Company Name: Signet Jewelers Ltd
Company Ticker: SIG US
Date: 2015-06-24
Event Description: Investor Conference

Market Cap: 9,504.71
Current PX: 118.62
YTD Change($): -12.95
YTD Change(%): -9.843

Bloomberg Estimates - EPS
Current Quarter: 1.151
Current Year: 6.715
Bloomberg Estimates - Sales
Current Quarter: 1384.250
Current Year: 6534.833

Investor Conference

Company Participants

- James M. Grant
- Mark S. Light
- Michele Santana
- Edward Hrabak
- George W. Murray
- Sebastian Hobbs
- Daniel Shull

Other Participants

- Joan Payson
- Scott D. Krasik
- Lorraine Hutchinson
- Dorothy Senghas Lakner
- Simeon A. Siegel
- Oliver Chen
- Rick B. Patel
- Andrew W. Hughes
- Dominick Lucci

MANAGEMENT DISCUSSION SECTION

James M. Grant

All right. Good morning, everyone. All right. So, we're ready to begin. And would you please take seat, come in, try to fill in every seat in the middle. If you can, we do it very full house today.

I'm James Grant, Signet's Vice President, Investor Relations and while you get settled in, a few housekeeping announcements. So we spoke about trying to fill in everywhere in the center, appreciate your doing that. You'll notice that at each place there's a presentation booklets with an agenda on the front.

Including time for Q&A, we'll complete our work in this room by 12:30, and then we'll move across the hall I believe it is [ph] Vanderbilt (00:45) out for lunch which is right across the [indiscernible] (00:47). Some of you were notified that there is a slot for you on the store tour. If you have a sticker on your badge, that should take you through store tour.

Now for those folks I'm going to ask to cut your lunch a little bit short and we're going to need to be walking out for the buses at about 1:45. So for those of you in the [indiscernible] (01:06) be prepared for that. So please be prepared to go out of the Park Avenue exit, and then go to the left and we're going to board the buses on 49th Street between parking lot little closer to the Park. We'll be there to instruct you guys.

If you'd like to do the store tours but you don't have a sticker you might be on a waiting list. So [indiscernible] (01:28), please come out to the boarding area with me and if there are no shows then there might be a slot for you. If we can be pulling away at 2 PM, then I think we'll will be back here at the hotel by about 6:30, lot of stores, lot of traffic, just one set expectation.

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Today's conference is being webcast live on signetjewelers.com, and it'll also be archived on the site, you can listen to anytime afterwards. In your booklets is the page on risks and the use of non-GAAP metrics, please have a look at that. The page is also part of the same booklet that is on our website. As you see on the agenda, we have five Signet executive presenters and there are also several other Signet representatives here. We at Signet are all wearing badges with a blue stripe. Those of you in the debt community to whom we owe money are wearing a red stripe. And those of you in the equity community have a green stripe. This way we all know who we are and have a better idea when we're talking at breaks and at the lunch.

So I'm going to read off the names of the folks representing Signet other than the speakers, that you'll hear from soon and to those Signet folks please stand and remain standing until I'm done so that our financial community partners can know who you are and talk to you little more at the breaks and at lunch.

Steve Becker, Signet Chief Human Resources officer; Michelle Chapa-Fowler SVP of Merchandising at Zale; David Clunk, Signet SVP of Real Estate and Store Planning; Scott Davies, SVP of Marketing with Zale; Lynn Dennison, Signet's Chief Legal Compliance and Corporate Affairs Officer; Cathy Fischer, SVP, Marketing and Sterling Division; Tryna Kochanek, SVP of Field Operation in Sterling; Stuart Lee, SVP of Merchandising Sterling Division; Bill Luth, SVP of Store Ops, Zale Division; Rory O'Donnell, Signet Controller; Dawn Phillipson, Signet's Manager Investor Relations; Denise Shaffer, Signet's Treasurer; and Dan Shull, Signet's Chief Information officer.

Thank you very much Signet management. You can now be seated. And besides the Signet leadership, there are also actually four members of the Signet Board of Directors with us today, in addition to Mark Light of course. Those directors can please stand as I say your name, are Helen McCluskey. Now in your package, Tom Plaskett is listed, but he's late scratch due to lot of the travel issues that a lot us had. Robert Stack, Todd Stitzer, our Chairman of the Board, and Eugenia Ulasewicz. Thank you very much board members. You may now be seated.

Okay, so at this point please make sure that your mobile devices are silent, and now Signet Chief Executive Officer, Mark Light.

Mark S. Light

Thank you, James. Just I want to make sure, we missed one Signet team member and I want to introduce, Jamie Singleton. Please stand up, who's a General Manger of our Piercing Pagoda stores. So thank you, James and good morning to everybody.

We are so very excited to be here with you. And by the time we finish the day, I know you'll be as excited about Signet Jewelers, many opportunities for profitable growth as all of us are. We are guided in everything that we do at Signet which is our mission that is to celebrate [indiscernible] (05:10). We are guided at Signet Jewelers and everything we do by our mission and our mission is to, help our customers celebrate life and express love.

Our proven Vision 2020 Strategy supports our mission. The strategic pillars of Vision 2020 are designed to build our core strength, to create long-term growth, and to enhance shareholder value. There are five strategic pillars to our Vision 2020. One is to maximize our share for the mid-market jewelry sector; two, as to be regarded as best in bridal across all our geographies as well as best in watches in the United Kingdom. Three is to achieve Digital Ecosystem's best practices. Four is to expand our company's operational footprint in all respects. And five, what we refer to as people, purpose, and passion. This component reflects our work environment and supports the first four strategic pillars to the leadership and development of all our team members.

So let's take a closer look at each one; first, our commitment to maximizing our share of the midmarket jewelry sector. This pillar forms every plan and every initiative that we develop and implement. When we acquired Zale, the time was right to take a closer look at the definition of the midmarket of jewelry. After conducting a market and customer segmentation study in the United States, we validated that Signet's long-term growth opportunities will be even greater if we refined our view of the midmarket, so we did just that.

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So instead of basing our view on household income of consumers, we refined our midmarket thinking according to the value of the products that they buy from us. From that perspective, the midmarket jewelry represents products in the $100 to $10,000 range, essentially excluding costume and high-end luxury, which is 95% of Signet's merchandise sales, all land within that range. And when we widen our focus to include jewelry in that range, we discover that our midmarket in the U.S. expands to $41.2 billion, over half of the total U.S. jewelry market. This midmarket target is Signet's sweet spot and it's notably larger than the way in which we had thought about the market in the past.

We view our competitors as any business that sells fine jewelry in that price point range, including specialty chains, independent jewelers, department stores, mass merchants and web businesses. Of course, our refined midmarket mindset extends beyond the United States and we're confident that there're similar opportunities in the United Kingdom and in Canada.

We are now researching them from a global perspective. This mid-market opportunity is significant and it's within our core. So what is Signet's core? As you can see our core encompasses the established categories of our business where we excel, categories that have made us very successful over the long-term. So moving clockwise, from 12 in this chart, Signet core combines with our brick and mortar store presence, our digital sales channel presence. As I just touched on our product categories, according to what we now define as a mid-market, our strength in customer-purchasing opportunities, our success in providing adjacent services to carve customers, the added benefits we provide with our customers with our proven supply chain initiatives and to bring it to full circle our geographic sales focus.

We know that focusing and on building and expanding on our proven strengths of these core categories is how we will transform Signet in even more dynamic and significant ways over the long-term. So with this in mind, we are constantly evaluating our business for ways to improve by reviewing, for example, how we position with our customer base, the products that we sell and our organizational structure. The Vision 2020 mid-market pillar is our guide to accelerating growth across every core category. The comprehensive segmentation study I mentioned is empowering to us. Define our highest priority growth opportunities within the mid-market, in other words, where Signet will play? Understand how our store brands across all three divisions are positioned today compared to where they need to be to maximize growth.

We'll determine how we should position, differentiate, and optimize each one of our store brands, and define how store brands or how our store brands will strengthen the unique value proposition, and in other words how do we win? Our segmentation study also looked at the occasions for buying jewelry and our findings told us that there are three. First, bridal; the second reason for gift-giving, such as for holidays, birthdays and anniversaries, and third, self-purchases.

From this part of the study, we glean that overall Signet store brands are strongest in the first two areas. Bridal is about half of our total merchandise sales and we believe our mid-market bridal share is approximately 25%. The gift-giving segment represents majority of the remaining half of our merchandise sales. Self-purchasing is comparably a much smaller component of our sales, and as we grow our core, we are now more focused on bridal and gift-giving.

Our study then assessed the specific types of midmarket customers who buy from Signet's U.S. national store brands to determine how sooner they are in Kay, in Jared, and in Zales. And research of our jewelry customers revealed several distinct shopping, purchasing characteristics or customer identities. And we learn that Signet store brand customers are actually differentiating more on an attitudinal basis. We've arranged these attitudinal behaviors into five customer identities.

First, the sentimentalist; this customer likes high quality jewelry with sentimental value and looks for timeless pieces that last.

Second, the gifter; this customer literally buys jewelry only as a gift. He usually does not know much about jewelry and quite frankly doesn't even enjoy the shopping experience, but knows to better buy some jewelry.

