Signet

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Rob Joyce: Good morning, ladies and gentlemen. Thank you very much for attending our fireside chat here with Signet. My name's Rob Joyce. I'm a retail analyst in Goldman Sachs' European team.

I'm very happy to present to you the CEO of Signet, Mike Barnes, and the CFO, Michele Santana. Mike'll do a quick introduction on Signet. Then we'll have a couple of questions asked by myself, and then I'll open it up to the room for you to pitch in with some question and answers.

So, without further ado, Mike, if you'd like to just give us a quick update on Signet, the business. I'm sure most people know it, but where we are now, it'd be great.

Mike Barnes: Sure. Thank you. Thank you very much, Rob. Appreciate that.

Our business has continued to grow and expand. All of you probably know that we did acquire Zale and closed that transaction a couple of months ago. So, we're really excited about the future opportunity.

We are the largest retail jeweler in the Americas. In the United States and now Canada, where we previously did not even have a presence, we're the number one jeweler in Canada. And we remain the number one jeweler in the UK.

So, we're very excited about the opportunity that we have to optimize all of these businesses, and there is a lot of optimization to go. A lot of people think, well, you've done it now. You've made the big acquisition. It's kind of over. What are you going to do next?

Well, what we're going to do next is we're going to optimize these businesses. And this is not the end. This is the beginning. There's a lot of opportunity for us. There continues to be.

If you look at the market share numbers, even with the Zale acquisition in the United States, we represent about a 16% market share of specialty retail jewelers. And it goes down into the single digit numbers for all jewelry that's sold in the US when you include the department stores and the warehouse clubs, etc.

So, there's a big opportunity. It's still a fragmented industry. We've consolidated it quite a bit. And we are far and away the leader in market share in the US, being more than 10 times larger than the second leading jeweler at this point in time now. But, there's still so much that we can do.

And our business remains strong. This is a great industry to be in. If you look at even a 30 year history of the jewelry industry, it's basically had approximately 4% growth over that long, long time period.

Obviously there were some great years and there were some really bad years depending on the economy and what was going on with that, but in general it's a wonderful industry to be in. We're excited about the future of it.

We feel like it has not been optimized the way it could be. It has not been brought into the 21st century yet. We're doing a lot of branding work that I think is extremely important to the future of this industry.

This industry, one reason it's so fragmented is that, for years and years and year, it's been pretty much a non-branded industry. It's been about the underlying value of the products, the diamonds and the gold, etc. And that underlying value is still there, but we can pump it up by putting branding into it.

And our brands are doing extremely well at Signet. If you look at Kay and you look at Jared and you look at Zale, brands like Tolkowsky diamonds, Jane Seymour Open Hearts, you look at the Leo Diamond, which is our oldest brand which is still doing extremely well and still growing for us, and you look at Vera Wang. I mean, Vera Wang is probably the best known name in the bridal industry, not necessarily for jewelry, but we can make it so.

So, there's a tremendous amount of opportunity in front of us. This is a great start for us, to have made this acquisition and closed it, and we're moving forward. We had a great quarter. I'm sure you've all seen the earnings from last week.

And we feel like we're well prepared for the remainder of the year, the back half of the year and holiday in particular. So, we're excited about it and looking forward to moving forward through this year and then into next year. So, with that, I'll throw it over to you.

Rob Joyce: Thanks very much, Mike. You touched on a multitude of topics there, so it's a really helpful introduction for us.

I mean, the first one, I think we'll come back to branding, because I think it all interplays. But, talk about the opportunity in jewelry. How do you see the growth in the industry going? I mean, is there capacity now for you to continue adding stores? And then, if you'd give us a little bit on how e-commerce fits into your thinking with that, that'd be great.

Mike Barnes: Sure, glad to do that. We are adding stores year after year. We have continued. If you look back over the last four years since I've been here at Signet, we've continued to add stores into Kay and Jared. And we will continue to do that as we find the right real estate.

We will not compromise on real estate. So, if we're not adding as many as we used to, that's the reason, because it's very important. That's something that you just cannot compromise on.

