particularly the Jared Vault concept, can you provide a little more color on how they will differentiate from the Kay outlet stores in terms of maybe the store set up and the product?

Also, I guess at the analyst day you mentioned outlets, I believe, as a 200-store opportunity. It is early but do you think the encouraging Jared outlets' results may change your thinking there?

Mike Barnes - *Signet Jewelers Limited - CEO*

I will answer the first part of your question. We may need to get you to repeat the second part.

On the outlets, after we made the Ultra acquisition we really focused the team specifically on the outlet store business. We have got some great people that are driving the marketing for those outlet stores, and it's specialized marketing. There is a lot of things that those outlet malls do with their retail partners in stores and we have gotten more focused on that.

We have gotten more focused on marketing to the tourism consumer as well. And even from a merchandise standpoint, as points of differentiation, you can think of our merchandise in the outlets kind of in three buckets, if you will.

One bucket is going to be discontinued type merchandise that is going to be discounted down for the consumer, so sale type merchandise. The second third of that business is going to be the continuation of a lot of our strong branded merchandise really at regular price within those stores. And then the third bucket is going to be made-for merchandise, so merchandise that we specifically design and make for our outlets to provide certain values and looks for the type of customers that we attract to that channel of distribution.

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So it is somewhat different than our regular stores. We even have some pre-owned watch selections that do very well for us in the outlet stores. And we are able to get special buys here and there that are one-off type merchandise, which is great for the outlets because it is kind of a little bit of a treasure hunt mentality for our customers anyway.

People don't expect to necessarily be able to find the same things day in and day out within the outlets. They want to come in and see what is the nice treasure they can find today, and then they will come back the next month and see what is new.

So that is kind of what is going on with our merchandise within the outlets and how we differentiate that from our regular stores.

What was the second question? Did you get it?

Ron Ristau - *Signet Jewelers Limited - CFO*

Was it how many outlets and what our growth expectations are, is that correct?

Unidentified Participant

Yes, with the Jared Vault concept would that be another leg of growth beyond conversion of the Ultra stores?

Ron Ristau - *Signet Jewelers Limited - CFO*

It is possible. Obviously, the Jared growth when we are done with them will have approximately 30, 31, 32 stores, and it has been successful. So we continue to look at the development of new concepts and is it a viable concept. We have made no decision, but all I can tell you is it looks pretty good and we will see how it goes.

Right now, we are just planning on continuing with the rollout of Kay Outlet for probably somewhere in the neighborhood of another 10 to 12, 15 stores, because there are still many opportunities in outlets that we are taking advantage of. So we have made no decision, but it looks pretty good so far.

Unidentified Participant

Great, thank you. Best of luck.

Operator

Oliver Chen, Citigroup.

Oliver Chen - *Citi Research - Analyst*

Congratulations on all the consistency. Regarding your comments in the press release in terms of the proposed transaction eliminating business execution risk, we do believe there is a lot of complements here with brand, geography, and different synergies. If you could elaborate on your thoughts there that would be helpful.

Also, as we model gross margin the compares get a little bit easier, but I know that you have strategies in place to think about share. So where should we think about the gross margin for the balance of the year? Thank you.

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Mike Barnes - *Signet Jewelers Limited - CEO*

I don't want to get into a lot of detail on the transaction that we are looking forward to closing soon. I will give you a couple of color points though. I guess the thing that I hope is that all the investors really understand the business risk associated with a standalone Zale business, quite frankly, trying to achieve their stretch plans. They have got some very difficult stretch plans that they would need to hit.

Another thing is it is really going to take -- that business has been a little bit starved for capital. It is going to take a lot of capital investment. We have said openly that we are prepared to make the appropriate capital investments to help that business continue to move in the right direction and to get it to where it needs to get to. It is not going to be an easy task or a simple task.