Our third customer identity is the influencer. This person buys jewelry for others and him or herself, uses jewelry to show status and cares very much about brands.

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The fourth identity is the stylish shopper. This customer likes the extra bling from jewelry. Wears jewelry often and thinks about it as a part of their outfit.

And the fifth is the practical shopper. This customer is a low-key purchaser who likes inexpensive jewelry and likes to wear it every day. Again, these are attitudinal differences meaning for example, that gifters who shop for jewelry because they feel that they have to are not defined by age or by income demographics. What they have in common is that they require being in the store brand that they trust, and engaging with store associates who make their shopping experience easy.

Kay, Jared and Zales customers share many of these five customer traits, but we were excited to discover that each store brand attracts a heavier waiting of certain types customers. Ed Hrabak and George Murray will explain their divisions' unique customer identities in more details later this morning.

Approach to the jewelry is a highly emotional experience in which every customer extends trust if they feel comfortable within the store experience. This segmentation study provides actionable information opportunities for new approaches to marketing, to store design, to merchandise assortments, and perhaps even team members' [ph] attire (13:14) in order to better serve each customer type within our mid-market target.

These approaches will help us to build greater loyalty and minimize cannibalization among our store brands. That actually bears repeating. Our customer segmentation efforts will minimize cannibalization among our store brands. Of course driving our refined mid-market business requires more than just understanding our customers. It also requires innovating for them. This is one of the reasons why we have opened our new, New York based product development and design center. In addition to supporting some of our existing merchandise brands, our design center team collaborates with each of our business units to identify and create sustainable industry trends. Ultimately, this leads to new designs that'll be exclusively available within Signet store brands and marketed with our powerful sector-leading share of advertising voice.

Of course, all of these mid-market share increasing efforts are supported by our company's financial strength as the world's largest seller of diamond jewelry and the largest specialty jewelry retailer in the United States and Canada and in the United Kingdom. Our segmentation study has reinforced that our growth and success happened as a result of us focusing and expanding on our core strength. For Signet, those strengths are the center of our refined mid-market target. Using what we have learned from our customer segmentation studies, we'll be able to more clearly focus each of our store brands to specific customer trades, as opposed to having all of our brands trying to be all things to all customers, because of the range of store brands Signet includes, combined, we can cover the entire mid-market.

Ultimately, building on our core business increases shareholder value now and over the long term. This commitment to our diverse customers and our shareholders is unwavering, which leads me to Vision 2020 strategic pillar number two; being the best in bridal across all Signet geographies and best in watches in our United Kingdom Division.

Bridal sales represent approximately 50% of our business. We've achieved that by [ph] chewing (15:32) the best in bridal initiative, not as a destination but as a continuous ongoing journey. We are confidently enhancing and refining every aspect of our bridal presentation along with offering merchandise brands like Leo, Neil Lane, Tolkowsky many of which are exclusive to Signet's divisions and with Zale acquisition that powerful arsenal now includes the Vera Wang LOVE collection, one of the most iconic bridal names worldwide. We are testing this cross-selling of this great brand in select Sterling and UK Division stores and we are complementing this by cross-selling another one of our strong bridal brands Neil Lane in select Zales and Peoples stores. And by the way we're also cross-selling fashion brands such as Le Vian and Open Hearts by Jane Seymour across our divisions.

Cross-selling both bridal and non-bridal is an important part of our synergies and are making our store brands the bridal destination place. In jewelry, bridal represents the closest thing to a necessity for our customers and Signet's strength in this area doesn't stop with merchandize. Our brands are supported by our industry leading supply chain capabilities, proven effective marketing and the understanding knowledge and experience offered by our store teams what we call the prefect bridal presentation. These are all components which you will hear about in greater detail from our division presidents later this morning.

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Credit supports bridal. As a matter of fact, most of our bridal sales involve our credit programs and the majority of our credit portfolio is for bridal jewelry. Since the two are linked, we know our customers, our bridal customers very well and this enables us to mark to them and strengthen those relationships and maximize their long-term sales productivity opportunities. We recognize bridal to be a critical area for us to develop lifetime customers. If we delight them for their engagements, we can do so for weddings, anniversaries and every gift giving occasion, year after year after year. The long-term growth potential in this area for Signet is enormous.

Seb Hobbs will tell you later in the UK Division our best in bridal coexist with equal emphasis on being best in watches. Watch sales make up nearly a third of our sales in the UK and this area of our business continues to grow.

Our third Vision 2020 pillar calls for Signet to be the absolute best in the digital ecosystem. Our omni-channel approach to educating, selling, and serving is uniquely important jewelry retail because the purchase of jewelry is personal, intimate, and typically viewed as a very, very important emotional experience.

The Internet often represents the first interaction of a customer or prospective customer we will have, but with us by jewelry buying occasion and when it arises. But because trust is the most important factor why people buy jewelry where they do, customers overwhelmingly complete their purchases in our stores with our trusted knowledgeable sales teams. That's why an omni-channel strategy is critical and is so important to our business.

This digital ecosystem is a crucial step and physical stores will always be the most important element of that strategy. Fine jewelry customers invest time on websites as well as on social media to experience the merchandize assortment prior to visiting brick and mortar stores to make a purchase. Through the Internet, we educate our customers. We communicate with our customers and we merchandise with them to maximize their first impressions and optimize their in-store experience and ultimately drive sales.

Our omni-channel approach accommodates customers' preferences to order merchandise online and have purchases shipped to their homes or pick them up in the store, so they can take advantage of our team members' expertise. Keep in mind our e-commerce efforts are not in competition with our stores. No matter how our customers order or purchase their merchandise, the financial centers to offer the superior customer experience is always there for our team members.

The fourth pillar of Vision 2020 is expanding our footprint. So when I started with Sterling almost 40 years ago when I was seven years old, we had 35 stores at that time, and it's been almost 30 years since Signet acquired Sterling Jewelers. So I'd like to offer you a brief history of Signet's physical footprint growth over the decades, framed by our company's ability to grow organically as well as through acquisitions.

So in 1987, we had grown to over 100 stores and Sterling was publicly traded for the first time. Investors took notice of the growth and by the end of 1987, Sterling was acquired by Signet. Also in 1987, our M&A history became much more active when Signet acquired the 82 stores of Westhall. The following year Signet welcomed 56 Osterman Stores and the decade closed with the addition of three more acquisitions including 90 Weisfield Stores, but Signet was just getting started.

In 1990, we doubled our size of the acquisition of 506 Kay Jewelers and JB Robinson Stores. Then in 1993, our financial strength enabled us to launch a revolutionary concept in jewelry retail; Jared The Galleria of Jewelry, offering five times more of inventory than a typical jewelry store and with a superior customer experience. At the start of the new millennium, we grew again. Then we acquired 137 Marks & Morgan stores, and by 2003 Sterling had become the largest specialty jeweler in the United States.

In late 2012, Signet further expanded in the U.S. with the 102 outlet store acquisition of Ultra, America's fifth largest jewelry chain and a leader in the jewelry outlet market, which brings us to our latest and most ambitious retail acquisition. Just over a year ago, Signet acquired its largest competitor Zale, and it's over 1,600 North American stores including Zales, [ph] Gordon's (21:55), Piercing Pagoda in the U.S. and Puerto Rico, and Peoples and Mappins in Canada.

Today, Signet Jewelers operates nearly 3,600 stores, but what is critical for you to know is that with each acquisition, our company seamlessly integrated and dynamically grew, thanks to the expertise of our people from a home office

leadership to our field. When we acquired Kay in 1990, the brand was everything, quite almost $900,000 a store. Today Kay averages over $2.1 million per store with close to 1,100 locations, and Kay is also the largest retail jewelry brand in America. Jared launched 22 years ago with two stores. Today it has more than 250 locations in United States, including our freestanding Jared, The Galleria Of Jewelry, Jared Vault outlet stores, and mall-based test concept Jared Jewelry Boutique and Le Vian by Jared.

Now with $1.2 billion in revenue, Jared is the fourth largest store brand in America. The last 30 years of our 100-plus year history demonstrate that the Signet team knows how to expand and grow profitably. We're in the process of doing again with Zale, and be assured we continue to consider both organic growth and acquisitions as key drivers to our success, with each integration we establish or accelerate our execution curve by sharing proven best practices. For example, Zale which is now the youngest business unit on the Signet execution curve and it is targeting the growth that our UK Division has been achieving over the last few years. At the same time, the UK is focusing on the growth part and our most mature business unit's Sterling, has been setting and rising for our company over the last two decades.

So on a more micro level, our geographic footprint is also impacted, by our centralized real estate program. Michelle, Ed, George, and Seb will speak more about all of our new store concepts and the multi-year store comp projection. This includes a look at our regional store strategy also.

Finally, our first four Vision 2020 pillars are built on the foundation of our company that makes every other dimension a success. People, passion, and purpose. Our individual team members' commitment to being part of Signet Jewelers' team is vital to the success of our mission. Today, across our three business units, we are united as one company more closely than ever before in our history. And this is not accidental. We hire the best and the brightest. We train them to achieve, and advance and we orient them to the importance of something that we call Signetization which is the ongoing process of identifying, creating, and sharing, and integrating together every best practice and then using our corporate assets accordingly to the greatest benefit of our team members and Signet Jewelers.