Zale, I think, has gotten to a point now where they have closed a lot of stores over the last five years, which is great because they were very underperforming stores. But, now I believe that we are changing from a turnaround story at Zale to a growth story.

And that's one of the reasons that we made that acquisition, because we believe that there is growth available to us including opening new stores. So, there's a big opportunity there. We'll continue to open stores, and we'll talk about that more at our next announcement.

But, if you look at e-commerce, e-commerce -- that train left the station. A lot of people in the jewelry industry feel like, oh, well, people don't want to buy jewelry online. They don't want to buy diamonds online. It's just not the case.

The point is online is a part of your everyday business. It's not something that you can hide from or escape from. We don't have the same percentage of sales in online that some other industries have, but that's okay. And we may never get to that level for some of the industries out there.

But, our business continues to grow very strongly, and we don't think of it as just an online business. We think of it as a complete digital ecosystem, and it works hand in hand with the brick and mortar stores that we have out there. So, it's not a standalone business.

In fact, if you look at our online business, about one-third of our sales, people go online from their homes -- or more likely their offices because they're too busy at home to buy stuff. But, they go online and they buy the merchandise, and they actually request it to be shipped to one of our stores, a Kay or a Jared store that's close by where they live, because they still want to have that personal interaction.

They still want to understand from the store manager or the associates what does this mean? Did I buy the right thing? Let me try it on. So, it's a great opportunity, and we have figured out how to partner our stores and our online business together so that both of them are rewarded for the business that we do, and they're excited about supporting each other.

That's one of the great things that we do is in how to train and develop people to be a collaborative unit, whether they're online, in-store, home office, whatever. And so, it's a big opportunity for us to grow that business.

We're running strong double digit gains in our online business. I mean, it is a strong, fast growing part of our business, and it will continue to be for a long time to come. But, we do it in partnership, and it works.

One of the five main pillars of our long term -- we call it Vision 2020 strategy is to be best in class in the digital ecosystem. And we are fast approaching that. We have continued to grow our sales. We took over a nice online business at Zale when we made that acquisition.

And at this point in time, we're actually working to upgrade our abilities and capacities in all of our online businesses and putting a lot of investment into that, as we should be. So, it's a big opportunity for the future.

Rob Joyce: Thanks very much. And just, I guess, to link in the point on brands, we had a very interesting discussion yesterday at lunchtime where the consensus seems to be that, for an online business,

having a brand which is unique to you is actually quite an important element of maintaining your price architecture or your price integrity.

Could you give us a little bit of -- a bit more on how the brands feed into the jewelry business and how you deal with issues of potential price transparency for diamonds and that type of thing?

Mike Barnes: Sure. First off, just a little bit of background. My entire life has been spent in branding. Before I came to Signet almost four years ago, I spent most of my career building a company called Fossil that was all about branding, both internal brands and licensed brands.

And one of the things that drew me to this company was the fact that I could see it was starting to become a more branded type business. And I really thought that I could help with that.

We have grown our exclusive and differentiated brands tremendously over the four years since I've been here. I think that the first year it was somewhere around 18%, 19%, and today we're up around the 27% range.

Michele Santana: Yes, 27% something.

Mike Barnes: A little over 27%. I think it's 27.4%, but somewhere around there. So, we continue to see these brands grow year after year.

And let me tell you something. Brands are going to become more important, not less important. Brands do two things very well. They build trust and they build loyalty. And customers like to come back and say, jeez, I wonder what the new Neil Diamond -- or Neil Lane collection looks like for this season?

As we continue to add more fashion to that year after year, I wonder what the new Jane Seymour Open Hearts collection looks like? I wonder what is new in there? I wonder what she's doing differently?

People want to come back, and it creates loyalty and repeat purchasing from our customers. So, brands are an extremely important part of the future here. And that's -- like I said, this has been an industry that has lagged behind a lot of other retail businesses in terms of going more towards branding.

And now that we're doing it, it also creates a point of differentiation for us, because we can go on national television and we can not only build our store brands, which is extremely important -- Kay, Jared, and Zale, we can go on TV and build those store brands. But, underneath that, we can build our product brands.