This deal, it really lines up well with our company, but the circumstances are pretty unique and somewhat exclusive to a deal between Zale and Signet. As a combined entity we will have all the right tools to move it forward with the appropriate amount of capital, the right expertise within both companies, and the ability to drive scale as we move forward.

So as we build our organization for the future, Oliver, I am pretty confident in our ability to absolutely optimize on our business, especially a combined business with Zale Corporation, to optimize on our profitability, on the opportunities that we have for our team members, and very importantly, on the value for our shareholders. We just look forward to closing it. We believe everything lines up well and we are excited (technical difficulty) moving forward.

Oliver Chen - *Citi Research - Analyst*

Thank you. It sounds like capital is very important and good thing for the sake of these businesses.

Ron Ristau - *Signet Jewelers Limited - CFO*

Capital and working capital. So anyhow. Let me take the second part of your question.

Gross margin, we haven't provided any specific guidance, but I think the first quarter is instructive. Our margins were slightly up. We do get some benefit from lower average gold prices. We said it would be offset during this time frame by this impact of the commodity costs that we are seeing, as well as some of the recovery on scrap rates that we have to deal with.

So net-net we thought it would be a slight positive. It ended up being a slight positive and we would just point you to that when you are thinking about the rest of the year.

Oliver Chen - *Citi Research - Analyst*

Great. Best regards for the year.

Ron Ristau - *Signet Jewelers Limited - CFO*

Thank you.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thank you.

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Operator

Loraine Hutchinson, Bank of America.

Loraine Hutchinson - *BofA Merril Lynch - Analyst*

Thank you. Good morning. I was hoping you could give us an update on the diamond sourcing business; any early learnings there and how big you think that could be as a proportion of your purchases?

Mike Barnes - *Signet Jewelers Limited - CEO*

We continue to move along very well with the acquisition of the factory that we made in Botswana in the fourth quarter last year. Our partnerships with the mining companies continue to develop. We have got a lot of very important meetings coming up at the show that is happening here at the end of the month, and I think I will probably give a much better and more robust update on that when we get to our next call.

But right now things are moving forward as we expected. It is a very important part of our business and we are very happy to be where we are at. If anything, I would say we moved a little quicker than we thought maybe we could have if someone had asked the question a year or 18 months ago and I am very happy about that as well. It is still not a material part of our sourcing, but it is getting bigger all the time and it will continue to grow.

So it is something that we will give you more color on that at the next meeting, but we are very pleased with the steps that we have taken and the direction that it is moving in right now. And we are excited about the future there.

Loraine Hutchinson - *BofA Merril Lynch - Analyst*

Thank you.

Operator

Jeff Stein, Northcoast Research.

Jeff Stein - *Northcoast Research - Analyst*

First question for Ron. Wondering, Ron, if you could just give us some idea of what the capital expenditures might be for the combined entity once the deal closes?

Ron Ristau - *Signet Jewelers Limited - CFO*

I think that would be somewhat premature. We have talked about that. At a minimum, we have said that we believe that you are in the range of $80 million a year minimum over next couple of years for the Zales business. I think that is about as far as we would go at this point.

But it is a substantial -- there is a substantial amount of work to be done with the infrastructure, the stores, the inventory management systems. There is just a lot of rebuilding work that is yet to be done. We thought about this very carefully as we did all of our due diligence. So there is a lot of work to get done, a lot of money that has to be invested in the business to drive it, so it is going to be a rather consequential number.

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Jeff Stein - *Northcoast Research - Analyst*

Okay. On the receivable securitization facility, just wondering is there going to be any change in terms of the control, the --?

Ron Ristau - *Signet Jewelers Limited - CFO*

No, there is no change, Jeff. It is on balance sheet. There is no change.

We do all the collecting of money, the servicing of the receivable portfolio, so it is essentially transparent from an operational perspective. It is really a financing vehicle, so nothing changes in who approaches the customer, collection methodologies. All of that stays the same.

Jeff Stein - *Northcoast Research - Analyst*

Approval rates, in terms of (multiple speakers)?