In other words, no matter which division a team member works in or represents, we are all part of one great company, Signet Jewelers. And then our united efforts ultimately empower the growth and the success of our one company. This foundation of people, purpose and passion, also empowers our company's velocity on corporate social responsibility.

From a philanthropic perspective, Signet is one of the founders of the industry's own charitable organization, called Jewelers for Children. Signet also takes leadership role in the Diamond Empowerment Fund, which is an international non-profit organization that supports education initiatives in diamond producing countries. The [ph] Sterling Division (25:46) also has a very long successful history of supporting St. Jude Children's Research Hospital and raising more than $46 million to date for St. Jude.

Our UK Division's charity of choice is CLIC Sargent, which also cares for young people with cancer and we are currently in the process of selecting a charity partner for our Zale Division. From a business perspective, our corporate social responsibility efforts are an integral part of our global strategy.

Signet is at the forefront of developing and adhering to responsible and compliant sourcing practices in the jewelry supply chain in every jurisdiction of which we conduct business. Signet is the founding active member of the Responsible Jewelry Council, which is an organization committed to promoting ethical human rights, social and environmental practice throughout entire jewelry supply chain. Signet representative serves on the board of the World Diamond Council as an observer to the Kimberley Process Certification Scheme that was established in 2003 to prevent conflict diamonds from entering the mainstream of the rough diamond market.

In everything that we do, we lead to ensure that our merchandize never loses favor with our customers and the general public when it comes to social and environmental responsibility. We are a profitable company committed to doing the right thing on behalf of our customers, our investors, our team members and the communities where we operate around the world.

Ladies and gentlemen, here are several proof points summarizing my presentation and demonstrating the achievements of our Vision 2020 Strategy to the last fiscal year-end. In just the last couple of years, we have maximized mid-market buy, sticking to our core, thoughtfully segmenting our customers, continuing to innovate, and being on top of trends.

We furthered our best in bridal position through vertical integration, continued store operation enhanced techniques and brand management including cross-selling of Vera Wang LOVE and Neil Lane bridal. We significantly strengthened our position in Digital ecosystem, by improving our opening touch points, by developing responsive design sites, by expanding our social media presence and linking our work to the stores.

We've also expanded our footprint throughout North America by adding Zale U.S. locations, by integrating our outlet acquisition and entering Canada. And we have an amazing unified team that is focused on the greater good of all Signet by collaborating every day in running a great business in a very responsible way. Each of these proof points offers incredible opportunity for long-term growth and market share gains.

Today, you'll get the detailed perspective from our Chief Financial Officer and our three division presidents, and Signet leaders throughout the room that you'll be talking to one-on-one. Thank you for being with us today. And now with a more detailed economic perspective of our strategy, please welcome Signets Jewelers Chief Financial Officer, Michele Santana.

Michele Santana

Thank you, Mark. Good morning, ladies and gentlemen. I'd like to first start by giving a brief introduction of myself. I joined Signet Jewelers in 2010 as a Senior Vice President and Controller and then became CFO last August. My association with Signet, however, began long before I became part of the team. I had worked closely with Signet for 14 years while I was at the tax and financial advisory firm, KPMG. So when I had the opportunity to join the company five years ago, I was well versed on Signet's business model.

So enough about me and let's move on to the business at hand. Today, I'm going to begin with the jewelry sector overview and then we'll get into the financial implications of our mission and our Vision 2020 strategic pillars that Mark had discussed.

Now, according to the latest government data, the total U.S. market for jewelry and watches is about $78 billion. And as shown in this graph, medium and long-term compound annual growth rates in dollars have generally tended to be about 3% to 4%, no matter which timeframe or sites of the market that one looks back. The medium and long-term CAGRs for total retail sales have been approximately the same. With a long term CAGR of roughly 3% to 4%, the jewelry industry has seen some soft patches before like what we're currently experiencing now and has recovered.

So let's take a look at how Signet's performance stacks up to the jewelry retail industry. With a five-year compound annual growth rate of 12% in total sales, Signet has been gaining and continues to gain market share, profitable market share. And as you saw on the previous slide, we continuously outperform not only the jewelry market, but also the total retail market. Of course Signet's recent and projected total sales are materially higher than the jewelry and retail markets and this demonstrates tremendous relative outperformance and market share gains.

And in spite of the near-term performance of the jewelry space, Signet's best opportunities remain in the U.S. jewelry market which is over 10 times the size of the other market where Signet has retail operations which principally are in Canada and the UK. Looking at the global jewelry market, the global jewelry market is approximately $165 billion industry and we are laser focused on growing our business in the markets in which we already operate, which represents about $90 billion of that. As Mark had alluded to, we are focused on growing in our core.

The jewelry market in Canada according to the Euromonitor has grown steadily over the past five years rising to an estimated C$7.2 billion or it's about US$6 billion in 2014. This represents a compound annual growth rate of 4.6%. Now, like the United States, 2014 growth in the Canadian jewelry market is estimated to be a little slower than the longer-term trend. Euromonitor estimates that 2014 was up 3% in dollars, about 2% in units. The outlook for the Canadian jewelry market appears steady with sales forecasted to grow C$8.6 billion or about US$7 billion in 2019 and that represents a CAGR of about 3.4%.

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In Canada, as is the case in each of our markets, the competitive environment in jewelry is highly fragmented between numerous chain stores and independent jewelers. In the UK, the jewelry and watch market stands at about £4.3 billion and is nearly $7 billion according to Mintel. That market saw recovery in 2014 with estimated growth of nearly 2% driven by rising consumer confidence and the expansion of the watch sector. The five-year compound annual growth rate of the UK jewelry and watch market was only 0.8%. The precious metal jewelry market has improved as well as consumers see precious metals being more affordable. The growth of millennial spending especially in bridal is also believed to have been a catalyst to the sector.

So let's move from the macro and let's focus on Signet Jewelers. Signet has delivered a precedent of profitable growth and we intend to continue to deliver a long-term consistent growth in sales and operating profit while balancing shareholder distribution with investment back into the business to fuel that growth.

So starting with the short-term, I'm pleased to reiterate all of our financial guidance that we had initiated last month on our Q1 earnings call. As you can see among the metrics on this graphic, we anticipate same-store sales growth of 2% to 3% and adjusted EPS of $1.11 to $1.16 for the second quarter. Our guidance reflects our proven ability to protect our bottom-line and to drive financial results through EPS growth.

So now let's look out at bit further at some of our medium-term expectations. We are reiterating our operating profit synergies as a result of the Zale acquisition. Of the $150 million to $175 million of net synergies, roughly 20% will be achieved from expense reduction, 30% from repair services and brand cross-selling, and 50% from gross margin initiatives which include supply chain and purchasing. We expect to see about 20% of the $150 million to $175 million achieved by this fiscal year. By the end of next year, or fiscal 2017, another 40% of the synergies will be achieved for a total of 60% of our three-year goal. Then, by the end of fiscal year 2018, we expect to achieve the final 40% of our synergy goal.

The cadence of the synergies should flow in these proportions due to the following: One, reinvesting some of our synergies such as marketing and labor hours back into the business to fuel growth; two, implementing critical information technology. IT systems are an essential underpinning to drive synergies and their deployment will take some time; and number three, the time that it takes supply chain initiatives to flow through our financial statements given our average cost of inventory accounting method and our inventory turn.

Now the majority of our operating profit synergies will be achieved by the Zale Division, but not all of it. A minority of the synergies will fall within the Sterling and UK Division. This implies that by the end of fiscal year 2018, the Zale Division should be operating at a margin about 9%, up from a low-single-digit operating margin when Signet first acquired the business. We do not have to deliver incremental sales productivity from Zale Division stores above and beyond the synergies in order to reach this medium-term operating margin milestone. And we may do so, but it won't be necessary.

So, is that all? Is a 9% operating margin over the next 2.5 years the end game for the Zale Division? No, absolutely not. Medium to longer-term that is after the three years it will take to grow the Zale model and deliver the synergies, we anticipate Zale operating margins will expand to approximately 15%, and this is based on greater sales productivity per store and the expansion of our Zale Division store base. We believe there's a great opportunity to further strengthen and expand the Zales brand footprint outside the traditional enclosed malls of North America. For this reason, Zale Division operating margins should, over the long-term, be similar to those of our Sterling Division excluding the contribution that Sterling received from our in-house credit function.

As for operating margin potential elsewhere in our businesses, the UK Division is in the midst of some significant and exciting momentum. And as you can see from this graph, Seb Hobbs and his team has implemented initiatives to increase store productivity. As a result, the UK has experienced two years of operating margin improvement and is performing well year-to-date. The financial performance has improved due to SG&A reductions, greater real estate efficiency, and most importance, due to higher sales and gross profit dollars per store. We believe our UK business is capable of returning to the levels of operating profitability seen earlier this decade. It is also capable of expanding its operating margin to 10% within two to three years.

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Now, as for our Sterling Division, it is seen operating margin expansion over the last few years and as planned with the Ultra acquisition in fiscal 2014, margins decreased short-term while we integrated Ultra before climbing again. Now, going forward and barring any other M&A type of activity, we believe Sterling will continue to expand its operating margins as well, albeit at a slower and steadier pace than Zale. Long-term, we believe the Sterling Division could achieve an operating margin of 19% driven by many of the initiatives that you'll hear about from Ed Hrabak later this morning.