And we can put commercials out there that promote not only Zale but Zale and Vera Wang, or Zale and the Celebration Diamond, or Kay and Neil Lane, or Kay and Jane Seymour Open Hearts. So, it's a big opportunity that really sets us apart from the competition, and it's only going to continue to get stronger.

And we look forward to remaining the leader in this part of our business and remaining the leader in the jewelry industry overall in the US, in Canada, and the UK. And we will continue to drive it and show our leadership there.

Rob Joyce: That's great, actually. And you obviously mentioned the gulf between yourself and maybe some of your competitors. Where do you see this branding kind of getting to for the industry, and where -- do you see anyone else able to kind of attain the scale in brands that you have at the moment, or you could get to?

Mike Barnes: Well, the simple answer is nobody can obtain that scale at this point in time. As I've said, if you look at the US market, we are 13 or 14 times the size of our next competitor at this point, and they are not national.

So, if you look at the next two or three companies and then you look at all the independents, they can't do this branding. They can't drive the scale. We are in a position of leadership that is really going to be hard for them to come after at this point.

And it's the same thing in every country that we operate. I mean, we're the number one player in the US, in Canada, and the UK. And we're not going to just sit on that. We're going to continue to drive.

A lot of people thought, with consolidation, we would look towards raising prices and trying to drive margins and things. And we have a pretty healthy margin right now. And we have had a goal, and continue to have it, to pretty much make sure that we keep the margin that we do have in place.

But, I want to invest in the business. As the leader in the industry, we need to invest in innovation, fashion, new design. We need to know where the competition is at. We're not talking about specialty retail jewelers anymore.

The department stores are out there trying to compete in the jewelry industry. There's a lot of online players. There's jewelry TV. The warehouse clubs, Costco and Sam's, they're out there selling jewelry.

We need to know who the competition is, and we need to play to that. And we need to make sure that we have more innovation, more style, more fashion, that we're moving faster and that we remain not only the leader in the industry in terms of size, but in terms of how we move things forward as things progress, because this industry needs to remain relevant, and it will always.

But, there's other competition that we haven't really talked about, and that is other categories. We're fighting for that share of wallet out there with people that are buying new smartphones and new iPhones and laptops and tablets and a lot of different things.

So, we have to make sure that we remain the most relevant and prevalent company out there in this industry so that we can get that share of wallet.

Rob Joyce: Thanks very much, Mike. I guess a key part of that development is the Zale acquisition, which we've touched on so far. It'd be great if you could just elaborate a little bit more on what you can do for the Zale business and then where you see that taking the combined group. And maybe Michele can put a few numbers behind it.

Mike Barnes: Yes, I'll start off and then I'll turn it over to Michele to talk a little bit more about it.

But, obviously we saw a lot of opportunity to gain leverage with the Zale acquisition. We have a great integration team working right now. They've done a wonderful job. We've worked with a strong third party provider to help us put this process into place.

And now we're working on some new initiatives. In fact, we have either signed or we're about to sign an agreement with Bain to work on a branding study with us so that we can figure out the best way to optimize and differentiate all of our brands out there, particularly Kay and Zale, which tend to share a lot of spaces in the same malls.

So, we think there's an opportunity for us to figure that out, look at our product brands, and we're doing some testing this holiday on moving some of our Kay brands into Zale and some of our Zale brands into Kay. We have taken some of our brands into Canada where we didn't have a presence before.

So, we're doing a lot of important testing, but we think there's a huge opportunity to optimize this business. If you look at the productivity of the stores, the average Kay store does about $2.1 million a year. The average Zale store does about $1.6 million a year.

I mean, there's a 25% gap there just waiting to be closed. And I think that with all the experience that we have and the knowledge that we have, the understanding and the training of the people, the product that we can share across the lines, we will close that gap.

I mean, there's no reason for it not to be closed. And so, there's a big opportunity of upside for the company on that. Michele, do you want to add anything to that?

Michele Santana: Yes, I can just piggyback off from you, Mike. You talked about the store productivity levels. Some other areas that I look at, gross margin basis points. When you look at that differential between how Zale currently operates today and compare that to our Sterling Jewelers division, there's about a 400 to 500 basis point difference. So, there is a huge opportunity to close the gap in margins as well.