Ron Ristau - *Signet Jewelers Limited - CFO*

Everything stays. We continue to control everything.

Jeff Stein - *Northcoast Research - Analyst*

Got it.

Ron Ristau - *Signet Jewelers Limited - CFO*

Okay. Nothing changes in the way that the receivable portfolio is managed.

Jeff Stein - *Northcoast Research - Analyst*

Okay. Final question for Mike. In the past you have kind of called out some of the strong brands in bridal, like Neil Lane and Tolkowsky. I didn't hear that. I am assuming that when you talk about bridal bands that you are referencing those in particular, so just kind of wondering if you could clarify that and if those brands continue to perform well.

Mike Barnes - *Signet Jewelers Limited - CEO*

Yes, I sure will, Jeff. Thank you. As we said, it was a very strong quarter for us.

What drove it in bridal, Neil Lane continues to just be on fire for us. Leo was doing very well. We saw a lot of the fashion diamond business doing well with brands like Le Vian, great, strong partner of ours, as well as Artistry fashion diamond in Kay and Vivid in Jared, and some of the other Jared big brands.

Pandora had a great quarter. We saw a really good quarter with Pandora on the bead side. Lois Hill, the beautifully designed sterling silver jewelry continues to have a lot of momentum and gain strong sales. So we had a lot of brands that did really well for us.

On the watch side we had -- a lot of our strong partners did well. Also Tag had a good quarter, Movado; Citizen had a good quarter. I mean I don't want to go through all of them, but it was pretty broad-based out there. We had a lot of partnerships that did very well and our core merchandise

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assortment continues to do very well as we continue to drive better and more fashion and design, even into our core assortment aside from the branded piece of our offering.

We feel pretty good and pretty well positioned on how we are moving forward. We look forward to continue driving success through the second quarter per the guidance we put out there. And again, as far as the full-year goes, we feel good about meeting our objectives for it.

Jeff Stein - *Northcoast Research - Analyst*

Great, thank you.

Mike Barnes - *Signet Jewelers Limited - CEO*

You bet.

Operator

Dorothy Lakner, Topeka Capital Markets.

Dorothy Lakner - *Topeka Capital Markets - Analyst*

Thanks. Good morning, everyone, and congrats as well. Just in terms of going back to the outlet stores for a second and how pleased you are with the new Jared Vault, you talked about the mix there. Could you go over and kind of compare and contrast the mix in the Kay outlets in terms of the different buckets?

Then secondly, could you talk about kind of marketing spend, marketing plans for the rest of the year? Thanks so much.

Mike Barnes - *Signet Jewelers Limited - CEO*

As far as the mix, that one will be easy for us because it is really pretty much the same. What we are trying to do is drive a mix that is somewhere around a third discontinued discounted merchandise, a third strong branded merchandise, and another third kind of made-for merchandise, special promotions geared specifically for the customer that visits that channel. So it is very similar on the mix side.

As far as marketing, Ron, do you have any thoughts?

Ron Ristau - *Signet Jewelers Limited - CFO*

Our marketing program for the remainder of the year will remain very strong. We are excited about the prospects for a significant number of new adds as we look forward into holiday. We will be out there and supporting our brands with every bit of the vigor that we have been over the last several years, so no major changes in our marketing approach.

If you are asking specifically about outlets, and if you are I will just say, there we have a very robust marketing program which we have developed for outlets, which is something that we have really started into last year where we now fully participate in all of the various -- outlet mall operators run a lot of promotional events and coupons at the mall. We participate in all that so our marketing programs for outlets have really become very much stronger over the last six to 12 months and we are seeing great results from that. It is a very successful program in outlets and it is uniquely developed for them.

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Dorothy Lakner - *Topeka Capital Markets - Analyst*

Great. Thank you so much.

Operator

David Wu, Telsey Advisory Group.