So now let's move on to our real estate strategy, one of the most significant drivers of our growth story. As Mark had mentioned, due to the personal nature of the jewelry shopping occasion, the physical store and the in-person purchasing experience will remain the most important sales channel in our industry. Because of this, as well as our real estate expertise and our portfolio of new store formats, we can strategically and profitably grow our store count in the coming years in a way that many retailers cannot. By the end of this fiscal year, Signet's global store square footage is expected to grow by 2% to 3% over last year. And this is principally driven by the Sterling Division where there continues to be opportunities to expand not just Jared, which today operates in 39 states, but also Kay.

Kay will grow primarily outside of traditional enclosed malls and real estate formats such as power centers, mixed-use lifestyle centers and outlets. And we're also seeing success in a couple of new environment. First, in the newly created developments adjacent to high profile malls where the economics of the malls do not meet our requirement; and second, in smaller trade areas with smaller Kay stores.

Now as for the Zale and the UK division, their real estate stories are very similar to one another. In Zale, while we expect to hear to be virtually unchanged in terms of square footage, Zale will open about 35 new locations, and in the UK we expect square footage to increase slightly. This is a more confident outlook compared to 12 to 18 months ago when we believed units and square footage would decrease on a net basis in both the Zale and the UK Divisions. But due to better operating performance and more favorable lease deals and first models, there'll be fewer store closures and more store openings.

The growth outlook for the Zale and UK has improved. Combined, the two divisions are expected to open on a gross basis over 40 units this year and that's principally driven by our Zale branded stores, H. Samuel branded stores, and our Ernest Jones outlet stores. This is more store growth than Zale or the UK have had in years.

Now let's talk about store growth beyond this year. Using our latest fiscal year-end January 30, 2015 as a starting point, Signet will add 100 stores organically on a net basis over three years. This represents a compound annual growth rate and square footage of 1%, but as we drill down a little deeper to examine Signet asset division and store brand levels, you will see there's a variety of growth trajectories. Kay will go from just under 1,100 stores to nearly 1,200 stores. Jared, including our full line Jared stores along with our smaller footprint Jared locations and test concepts, should go from about 250 stores to almost 300 stores. Add Kay and Jared together and that's a 3% compound annual growth rate.

The Zales branded stores will see a 4% CAGR, as the Zale base goes to nearly 800 stores in three years. And as I mentioned, we believe there's great opportunity to further strengthen and expand the Zales brand footprint outside the traditional enclosed malls of North America. Notice the accelerated growth in Zale as our three year synergies wrap up and we will have improved the Zale operating model.

Net store count in the UK as well as Canada should remain fairly stable as we direct most of our capital where our biggest opportunities are, which is in the United States. It's important to note that our North American real estate team has been consolidated and united under one Senior Vice President, Dave Clunk, who James had introduced at the start of the program. Now this new structure allows us to synergize the analysis and the decision making of which store brands go to which location.

Every new store opening we achieved is still expected to deliver an internal rate of return of 20%. Now that bears repeating. Every store, and that includes Zale, there is no compromising of financial expectation for the Zales brand. That is largely why today the Zales gross opening still trail Kay and Jared. But again longer-term, we expect Zale to improve its productivity through the many initiatives George Murray will share with you later this morning. As a result, we expect long-term to have approximately 300 more Zale stores than we do today. The vast majority will be organic.

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There will also be nearly 50 opportunities to convert Sterling divisional regional stores to the Zales brand, beginning early next year.

Signet conversions and remodels of existing store locations still require a 25% IRR. Now, some individuals we talk to in the financial community mistakenly assumed that Kay has substantially better real estate than Zale, that Kay has many more A mall locations which deliver superior returns to B and C locations, and that's not exactly the case. I would characterize Kay locations as a bit more desirable and sometimes better located within malls, but importantly, there is not a great deal of repositioning that needs to happen for Zale.

Furthermore, we have many C mall locations for Kay stores that are more profitable than A locations. This is not something that's unusual in retailing as landlords tend to be more flexible for strong retailers and less than top malls. As we increase our square footage in deliberate fashion among our core store brands, we also continue to methodically manage down the store count of our regional store brands.

Now let's take a closer look at this waterfall chart together. Everybody loves waterfall charts in finance. As of the latest fiscal year end, Signet had 269 regional store locations from past acquisition, which is reflected in the right most blue bar. Over the years, we've added stores through acquisitions like Ultra in fiscal year 2012 and Gordon's and Mappins in fiscal 2014, and these changes are indicated by the green bars on the chart. We've also converted some stores to Kay and closed many stores which are indicated by the red bars on the chart. We have retained a group of regional stores that is profitable and cash flow positive. We will continue these techniques of converting some to core store brands, closing many, and then preserving approximately 50 long-term.

To sum up our real estate strategy, we have great confidence in our well diversified real estate portfolio, and we have significant growth opportunities ahead of us for each of our major store brand in a variety of real estate formats, more often outside of a traditional enclosed mall.

So now, let's move from real estate to a discussion of our different credit programs. We currently operate under a combination of two different models. One is an in-house credit program in which we take on both the risk and the rewards of holding accounts receivables. The second is the third-party credit program in which we keep the receivables off the balance sheet. The Sterling Division credit is operated in-house, while the Zale Division credit is operated by third-party. The UK's credit arrangement is also operated by a third-party, but it's immaterial to go into for today's presentation.

We are really excited to operate this hybrid model, as we believe we'll learn a lot over time. It gives us the opportunity to compare and contrast the effectiveness of the different approaches. It could also help us decide if we want to make any long-term changes in our approach to credit. Keeping this hybrid model in place is also the right decision for working capital used and to diversify risk.

Now at Sterling, we've managed in-house credit for decades and we have founded to be an enabler for sales. This is a proprietary model that uses many of the same tools financial institutions use to extend credit, but the real value add is that our model layers on top of that a history of how borrowers have behaved in the repayment of loans, specifically for jewelry. This is a very important distinction that no financial entity can match. A jewelry loan is an extremely emotional loan. No one wants to carry it for long and absolutely no one wants a default on their fiancé's wedding ring.

Most of our in-house credit business is linked to bridal, that is, 75% of our Sterling Division bridal sales utilize our credit as the form of tender and nearly 60% of total Sterling credit sales are for bridal products. As a result, these credit accounts are usually established by young people who need some short-term assistance. As you can see among the metrics shown here, receivables tend to be repaid at a rate of 12% per month. Our annual allowance for doubtful accounts has been a very consistent number at 6.8% of accounts receivable. As our receivables have grown, we have effectively managed our credit portfolio.

So as for the credit on the Zale Division side, we are moving to employ Alliance Data Systems as our primary third-party provider of credit in the U.S. In Canada, the provider remains TD. Presently, ADS is providing second look credit decisions for our incumbent provider. We'll be working with ADS for at least seven years, and even if nothing else were to change, were we to generate the same credit volume under ADS, the Zales Division merchant cost would

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be about $22 million less annually due to the more favorable economic terms of the agreement.

This is not included in our synergies because the new credit terms were not as a result of Signet's ownership of Zale. But we believe the benefits of this new credit relationship go beyond lower merchant cost. We also expect to benefit from our partners' expertise in customer relationship marketing and training of our store teams. Ultimately, for our team members with greater awareness and comfort in offering credit comes greater sales and earnings.

Now, in my final module, I'd like to discuss our capital allocation strategy. I want to reiterate the points we had introduced earlier this year and add a little color around what this could imply for the future.

As shown here on this slide, you can see our main tenets of our capital allocation strategy. An adjusted leverage ratio of 3.5 times, distributing about three quarters of excess cash to shareholders, increasing the dividend, repurchasing stock this year, and opening door to the possibility of further leveraging our balance sheet next year.

We do not intend to borrow this year, and because it is very important to us to maintain our investment grade credit rating long-term and that's because we may be back in the debt marketplace as we tend to expand our footprint as the Zale integration settles down some years out.

As we move through the current year, our leverage ratio should improve due to first, the full-year effect of our profitable Zale Division; and second, related to that, incremental adjusted EBITDAR generation. So it is reasonable for you to assume that by the end of fiscal year, our adjusted leverage ratio will be at or below 3.5 times, and this will put us in a position to leverage our balance sheet for the purposes of strategic initiatives, repurchasing incremental stock and/or delivering shareholder value through operations.

Using our asset-backed securitization facility which is our lowest cost from our borrowing should be the primary vehicle when we are ready to take on leverage, but we do have flexibility. The bond market also has advantages in terms of tax efficiency of favorable borrowing cost. While we have not guided how much cash we could or would deploy towards stock buyback next year, certain projections that we have heard or have become aware of approach $1 billion in fiscal year 2017 or calendar 2016 strike us as a little bit aggressive.

As you model our business, it's important to keep in mind that we are making incremental and unprecedented investments in the Zale Division. That means that utilizing historical operating expense figures related to Zale specifically when the organization was in pre-acquisition expense management mode could be to some making erroneous assumptions about the amount of cash that's available for repurchases.