And we look at the inventory turns and benchmark our Zale division, which is right now about 0.9, and you bench that to our Sterling Jewelers division, which is about 1.4, again, another huge opportunity for us to really dig into the inventory side. And we have started some of those initiatives on pulling on that nonproductive inventory and replenishing it with faster turning SKUs that will really help getting that inventory turn moving.

The other thing I would point to is -- I'd just even take a step back. And we looked this acquisition, and originally we had announced that we thought, in magnitude, about $100 million of synergies. And that was kind of roughly 50% margin, about 20% SG&A savings, 30% coming from our cross selling repair service opportunity.

And most recently on our last earnings call, we did increase that number. And we're still early and in the process, but again, we continue to see these opportunities as we get more into the integration. And that $100 million has moved to $150 million to $175 million is where we see the synergy opportunity coming from.

And we anticipate that that will be over the next full three fiscal years. Some of that will come next year, and then the remainder of that we really see in kind of the year two, year three.

Rob Joyce: Brilliant. Thank you very much. I guess while we're talking numbers and that type of thing, just in terms of where you're trading now and a very solid quarter you reported last week, how do you see that trading developing into the second half of the year? And what are the key trends people should be kind of aware of that you're seeing maybe in the market?

Mike Barnes: I mean, there's no reason that we can see at this point in time, unless some macro event comes along, that we shouldn?t have a great second half of the year.

We think that we're well prepared for it. We have a lot of great products. At our last conference call, Mark Light kind of called out some of the trends that are really working for us.

Colored diamonds continue to be extremely strong, so we're seeing both the fashion side of the industry and the bridal side of the industry continuing with a lot of strength for us. We have the line in both the Sterling portfolio and the Zale portfolio of the moving diamonds, and they continue to be extremely strong as well.

We're behind these things on an inventory front. Michele made mention of our inventory. This is a big opportunity for us. One of the reason of the success of the Sterling part of our organization has been the strong inventory management process that we have, and how we get behind big ideas faster and bigger than anyone else and move them forward.

And that's driven a lot of our success even during the first half of this year. And we believe there's an opportunity with the Zale organization to mimic that and to get that 0.9 turn up close to the 1.4 that we have at the Sterling part of the organization.

There's huge opportunities there. And we know what we need to do is be faster, and we need to be more innovative than our competition. And we need to drive it quick and deep, and get the products out there and make sure that we're prepared for those crucial holiday selling times of the year.

We think that we're very well prepared for this holiday. We're ready for it. The teams are doing well. We've got a lot of new marketing behind it. We've got new television commercials on both the Kay, Jared, and the Zale brands. So, we're pretty excited about what the future holds for us at this point in time.

Rob Joyce: Great, great. And in terms of the other areas of your business people would focus on, the credit book. If you'd give a little bit of how that's performing, and how your raw materials prices are looking and how they're going to feed into the P&L would be great, Michele. Thanks.

Michele Santana: Yes. Yes, sure. Let me take that starting off with the credit.

Our credit portfolio continues to perform very strong. Our credit is a key enabler of our sales, and we really do view it as one of the competitive advantages we have. And the value that a credit customer brings to our Sterling Jewelers division is about 3.5 times that of a noncredit customer.

One of the investments we recently had made was in our decision engine, and we're really been seeing the return on that investment. And in our last call, we talked about our credit penetration rate had increased up to 62%, and that really is driven by the investments we've made on the front end.

And our investment there maintains that credit quality that we absolutely have to be robust about. But, what it does is it's a little bit more in terms of how it scores the accuracy of scoring an applicant. So, we're pulling in more of these quality customers into our portfolio.

And just another statistic I'd throw out there when we think about the performance of our credit portfolio, if you actually look at our allowance as a percentage of our accounts receivable, we actually had an improvement there of about 20 basis points over last year. So, it continues to perform strong, and I think there's great things to come from our credit portfolio.

Your next question, I believe, was commodity costing, commodity cost?

Rob Joyce: Yes, just how that's developing and how it feeds into the P&L would be great.