David Wu - *Telsey Advisory Group - Analyst*

Thanks. Good morning, everyone, and congrats on the great results.

For the Jared Vault concept can you perhaps talk about the margin dynamics versus the full-price locations? Obviously, given that Jared is a higher end, upper middle market concept, how do you manage the perception of the Jared brand, especially as you grow this new franchise?

Mike Barnes - *Signet Jewelers Limited - CEO*

I will take the brand perception and leave the margin to Ron.

That is what I love about the concept, Jared Vault, David, because if you think about it, it is not like Jared outlet. It is Jared Vault. It is like this valuable treasure type feeling that you are building, not so different than maybe like a Saks OFF 5th or a Neiman Marcus Last Call. Both very high in stores that have successful divisions very much similar to that.

So I think that it is a good fit. We have never seen any issues with the Kay outlets having any issues affecting the value of the Kay brand name in all the regular locations where it is located, and I don't expect to see that kind of an issue with Jared Vault either. I think it speaks to a different customer, but a customer that is looking for something and wants to be on that treasure hunt, like I mentioned. So I feel pretty good about that.

Do you want to talk about the dynamics on the margins, Ron?

Ron Ristau - *Signet Jewelers Limited - CFO*

Yes. I mean just in general when we look at our outlet business on a store contribution level, it is every bit as strong as our best mall stores and sometimes higher, because some of those stores tend to be even higher productivity that our best mall store. So the outlet configuration and profit on a net basis is very, very positive.

The way it moves around between margin and real estate costs and so on there are some slight differences, but net-net from a store contribution perspective it is fantastic. I don't really know what else to say to you about that. The Jared Vault and the Kay will be run with similar structures, they are not dissimilar, so we look for a certain gross merchandise margin out of both of them.

Interestingly enough, the Jareds that we converted, just as a side note, were some of the last Ultra stores that we had, which were actually some of the underperforming Ultra stores that we had. And when we changed them to Jared Vault they just leapt forward, so we will see what the overall profit configuration of that is or how big we make it. Obviously, we have to do a lot more thinking about it, but the initial results were, as Mike indicated, it really just turned these stores on a dime.

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David Wu - *Telsey Advisory Group - Analyst*

That is great (multiple speakers).

Ron Ristau - *Signet Jewelers Limited - CFO*

So we are excited by the prospect. As I said, it was a pretty challenging test because it was among our worst-performing Ultra stores.

David Wu - *Telsey Advisory Group - Analyst*

Right. And I understand you talked about outlets doing well in the quarter, but can you talk about the comp complexion between full price and outlet stores in the US? If there is anything meaningful to call out.

Ron Ristau - *Signet Jewelers Limited - CFO*

No, we are not going to get into the details of outlets. We said we would stop reporting outlets as a segment, because we take the business in totality and we don't want to keep focusing on one particular segment of the business. So we would not -- all we will tell you is that the outlet comps were very strong.

David Wu - *Telsey Advisory Group - Analyst*

Excellent.

Mike Barnes - *Signet Jewelers Limited - CEO*

The non-outlet stores did very well also.

Ron Ristau - *Signet Jewelers Limited - CFO*

Yes. I mean not to over focus, both did well, and the Internet did well.

David Wu - *Telsey Advisory Group - Analyst*

Great. I know you are early days on testing some new concepts, but can you share with us any of your findings so far and how you envision the overall store format for both Kay and Jared to evolve over time?

Mike Barnes - *Signet Jewelers Limited - CEO*

You know, as usual at this time of the year, David, for competitive reasons we really don't want to talk about the things that we have in test mode right now. We would like to get those set and ready for the fall season and on into holiday. Usually we start talking a little bit more about expectations on certain merchandise test and initiatives more at the next call at the end of August.

David Wu - *Telsey Advisory Group - Analyst*

Great, thank you.

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Operator

Bill Armstrong, CL King & Associates.