Should we have a capital allocation strategy update or changes going forward? We will communicate those at the appropriate time. The extra dry powder we have, so to speak, around leverage and buybacks coupled with synergies and steep improvements in Zale productivity means we do not need material operating margin expansion from our core in order to generate solid EPS growth in Signet.

With that, ladies and gentlemen, I hope the dimensions of Signet Jewelers that I've covered this morning from a financial perspective give you a clear, more full color picture of our Vision 2020 Strategy and how we intend to continue to drive shareholder returns in the future as we have in the past.

I thank you for your kind attention and I look forward to speaking with you one-on-one throughout the morning. Thank you very much.

James M. Grant

Folks, we will take a 15-minute break at this time.

[Break] (55:22-01:10:15)

James M. Grant

Ladies and gentlemen, we're ready to resume the conference, if you wouldn't mind please take your seats this time.

Okay. Next up is our Sterling Division President, Ed Hrabak.

Edward Hrabak

Thank you James, and good morning. I started at Sterling Jewelers in 1987, and have been with the company ever since. My background, and main areas of expertise have been in merchandising, as well as the diamond buying arena. And last summer I became President of Sterling Division, which has Kay and Jared as its national store brands, as well as several regional store brands. Last year Sterling's total comp sales increased 4.8% and our operating profit grew 12.9% to $624 million. As for our most recent performance, Sterling's Q1 comp sales in fiscal 2016 increased 2.3% and operating margin grew 50 basis points.

Now, as Mark told you, our redefined U.S. jewelry mid-market that we are targeting is $41.2 billion. Signet's U.S. divisions own about $4.4 billion of that $41.2 billion. At Sterling, our team is in the position of leveraging our industry leading success to support our sister divisions' growth. At the same time, we reinvest in our business to continually improve our practices and ultimately our annual sales and earnings milestones.

Now, on the screen, you'll see just some of the areas that are in various phases of assessment and implementation throughout Signet as universal best practices. One of the ways Sterling is accelerating growth is by taking the lead in the Signetization of our operations and processes that Mark spoke up, the sharing and integrating of best practices like these for the good of the entire company. With that in mind, I'd like to tell you about Sterling's competitive strengths and what drives our success.

Our first strength is the delivery of an outstanding experience for our customers, no matter which touch points they use or explore our merchandise or interact with our people. Everything we do with regard to maximizing our mid-market opportunities takes into consideration first and foremost our customers. So let's take a look at who they are. With results of our recent customer segmentation study, we are more precisely defined who Sterling's national store brand customers are. For example, in Jared our primary identity is the sentimentalist, a customer who is a high biased towards high quality jewelry with sentimental value. He or she is looking for timeless pieces, but more than that, this person likes the idea of participating in the ownership experience, picking out the diamond, choosing their style, understanding the quality.

I compare this jewelry customer with Kay where a primary customer identity is the gifter. This person wants the precious jewelry as a gift, but desires considerable guidance to the buying process from a jewelry expert. Gifters are admittedly not that knowledgeable about jewelry and want to make certain that they've made the right selection, from a jeweler they can trust, and who better than America's number one jeweler, Kay.

In both Jared and Kay, another strong customer identity, is the stylish shopper. Now, this person loves the extra bling that jewelry offers. This customer wears jewelry often and considers it an important part of an outfit. Now, these characteristics require us to relate to and engage our unique customer segments a little differently. This in no means or no way means a drastic changes for Jared, and especially for Kay, the most successful jewelry store brand in the world. These are measured, incremental adjustments.

By having each brand focus on its unique strong customer segments with its marketing and merchandising efforts, we can serve the entire market, delight more customers more effectively and ultimately capture more market share. The second competitive strength within Sterling and it directly relates to our first rank is our industry-leading merchandising. In many cases, new ideas, line extensions and/or innovation come via collaboration between our merchandising teams along with our New York City-based product development and design team.

The design team develops products to keep us on trend and sometimes to create new jewelry industry trends. This dimension of our business represents an exciting strategic [indiscernible] (01:14:44) for Sterling and Signet as a whole. It enables us to pull together our capabilities in market research, design, manufacturing, testing and marketing to create and bring to market much faster than previously possible, new trend-setting merchandised programs to be sold by all of

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Signet's store brands.

One of the most significant examples of a trend setting strategy our design team has worked on in preparation for the upcoming holiday season. At that time, we will want an entirely new jewelry product campaign with a significant investment in the inventory, marketing and training. Now, this trend-setting initiative is positioned to utilize a powerful, emotional messaging that only jewelry possesses in order to create a new jewelry, a must have item, in a similar fashion to the [ph] beer's (01:15:36) strategy years ago, with the jewelry necklace for the past, present and future campaign.

We are not going to be disclosed what our strategy is today, as it's simply too early from a competitive standpoint. But in case, you were wondering, if there are any new catalysts, any new innovation that Signet can drive across all its stores to create the must have item in the jewelry industry, the answer is resounding, yes. Our merchandise portfolio includes proprietary and exclusive branded merchandise, non-exclusive branded merchandise, non-branded collections and custom design. So let's talk about the brand.

We sell proprietary and exclusive brand because like any other retail subsector, customers make emotional connection and develop an affinity for a brand. This incrementally drives sales and margin, but with jewelry it's just as important to capture the hearts and minds of the people selling the brand as well as those buying them because all the merchandise again is under lock and key. When our team members embrace our brand stories, it makes it much easier for them to deliver a great jewelry presentation and sell even more effectively. Brands have significantly increased as a percentage of our merchandise mix in recent years.

In fiscal 2009, exclusive and proprietary brands accounted for less than 15% of Sterling Division total sales. As of the end of fiscal 2015, that number stood at over 30%. We'll take a look at our recent history of our brands, when each one rolled out and how customers have embraced them in increasing numbers. With our eyes on our Vision 2020 mid-market strategy, we will continue to enhance our branded merchandise programs each and every year. Our branded and differentiated commitment strengthens our position as best in bridal retail. Branded bridal grew 40 basis points faster than non-branded bridal last year. This was due to both our customers and our team members enthusiastically embracing our compelling programs.

In the Sterling Division, our biggest branded and differentiated programs include Le Vian, Neil Lane and the Leo Diamond. Our top priority is to strengthen our existing brands by developing logical product extension and consistent marketing messages fortifying the consistent positioning in a consumer's mind. The process of building brands involves a significant level of capital and human resources. That said, we have also developed many collections which do not have brand positioning. We are constantly working to develop innovative offerings our customers will love and at the very best values.

Now, one of our newer collections is called Miracle Links. The Miracle Links collection is designed with gold or silver interlocking circles in a variety of styles with or without diamond. The circle symbolize and commemorate the unique connection and unbreakable bond between a mother and her child. And links can be added as a family growth. Miracle Links was tested this spring in both our mall and jewelry locations with very strong results, and it will be further expanded this fall. Now, let's take a look at a brief video depicting the Miracle Links collection.

[Video Presentation] (01:18:56-01:19:27).

Now, this video is running on our kay.com site and on our Kay YouTube channel. You can see the emotion involved in it, and the test again have been going very, very well. Continue with merchandising, let's move on to custom jewelry. The reality is more and more people are looking for one of a kind pieces that custom provides them. We've actually been offering custom for years at Sterling, but in recent quarters, we have been formalizing the entire process. Our in-store computerized module allows a store team member to work with a customer face-to-face to design a unique piece, add features and assess the cost. Together, they step through the process from the generation of the idea to the computer aided design, to the wax mold, and ultimately the finished piece.

The process is completed using a combination of in-house and third party resources. Of course, our communication of the timeline and delivery expectation is key to the success of the entire process. Our custom represents a powerful competitive advantage for us and our growth opportunity here is very encouraging. We've actually delivered this

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growth to-date without any marketing of any kind, and now we're planning to grow our custom business even more aggressively with the advertising support.

And finally, with regard to merchandising, [indiscernible] (01:20:44) initiative in Jared that will strengthen the bond between a customer and her diamond. This program called chosen will provide photographic documentation of the journey that diamond has taken as it progresses from the rough diamond state in our facility in Botswana to the finished polished diamond in her position. This journey and the photographic documentation will resonate very strongly with the Jared customer identity that has the bias towards quality and the sentimental meeting.

Now, moving towards third competitive strength, this is one that revolves around our omni-channel approach to customer engagement. We operate in various selling channels which include mall stores, off-mall stores and outlets, as well as online. Let's begin with our physical environment. I'm sure you're all aware that we have a strong mall presence in our flagship store brand Kay Jewelers. We have developed a new store format for Kay that we are rolling out in various forms for new, relocated and remodeled stores. By the end of this year, there will be about 280 of these new formatted Kay's.

We've also developed a new Jared concept, which we call Jared 4.0. Now, this store has a smaller footprint then the typical Jared store, which allows us to potentially open more stores in smaller markets, expand the Jared brand and increase the return on our Jared advertising investment. And additionally, initial tests have been very promising. Another dimension of Sterling's brick-and-mortar strategy is our outlet stores. The sales growth on our outlet channel is faster than that of the Sterling division overall. Last year, we added 11 and converted 31 outlet locations to Jared Vault to end fiscal 2015 with 157 outlet stores in the Sterling division.