Michele Santana: Right. So, we're on a weighted average cost system. And so, with the weighted average cost, one of the things that does is it allows for slower movement of how changes in commodity cost actually flow through our P&L, which can be good and bad.

So, in the times when your commodity prices are substantially increasing, that flow through is much, much slower and you don't see that impact as quick. The inverse is true, so when we've seen the declines in the gold market over the past year and half -- which I think has kind of been more sitting in this $1,300, $1,350 range. But, the inverse is true that it takes a little bit of a longer time for us to catch the tailwinds of those lower commodity pricing.

We are now seeing that. And we talked a little bit on the call about this, that we are seeing the benefit of lower commodity costs flowing through our margins this year. And I expect that we will continue to see that coming through.

For the future, not sure where gold will go or diamond inflation. We anticipate maybe some small inflation on the diamonds, not much.

The other thing I would point out as it relates to commodity costs, we do hedging on our gold requirements. And this does help us protect a certain target rate that we have established and does help kind of that dollar cost averaging as it moves through our margin as well.

So, it's just another way that we help to protect the margins that we're looking to achieve. At the end of it what I would say is, when you look at our margins, our objective is to broadly maintain that margin as we move forward.

Rob Joyce: Okay, thanks. And just back to brands, I guess, an important part of maintaining the price integrities, how much of the kind of diamond prices do you have to pass through? Is it an industry where you see that flow straight through to the customer, or the customer is not really aware of the underlying commodity value?

Mike Barnes: Yes, that's a great question. We do pass the cost along to the customer as we have the inflation. And actually, what we hope for in this industry is a very steady, low single digit inflation year after year after year, because that helps us get our prices up.

The customer understands it because they understand that there is an underlying value to the products that they're buying, the diamonds and the gold. And we have products out there, for instance, our trade-in policy. If you buy a diamond product from us, you can trade it in any time

over any number of years. We'll give you the full value of what you paid for it as long as you spend a minimum of twice as much on your next purchase.

So, if you bought a $1,000 diamond ring seven years ago, you can bring it in today, get your $1,000 back as long as you spend $2,000 going forward. So, the customers -- we're fortunate in this industry that the customers do understand that there is an underlying value to the products.

Unlike a -- you go buy a Giorgio Armani suit, it's wonderful. It's a great suit, and six years from now you're going to give it to Goodwill because it's worn out and there's no underlying value to it. But, they get that with our products.

So, we can deal with the inflation. We do pass the cost increases along. We've done it on a pretty regular basis. We've been fortunate in the last year that we haven't had to do much because gold has subsided so much from the high levels that it was at.

Diamonds continue, as Michele mentioned, to have a slightly inflationary number attached to them. But, it's pretty reasonable and it's not something that's kind of off the charts and makes us move the needle very quickly. So, that's the way it works with the costing and the branding.

The other thing about the brands that you also mentioned is that having exclusive and differentiated brands makes us less susceptible to a couple of things. One of them is show-rooming. People can't like shop our brands and then go online and buy them cheaper because they're exclusive.

The other thing is it makes them less susceptible to discounts, because if you want to buy a Jane Seymour or a Tolkowsky diamond or a Leo diamond or a Vera Wang bridal set, you've got to come to one of our stores. You can't get it anywhere else. And so, we don't need to discount it, because there's no real competition against it.

Rob Joyce: That makes perfect sense. And I guess one of the things from the panel yesterday I thought was interesting was the consensus that amongst the millennial generation, I guess your next generation of people who'll be buying engagement rings and getting married, are still -- one thing they still really value is the brand. I just wonder if you'd give us an insight into how the millennial generation are possibly shopping differently for jewelry and how you see that customer evolving.

Mike Barnes: Sure. Yes, I mean, the millennials are where it's all at right now. That's certainly the biggest part of our business, and we are really doing everything that we can to give them what they're looking for out there.

They do love the brands. Whereas 20 years ago you would go buy an engagement ring, which is -- it's not like there's a brand stamped on an engagement ring even with our branded products, right? Because it's not like a handbag. There's no room to like put a brand on there.

Rob Joyce: Opportunity.

Mike Barnes: Yes. That'd be a really big ring, unfortunately.