Bill Armstrong - *C.L. King & Associates - Analyst*

Good morning, gentlemen. Could you discuss the factors that you considered when you were going through the conversion of the old Ultra stores; how you decided whether to convert it to a Kay or a Jared Vault? What were the factors involved there?

Mike Barnes - *Signet Jewelers Limited - CEO*

The real factor is, when we acquired Ultra, the strategy was to leverage our nationally advertised, well-known brand names. And the first strategy was, because we did have a Kay outlet business -- we had somewhere between 30 and 40 stores when we acquired Ultra -- so we immediately jumped up in the 130 or 140 store range.

We had always planned, and we did, convert as many of those Ultra stores that were not duplicative into Kays. So every outlet mall with an Ultra that did not have a Kay we put those under the Kay nameplate as of the end of last June, and those stores have done terrific as well. So the Kay business is very strong, too.

We shouldn't lose sight of that because that is where most of our outlet stores are and the fact that Jared Vault is still new and it has only been out there for a couple of months. But it is just exciting.

So the decision was make them a Kay, if there is not already a Kay, and then that left us with 30-some-odd Ultra stores. And as Ron mentioned, some of those were more of our underperforming outlet stores and so we started thinking about the opportunities that we had in front of us and we thought why not Jared Vault?

Jared is a very successful concept. There is no reason why it could not live side-by-side -- a lot of other high-end retailers in these outlet stores with the likes of the Polos or the Coaches. I mentioned Saks OFF 5th and Nieman's Last Call type stores.

We made the test and turned a lot of them into Jared Vaults. It had very good results over a short time period and we thought it is worth converting the rest of them into Jared Vaults. We believe that we have got something that is very successful here in front of us. That is really the thought process we had there, Bill.

Bill Armstrong - *C.L. King & Associates - Analyst*

Okay. Then just shifting to Mother's Day and month-to-date. Your same-store sales are running well ahead of Zales. You may not want to comment on Zales directly, or maybe you would. But what are you seeing in the market that might explain your outperformance versus Zale or versus the market overall over the last several weeks?

Mike Barnes - *Signet Jewelers Limited - CEO*

Speaking to our performance, I think it really is -- it always starts with the team that we have got out there in the field. They were well trained. They understand all the merchandise offerings that we have got out in front of them right now.

The combination of our field personnel and the merchandise offerings and some of the styling and design that we have got behind that is just tremendous and it was powerful. We drove, as I said, what we felt was a very strong Mother's Day. We have got guidance of 3% to 5% comps for the quarter but, quite frankly, on a quarter-to-date basis we are talking more in between 7% and 8% in that range.

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So it has been a great start to the quarter. Our merchandise has been very well received by our customers and we think we are well prepared. We will see what the environment gives to us as we go over the summer and finish out the quarter. We will come back and chat with you guys in August about it, but we feel pretty good right now.

Bill Armstrong - *C.L. King & Associates - Analyst*

Okay, so there weren't any aggressive promotions on your part that might have driven traffic?

Mike Barnes - *Signet Jewelers Limited - CEO*

No, we didn't drive any additional promotions I don't believe at all, Ron?

Ron Ristau - *Signet Jewelers Limited - CFO*

No, not at all.

Mike Barnes - *Signet Jewelers Limited - CEO*

And maintained our margins very well.

Ron Ristau - *Signet Jewelers Limited - CFO*

As I indicated, what has been happening is our transaction counts keep going up as we draw people into our franchise.

Bill Armstrong - *C.L. King & Associates - Analyst*

Okay, great. That is very good. Thank you very much.

Mike Barnes - *Signet Jewelers Limited - CEO*

All right. Thanks, Bill.

Operator

Thank you. I will now turn the call back to Mr. Barnes.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thank you. Thanks all of you for taking part in this call. We really appreciate your interest and your support.

Our next earnings call should occur in August during week four, when we will review our second-quarter results. Thanks again and have a great day.

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Operator

Thank you. Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.

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