As we discussed in the past, our outlet business received an enormous sales productivity boost, when we converted our acquired outlets to the Jared Vault and Kay Outlet names beginning in 2013. Then in the fourth quarter of last year, we began enhancing Jared Vault's product assortments and pricing policies to distinguish them from the full line Jared stores and the Kay outlets. About 60% of the outlet merchandise is MFO or manufactured for outlet. Approximately 20% is previously owned or clearance, and about 20% is the same as non-outlet stores. We market our Kay and Jared outlet stores in channels and with messages that our outlet customers expect and respond to. We're also testing two other in-mall concepts; the Jared Jewelry Boutique and Le Vian by Jared.

We currently have eight Jewelry Boutique locations, which focus mainly on our bridal merchandise. Then this month, we began testing Le Vian by Jared. This exclusive concept will carry and sell only Le Vian merchandise, which will include jewelry, time pieces and handbags. Of course the physical sales force is only one dimension of our omni-channel approach. Sterling's presence in the Digital Ecosystem has been growing significantly over the last several years and in many ways. With our e-commerce sales increasing 20% last year, there are some trends we are seeing. Nearly 40% of our e-commerce sales involve customers who choose to come to our stores to pick up their purchases.

The trend of in-store pickup is growing. This is important because it allows our team members to build relationships and ensure customers are completely satisfied. It also affords us the opportunity to add on to the sale and even up-sell when appropriate. Our team members are more at depth at selling via tablets, which drives in-store online [ph] purchases (01:24:21). Consequently, online ordering in the stores is up. And we have optimized our websites for mobile phones, as well as tablets, not surprisingly, customer use of mobile devices to research and purchase items is also up. This brings us to our fourth competitive strength, evolving our diamond supply chain capability.

Now, over the last several years, we've taken major steps to gain direct access to the most desirable diamonds for our stores. By becoming more vertically integrated, we create sustainable, competitive advantages in securing the long-term supply of diamonds needed to support the growth of Signet worldwide retail diamond business. Last year, we opened our own polish diamond buying office within the Indian diamond board, the trading exchange for lose polished diamond. Over 80% of the world's diamonds by units are cut and polished in India. With a constant presence there, we consistently, strategically and selectively accumulate diamonds, and we are better able to react to the market on a daily basis. For our customers, the result is consistent availability of merchandise at great values year-after-year.

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Another step we've taken is the supplemental polish purchases by acquiring rough diamond and manufacturing our own polished diamonds in our Botswana facility. We obtain direct supplies from De Beers, Rio Tinto, and Alrosa. This means we're preferred customers who get access to some of the most desirable rough diamonds direct from some of the world's leading diamond miners. This helps guarantee us the diamonds we need over the long-term. Now, these sourcing relationships and assets give us intimate knowledge and control of the production process and a consistent supply of diamonds our competitors simply cannot match. These are all powerfully differentiating competitive advantages. At present, Sterling is reaping the biggest supply chain benefit, but we are already signetizing our role in the supply chain by sourcing diamonds for both Zale and our UK Division.

Ladies and gentlemen, all of these evolving dimensions of Sterling's business unit are store concepts, our merchandise, our e-commerce initiatives, our supply chain leadership, our in-house credit business covered by Michele earlier, none of these would grow. None of them would be integrated as well as they are within our division, without the most important competitive strength of Sterling's business, our people. Our team that delivers on Vision 2020, its strategic pillars and initiatives all day, every day. They are unmatched in their passion, commitment, loyalty and collaborative expertise, that's because we hire the best people, we train them better and more thoroughly than anyone in the industry.

Research shows that trust is the number one reason customers buy jewelry, where they do. And that trust comes from the people our customers interact with each and every day. In order for our people to be committed to maintaining and building that precious trust, we have a responsibility to ensure that they are trained, motivated and rewarded to do so continuously. The competitive strengths I discussed drive Sterling's industry leading success in the U.S. As you'll hear, they also empower the accelerating success of the Zale and UK Division.

Thank you very much for your attention. And now to provide you with an update of the Zale business unit, please welcome Zale Division President, George Murray.

George W. Murray

Thank you, Ed. And good morning, everyone. Like Ed, I've been with Signet for many years. First, with the Sterling Division, I joined Sterling as the first Director of Marketing in 1992, and held the position of Senior Vice President of Marketing for 12 years. I continue to be very involved in the marketing strategy of all of our North American operations, and I became the President of the Zale Division last summer.

The Zale Division stores expand to U.S., Canada, and Puerto Rico. In the U.S. and Puerto Rico, our store brands are Zales The Diamond Store, Zales Outlet, Gordon's Jewelers and Piercing Pagoda. Peoples Jewelers and Mappins Jewelers are the Zale brands in Canada. Peoples is the number one diamond jewelry retailer in that country. Signet made the decision to commit to acquire Zales, our largest competitor in 2014. It was to be the largest M&A in our company's history. We knew when we acquired it that there were considerable differences between the Zale business model and that of the Sterling and UK Divisions.

In the years leading up to the acquisition, Zale made frequent strategy shifts. These shifts adversely affected growth within the business. However, Zales was very attractive to Signet, because it fit right into our Vision 2020 Strategy. Among the proof points, Zale operated in our target mid-market. Zales Vera Wang Love Bridal collection could help us achieve our best in bridal goal. And acquiring Zale, gave us the opportunity to expand Signet's footprint into Canada. At the same time, Signet Jewelers would evolve Zales by bringing to the table jewelry operational best practices, research insights, increased capital and a consistent growth strategy. And cementing all of these positives together would be our proven experienced team of leaders.

Signet officially took over the operation of Zales at the end of May 2014. It's already been pointed out and you may have drawn the conclusion before today that Zale is the youngest of our three divisions on the Signet execution curve. A large gap exists between the financial performance of the Zale operation prior to May 2014, and the strong performance of the Sterling and UK Division. Since then, the gap has been narrowing as our operational integration takes effect, and it will continue into the short-term and mid-term future. Over the long-term, the remaining financial gap excluding the contribution for in-house credit will be closed primarily by the division's increase in sales

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productivity and square footage growth. For more than a year, we have proceeding with the Zales integration into Signet.

Let's take a look at what we've accomplished. We've reduced the range of unproductive designs and inventory across the Zale division. At the same time, we've increased our range of design and inventory of highly productive merchandise from traditional products to brands like Vera Wang Love, Celebration Diamond and Arctic Brilliance. We executed a re-launch of Vera Wang Love and now cross-sell it in other Signet store brands. And we've also re-launched the Celebration Diamond, positioning its grand diamond cut. And [indiscernible] (01:31:57) the Canadian mined Arctic Brilliance, emphasizing the location aspect of that diamond story.

With regard to marketing, our integration efforts have included the development and launch of new advertising creative or effective media buying, and more relevant media placement. Our top marketing priorities going forward are to build on our momentum in the Vera Wang Love collection, support the Signet trend creating initiative that Ed mentioned a littler earlier, and launch campaigns targeted to the influencer, a Zale customer segment, Mark referred to earlier this morning. That brings me to the subject of our people. From the beginning of the acquisition process, we have engaged the Zale team. Last year, less than four months after the acquisition became finalized, we held our first leadership conference. It convened all Zale leaders from the field and key leaders from the store support center in Dallas.

It enabled us to reach over 1,500 field leaders all at once. The conference demystified the acquisition and our plans for Zale, set the tone for our company's collaborative leadership style, and also shared in detail Signet's mission, our core values and our Vision 2020 Strategy. This was the first large scale conference for Zale's leadership in over a decade, and the first ever to include Piercing Pagoda leaders. We have also joined the UK and Sterling divisions in offering our teams updated sales training, focused on merchandise features and benefits, along with enhanced rewards programs for team members, who deliver outstanding results. We've also initiated our Promote from Within approach to leadership development. We're already seeing inspiring results from the renewed engagements beyond just increased sales and profits.

Our Zale team is committed to working together, within Zale and across our business units. They've responded enthusiastically to being a valued vital component of Signet Jewelers, and great talented retail people are being transformed into great talented jewelry people. We have centralized certain key functions across the company such as our diamond supply chain, repair, media buying and real estate. Our Signet centralized diamond-buying team now sources loose stone for Zale and help Zale merchants where necessary. Negotiations are centralized through the team, and the diamond-buying team provides important insights into the cost component to the Zale merchant.

Regarding repair, the Sterling Division does it better, just plain and simple. So rather than waste resources on exhaustive studies and tests, we are consolidating the Zale vendor base, running some repair volume through our Jared design and service centers, and routing other work through our dedicated facility in Ohio. Signet's media buying in North America is now centralized with one team that ultimately reports to me. As a result of our increased size, Signet including the Zale Division gets better rates. Consequently, we're improving the quality as well of our placements. And regarding real estate as Michele discussed, store capital decisions are now centralized to one real estate team, reporting to a single executive in real estate and committee.

It's important to point out that all of the large and small steps we've taken thus far in trading Zale and closing the performance gap between our divisions in no way means we're [ph] marginalizing (01:36:01) the Zale business unit. The differentiation of Zale for the benefit of the unique customer identities will remain. So what's next for the integration of Zale, and how else are we going to close the operating margin gap? We've accomplished a lot in just one year, but there's still a lot to do. Here's some examples of what's coming, starting with technology. We're working on a new e-Commerce system platform, which we intend to deploy next year. Our new platform will allow for more seamless interaction throughout the entire shopping experience on PCs, inside the store and a wide range of mobile devices.