But, the point is that people understand it. Branding is really about storytelling. And I always use the example of -- and because engagement rings are about the least branded component of our

business, how do you brand it? How do you convince your millennial customer that that's what they're looking for?

So, I use the example of -- three different examples. A gentleman walks into the store. He says I want to buy an engagement ring for my fiancee. She just loves the sparkle and the brightness of the diamonds and the glitter and all that. Oh, let me take you over to our Leo collection, because this was the first diamond to be proven to be brighter on the spectrometer scale. And so, there's a story to tell there.

Another guy comes in and says, hey, I need to buy an engagement ring for my fiancee. I know diamonds aren't perfect. They come out of the ground. I don't want to buy something that's not good or not cut right or whatever. So, how can you help? Let me take you to our Tolkowsky collection.

Tolkowsky happens to be the gentleman that invented the Ideal Cut diamond. And every single diamond that we sell in the Tolkowsky collection is certified to be ideally cut. And that is actually checked on by the family of Tolkowsky.

So, it gives them a story to tell. And when you get back to the family and the friends, it's like he didn't just get me a really nice one carat engagement ring. He got me a Tolkowsky, which is an Ideal Cut diamond, and it was invented by the Tolkowsky family, etc.

So, that's the way branding works, and the millennials love it. They like to have a great story to tell.

The other thing that we do is we work very hard -- the fifth pillar, as we call it, of our long term Vision 2020 strategy is all about people, purpose, and passion. And it's how we build the organization of the future, and that is so important to the millennial generation.

They really get into that. And we spend a tremendous amount of time on corporate social responsibility initiatives. And this new generation, it's not just the quality or the price of what they're buying. It's how socially responsible is it, in some way.

And so, we spend a lot of time working on efforts to lead that part. Being the largest player at retail in this industry, we believe we have a responsibility to lead in that direction as well.

And so, we're doing that. And that also plays extremely well with the millennials. I'm glad, because it's the right thing for us to do, but it also helps our business.

Rob Joyce: Yes. And is there any risk to the industry, just some of the social questions around the origins of diamonds? Is that easy enough for your to convey to your customers?

Mike Barnes: I think that we do a good job. When Dodd-Frank was enacted, gold was included in the responsible sourcing area. And we spent a lot of time working on a protocol for responsible sourcing and how we would work with our vendor partners to provide a chain of custody on where the products come from.

And that's worked very well. We met with the United States government when they were trying to write the rules of how they were going to govern the Dodd-Frank Act. And I think that we actually made a positive impact on how they came out with that.

We are currently working on diamond sourcing protocols as well with all of our vendor partners as well as other people within the industry. And we just feel like that's the right thing to do. I don't think there's a risk, but I think that we need to show our responsibility in how we're sourcing products, how we're dealing with these issues.

And we need to be the leader of it. With the great opportunity that we have, there's even greater responsibility, and we're willing to step up to the plate on that.

Rob Joyce: And on that very ambitious note, I will -- let's open it up to Q&A for the room, if anyone's got a question they'd like to ask Mike or Michele, please.

Unidentified Audience Member: I know you've found more synergies than you had originally expected. Could you go through where the differences were that you found that increased your synergies?

Mike Barnes: Sure. Michele, you want to take that?

Michele Santana: Sure. So, really when we had initially talked about the $100 million and I kind of gave that breakout, about 50% coming from margin opportunities, the 20% from SG&A savings, 30% from cross selling repair service opportunity.

And as we kind of dive deeper into the integration, got a little bit further along and realized that there are additional synergies of this $150 million, $175 million range, really the spread of that or the fallout of that is very similar to that 50% margin, 20% SG&A, and 30% from the continued cross selling repair service opportunities we see. So, it very much follows that same breakout.

Unidentified Audience Member: Thank you. Do you see an opportunity in the outlet? And then, I have another question about, given that you see business growing double digit in e-commerce, how does that relate then to the store productivity and to how you pay your landlords?

Mike Barnes: Okay. Thank you. The first question was about outlets, do I see an opportunity there. A huge opportunity. Outlets have been one of the real growth areas of retail in this country.

If you look at it, there haven't been a lot of new mall developments in regular full-price malls, but outlets have continued to grow. If I give you a short history on our business and the outlets, three years ago after I had joined the company, we were running a poor third place in the outlet market.

We were the number one retailer in jewelry in America, and yet we were like behind Zale and behind Ultra Diamonds in outlets. We had about 20 some-odd stores, which I said we got to push this. We got to grow these stores a lot faster and really move into this part of the business.

But, Ultra had over 100 stores and Zale had over 100 stores. So, we made the acquisition of Ultra Diamonds about two and a half years ago now, something like that. And over the first year that we owned them, we did an incredible transition and integration of that company. We changed most of the nameplates to Kay from Ultra and leveraged the national brand that we had out there.

These stores are performing phenomenally well. And in the last quarter that we just reported, our outlet stores were one of the strengths of our entire business. And we're now up to -- now that you include Zale, we're somewhere in the 250 to 300 store range out there with outlets, and the stores are doing great.

And the legacy Ultra stores that we didn't convert to Kay, and we had about 30 of those, I believe, 30-ish something, we did a test with Jared. And we put in Jared Vault stores into the outlets. And oh, my gosh, these things just leapt off the page.

I mean, the productivity was phenomenal. Even before we changed out the product, just the name change alone made them leap. And then, as we did change the product to be more appropriate for a Jared store, it went even better.

So, we ended up changing the entire Ultra outlets that were left into these Jared Vault stores. So, now we have Kay, Jared Vault, and Zale, and it's just a tremendous part of our business going forward.

I'm sorry. What was the second question you had?

Unidentified Audience Member: How do you feel with e-commerce becoming a bigger part (inaudible -- microphone inaccessible)?

Mike Barnes: E-commerce is so important, and it does grow in double digits. As I mentioned, a lot of that e-commerce business actually goes through our stores, because they have it delivered there. So, it works hand in hand with our stores.

The other part of this is, and the reason that we talk about a digital ecosystem and not just e-commerce, even people that don't buy online, almost all of them do research online. And they walk into our stores either with a printed sheet of paper or with their mobile phone and say I want to see this. I want you to talk to me about this.

So, it really is there to support us. We have gone very strong on the social part of the online business. We have Facebook pages for all of our brands. We have Twitter for all of our brands. We're working with blogging associations.

I mean, there's a lot of stuff that we can do. We actually launched in the last year a site that was meant to not be a sales site but to educate the public on diamond buying. And so, it's there to help them without being an in your face sales site.

Now, if you look, you can find a link to Kay or Jared on that site. So, we'll be happy to sell you as well. But, we're trying to be responsible in the industry and provide people with an education about diamonds. It's a complicated category, quite frankly, and we just want to help people make the right choices.

Rob Joyce: Thanks very much, Mike. I think we've got probably time for one more question.

Unidentified Audience Member: Hi. So, very quick question. So, you highlighted that brands account for 27% of your sales. Can you tell what proportion of your profits do they represent, the 27% of sales?

Mike Barnes: Yes. Yes, last year they were a little over 27%.

Unidentified Audience Member: But, in terms of EBIT contribution, profit contribution?

Mike Barnes: In terms of profit contribution, they are probably slightly above the non-branded part of our portfolio. If you look at our branded products in terms of margin, even after you include -- and we do include the cost of the brand, for instance, a royalty to a brand owner like a Neil Lane or a Jane Seymour, our margins are slightly higher than they are on non-branded product.

So, we are able to capture the essence of the brand and build it into the product pricing. And so, it delivers a slightly higher profitability and margin than non-branded product, but it's not a huge number.

And the reason that we do brands is not about that. It's really about creating a moat around our business and creating products that people have to come to us for if they want it, and to build loyalty and repeat purchasing of the brands.

Rob Joyce: Mike, that's great. Thank you both, Mike, Michelle. Really appreciate you being here.

Michele Santana: Thank you.

Rob Joyce: I'm sure everyone else did.

Mike Barnes: Thank you.

Rob Joyce: Thanks a lot.

Mike Barnes: Thanks. Thanks, everyone. Appreciate your interest.