The cloud-based platform will be a significant move towards the omni-channel engagement of our customers. From the moment they begin searching for information about jewelry, to making a purchase, to the follow-up that ensures their satisfaction. We're also providing tablets to the Zale stores this summer. This improvement will arm our field teams

with a powerful tool and training to engage each customer even more closely, and ultimately enhance the customers' e-Commerce and store experience. On the marketing side, we're evolving our customer relationship management initiatives with new broad-based program like The Jewelry Box, an online feature that allows customers to add their favorite and most desired merchandise pieces to a wish list, which they can then build and share with people.

Preferred Guest Special Events or PGSEs, these are special sales weekend that occur throughout the year for our customer. Preferred dollars is another CRM initiative that provides Zale customers with added motivation to make a purchase during what are traditionally slower sales times throughout the year. For example, January, right after Christmas holiday. The information captured from the CRM programs like these empower us to make each customer's shopping experience that much more personalized and memorable. This year in real estate, we're rolling out a new Piercing Pagoda kiosk design. And we have created an updated promotional advertising including cross-coupon offers between our Piercing Pagoda and Zales stores. We're developing a new Zales store concept as well, but it's still very early to talk about as we only have a few opened by this holiday.

In the area of field operations, here are couple of examples of relatively new practices. The job description and expectation of skills for the Zale District Manager has evolved. DMs now resemble teachers, coaches, more than auditors. They now spend more time in the store observing and coaching diamond presentation and team member execution rather than task like administrative functions which were less customer facing. Also in field operations, we've added labor hours to the store payroll, including implementation of Assistant Managers in 60 high performing stores. Also the Zale team member benefits, compensation and rewards structure is being redefined to be more consistent with the Sterling Division.

And lastly, in merchandising, Zale is benefiting from Signet's product development and design center here in New York. The design team is working with us to evolve and develop original jewelry styles to be sold in our stores. These select 2015 plans and initiatives I've just summarized for Zale are just the beginning. The accelerated growth of Zale and ultimately Signet depends on effective collaboration and the welcome integration of best practices across all of Signet. Transparent communication, one of Signet's core values quickly began to drive within Zales following Signet's acquisition. Our team members have embraced their new Signet leadership, and their own opportunities, and they now have exciting annual sales incentive trips to work towards.

Sterling and UK teams are passionate and committed. The Zale team is now in progress of joining them at that industry level leading level of engagement. Their unified acceptance and enthusiastic team work is unprecedented in the M&A history of Signet Jewelers. Of course, all of the collaborative efforts by our team members begin and end with our customer and the outstanding service experience they receive. As it did with Sterling, let's take a closer look at who the Zale business unit customers are. Our recent customer segmentation study revealed that the primary Zale store brand customer is the influencer. Influencers look forward to buying jewelry for others as well as themselves. They are aware of and care about merchandise brands. They use jewelry to show status.

Another identified Zale customer is the more casual style shopper, that person who likes bling and uses jewelry to accessorize an outfit. Stylish shoppers love many different kinds of jewelry and wear it often. These core customer identities are informing every Vision 2020 strategic initiative we are now developing for the Zale Division in the U.S. for 2015. They illustrate that within our large jewelry mid-market target, our diverse store brand and customers reduce the likelihood of merchandising cannibalization within Zale and across Signet's North American business units. Within Zale, we're now working to adjust our merchandising mix, presentation, and marketing to the target needs of the desires of our unique customers. At the same time, we're focusing our plans on these customers without excluding other types of customers in market that we know very well.

Which brings me to Canada, where Peoples is the number one diamond jeweler. We are engaging our Canadian customers through all of the techniques I discussed earlier around merchandising, marketing, field operations, and other key functional areas. Total sales are strong, in spite of a weak Canadian dollar, target stores exiting from the market, and low commodity producer prices. And cross-selling, the Sterling Division brand is off to a great start. The team believes that the initiatives that we have most successfully launched in Canada are the new District Manager visits, the merchandising brands, and the media buys. Back in the U.S., and Puerto Rico, we're enhancing the mix of products in

our Piercing Pagoda kiosks. This includes offering some advertised Zales merchandise, for example, Unstoppable Love.

We're also looking at other brands to sell in our kiosks including Shaquille O'Neal earrings and the lower price point Petite Le Vian. Our customers will continue to be made aware of the Zale Division differentiated store and merchandise brands through our targeted marketing plan, which leverages our sector leading share of advertising voice. With that in mind, I'd like to show you an example of our most recent TV commercial here one from last fall with Vera Wang Love, which I mentioned earlier.

[Video Presentation] (01:44:11-01:44:42).

Our advertising strategy includes increasing our TV, media buyers while focusing the majority of our marketing investment in Zale and Peoples, our national store brands in the U.S. and Canada. And targeting audiences based on our segmentation data. The Zale Division has tremendous room to grow. I'd like to reinforce that all of these initiatives and so many more represent the first phase in raising the Zale Division place on the execution curve in order to meet the performance of the UK and ultimately Sterling. The financial result since becoming part of Signet provide evidence of how we are already succeeding. In the first quarter of fiscal 2016 Zale Division comps grew 5.6%. Zale can reach and sustain higher operating margins by employing Sterling best practices.

The dimensions of Zale I've just covered and our progress, and with the integration [indiscernible] (01:45:40) into Signet demonstrates what a perfect fit the business unit is with our Vision 2020 mid-market strategy. The transition is ongoing and the Zale Division performance has shown that it's been effective.

Thank you for your attention. Look forward to speaking with you individually during the Q&A a little later. Seb Hobbs will now take the stage in about 15 minutes. In the meantime, enjoy a short break.

[Break] (01:46:10-02:03:38)

James M. Grant

Okay. We are ready to resume. If you would mind please take your seats at this time. And while you're getting settled in before I introduce our next speaker, I just wanted to thank a few key folks who have been instrumental on the production of today. Many of you had heard via email, read a file, back in Ohio office, Investor Relations. And I also wanted to thank our business services support team, both the internal folks and the third-party [ph] Jody, Bob, your teams, Liz and Amy (02:04:06) and all the others, whose names are probably will be out of fitting here. But thank you very much for everybody's help and making this a nice event.

So with that, our next speaker is Managing Director of UK Division, Seb Hobbs.

Sebastian Hobbs

Thank you, James and well said. Good morning, ladies and gentlemen. I've had the pleasure of being the Managing Director of Signet Jewelers in the UK, since the summer of 2013. Prior to that, I was the Division's Commercial Director. Which was my role, when I began my tenure at Signet in 2011. For those two plus years, I was responsible for marketing, e-Commerce and purchasing of the division's watches and jewelry. The UK Division is principally comprised of two store brand. H.Samuel is the number one jeweler in the UK and targets mid-market customers. Ernest Jones is the number two jeweler in the UK and focuses on a more upper mid-market customer.

Now, before I delve into the strategy of Signet UK, I'd like to review some exciting results. In fiscal 2015, our team had a fantastic year, the second one in a row actually. Comparable store sales grew 5.3%, and our operating margin grew 80 basis points to 7%. Our fiscal 2016 first quarter same-store sales increased by 6.2%. Also in May, we had a general election in the UK. Financial markets were relieved that David Cameron and the Conservative Party won. Stocks reacted favorably as the seemingly pro-business administration is now in place for the next five years. Mr. Cameron has

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promised a referendum on whether the Britain should stay in the European Union. Conventional wisdom so far has been that the referendum would be held by the end of 2017, but business would certainly welcome a shorter period of uncertainty. Downing Street has already started to make the case for continued membership and is now involving big business in their campaign.

Okay. Back to Signet's UK Division. A catalyst for our success last year and year-to-date was the fact that back in 2013 we began to closely collaborate with the Sterling Division and implement best practices between the two business units. As such, the UK is a lab, a case study if you like, for reinvigorating a business. The same scenario that George talked about with regard to Zale beginning much more recently. We have been executing against the Vision 2020 Strategy, which further sharpened our focus and refined our direction as a team. We are fully committed to targeting mid-market jewelry customers in a revitalized selling environment.

The main driver of our success has been our commitment to making our division synonymous with best in bridal and best in watches in the hearts and minds of our current and future customers. We rebalanced our resources in favor of bridal and diamonds, where retailers tend to have better margins versus certain other product categories. And inspired by Sterling success, we improved our bridal presentations to customers, our point of purchase displays, our brand management, and we improved our in store bridal events. We also continue to cross-sell selected merchandise brands between our business units.

And in fact, we're accelerating this practice. For years our division has been selling Leo, Tolkowsky, Le Vain, and more recently Neil Lane. And in fiscal 2015, each of those merchandised program had their best year of sales by far. Working with Zale, we've also begun selling Vera Wang Love in Ernest Jones stores, and we've had a very successful launch in H.Samuel of the Sterling Division's Open Hearts by Jane Seymour after making certain product tweaks for the UK consumer, and let me explain that. The British jewelry customer tends like their jewelry to be a little bit more delicate than our American customers.

So our UK pendants and center stones are somewhat smaller. Knowing this, we can still leverage the power of well-known global jewelry brands, and still ensure so they're manufactured and marketed appropriately for the UK consumer. Most recently, the UK has the Celebration Grand diamond program testing in H.Samuel and now Arctic Brilliance is about to be tested in Ernest Jones. And by the way, in addition to these cross-selling practices and the presentation enhancements that I will touch on in a moment, there is another noticeable reason for our recent sale success. Our division is now fully aligned with the signetized practice of buying our diamonds through the company's centralized diamond sourcing process.

As Ed told you earlier, this process gives our stores and our customers better, more consistent access to the most desirable diamonds in the world. We've also learned from the Sterling Division's best practice around repair, and that further helps our business. Finally, this emphasis on diamonds and bridal selling has by no means deterred our watch business. Watches, which still account for approximately 30% of our total sales have seen strong growth over the last couple of years. We are procuring the right watch brands in an appropriate balance of fashion, premier and luxury time pieces. Our marketing is resonating with customers. We are running effective promotional events and we've improved our in-store presentations with greater use of beautiful watch boutiques, and shop-in-shops.

We've also evolved our mindset about how we sell in the UK market. Over the last two years, we've implemented a new proactive selling environment in all of our stores. We've adapted Sterling's best practice and developed our own perfect bridal presentation. We've revamped our team member training and compensation programs to emphasize diamonds and bridal. And now we've launched 5 for 5 standards, which is a set of key performance indicators, each team member strives to achieve with every selling opportunity. Also in the spirit of Signetization, across our three business units, we have strongly emphasized our annual leadership conference again based on Sterling's successful model. In fact, we extended the conference by an extra day to allow more time for face-to-face collaboration between our leaders and more time for training. Our rewards program also launched our first ever Signet incentive trip for our team members in fiscal 2014.

Finally, as George mentioned in the context of Zale, we've changed the responsibility of our district managers. Our DMs and MOs focused on selling and coaching opportunities, as opposed to tasks that are [ph] audit like (02:11:11)

and less customer facing. With these improvements, as I suggested earlier, the overall renewed focus for all our team members is absolutely on selling diamonds. The UK Division's sales performance turnaround in fiscal 2014 and fiscal 2015 also happened because we took action to bolster our omni-channel selling strategies, this encompass both physical and e-Commerce capabilities. On the brick-and-mortar side, we are continuing to refresh our real-estate by accelerating our store redesign. With a successful [ph] format (02:11:45) existing in Ernest Jones and rolling out, we turned our attention to H.Samuel.

As you can see, we've begun remodels to feature a new, more prominent, diamond placement and added in seating for that intimate consultation which is usually bridal. We've also created a side-by-side selling environment, as it exists in the newest Kay format, to build a closer relationship with our customers. Also for the first time, we've adapted the strengths of our watch business in Ernest Jones to the H.Samuel store design. There are currently six new format H.Samuel stores, and due to their success we will remodel a minimum of 15 by the end of this year. The H.Samuel upgrade program will continue over the next few years.

At the same time, we're adding new Ernest Jones outlet locations around that model is based on Sterling in the U.S. Last autumn we tested five outlet locations, adapting the model for the UK market. There are currently nine open with plans to open more. We've built this business within our division as another strong viable sales channel to market. Also overall this year and last, our store closings have numbered fewer than previously expected, due to improved lease terms and operating results as Michele shared with us earlier.

On the digital side, e-Commerce is a greater percentage of our overall sales in the UK as compared to the U.S. Our division's e-Commerce penetration is about 140 basis points higher than compared with the combined rating of Sterling and Zale. And the rates of our e-Commerce growth continues to dramatically increase. Vertical to this improvement was our transition to make static store website design to a much more responsive design. Now, no matter what type of device the customer uses to access one of our websites, the site's design adapts to that device and make navigation 100% user friendly. Search function is also improved, and merchandise image sizes have also improved. This responsive e-commerce capability goes a long way towards enhancing our shoppers' customer experience, especially since quite often that online experience will be the first impression that a new customer has of our stores and our brands.

The e-Commerce leaders from the UK have collaborated with our sister division. The spring 2016 Sterling e-Commerce update will include some best practice learnings from the UK websites. As Signet continues to evolve its Digital Ecosystem platform across the entire company, we will advance our e-Commerce capabilities accordingly for our division's team members and our customers. To support these initiatives we've expanded our marketing program as well. Signet remains the largest jewelry advertiser in the UK market. We added branded diamonds to our marketing efforts to drive customers into our stores. The brands benefiting from higher awareness include, Forever, Perfect Fit, Leo, Tolkowsky, Neil Lane and Le Vian.

We also increased our fourth quarter marketing investment last year which include a heavier H.Samuel TV presence with five new commercials. This is important to note because we make practically all of our annual profit in the fourth quarter. Have a look at a couple of our 2014 [ph] whole day (02:15:15) commercials, which really emphasize building relationships and [indiscernible] (02:15:18).

[Video Presentation] (02:15:20-02:16:29).

They resonated very well with the UK consumer. The success of these marketing efforts and in particular these commercials has enabled further planned investments for the forthcoming holiday season. All of these enhancements I've discussed have held our team members deliver superior results. And they would develop and launch as a direct result of collaboration across our business units. Like our U.S. divisional counterparts, the UK Division has team members who distinguish themselves from our competitors. We offer industry-leading training and rewards program in a pay-for-performance environment.

Like our sister divisions, we have an appropriate balance of fixed and variable compensation for our team members, which is weighted to reward the very best. We have also developed a new leadership development school to foster an

even stronger and more motivating Promotion from Within environment. The UK sales performance turnaround began in fiscal 2014. And I can tell you when the precise watershed moment for our people took place. It was at the event where our division's store team leaders joined together in a spiritive collaboration and a united passion for excellence. Our Leadership Conference in the autumn of 2013. It was then that our leaders learned about and embraced Signet's Vision 2020. It was there that I sensed the true spirit and contagiousness of what we now call Signetization. That conference inspired our team, started the turnaround of our business and set an example about the benefits of collaboration and sharing for the rest of Signet to see.

Our sales and operating income developed that year validated this evolution of mindset and last year's brilliant results built from that improvement even more. As we look to the future, the UK Division is and should continue to be the principle driver of its own faith. The beauty of where the UK business stands today is in how we are not totally dependent on or at the mercy of the macro economy, nor has our success being linked to a single driver or sets of trend. Collaboration and our commitment to Vision 2020 and its strategic priorities are together empowering us to execute a better business. And this is repeatable. The turnaround of the UK business provides us with a template that can be utilized in the future. By adapting best practices with different customers in different markets, we unlock the immense value of Signetization.

So on behalf of the UK Division, thank you very much for your attention and your consideration. Right now, I'm going to hand back to Mark Light for a few closing thoughts before kicking off the Q&A.

Mark S. Light

Thank you, Seb. Thank you everybody. Just a couple of closing words, then I'm going to ask the four of us and a bunch others coming up on stage now to do a question-and-answer. So as you heard, we at Signet are honored to have a mission that allows us to help our customers celebrate life and express love. We're also thrilled that we have a strategy, a targeted focused strategy that will lead us to grow our company in profitable ways going into the future. And most importantly and hopefully you sense that today and you'll continue to sense it when you go on to our stores that we have a dedicated, loyal, experienced, collaborative management team that knows how to execute and will execute. So with that, we're going to open up to questions-and-answers. So I think, I can't see much [indiscernible] (02:20:13). We have a microphone on one side of the room with [ph] Amy (02:20:16), and we have a microphone on the other side of the room. So let [ph] Emi (02:20:20) start here.

Q&A

<Q>: [Inaudible] (02:20:21).

<A - Mark S. Light>: I can't see. Okay.

<Q>: Hi. [indiscernible] (02:20:25) question for Michele. Can you just explain the 9% Zales number, whether that's a target, and if it's not a target, kind of what it means and how you see Zale's margin evolving over time? Thanks.

<A - Michele Santana>: Sure, sure. That's a great question. Where we tried to reference earlier in my presentation, the 9% operating margin for the Zale Division, we [ph] drive (02:20:51) that by simply taking the majority of the synergies, and saying, assuming that, that we're achieving that, which we will by the end of fiscal year 2018, that would produce 9% operating margin. But what we're also saying is there more there, and there is more that was only looking at the synergies. We're going to have operating growth just on top of our business as we progress through these next few years. Also what I referenced as part of the presentation was the change with our credit provider and moving towards ADS, which is not part of the synergy numbers, and that's estimated to be about $22 million annually. So the 9% was not at all a target, but just to give you a sense of the power that the synergies will drive in operating margins. So by FY 2018, we would expect the operating margins to be higher than 9%, given these other areas of growth that will fall through the bottom-line. In longer-term, we do expect that we can achieve a 15% operating margin. So hopefully that clarifies the question and how we look at our operating margins for Zale.

<Q - Joan Payson>: Thank you. Joan Payson with Barclays. I was wondering if you could talk a little bit about you provided the margin targets, but any targets you might have in place now in terms of productivity gains or comp growth. And then also in terms of the 50/50 split between bridal and gift giving in terms of the buying occasion, what is the growth profile for each of those segments and what is the potential to build upon the self-purchasing segments?

<A - Michele Santana>: Why don't I start it off, I feel the need to stand [indiscernible] (02:22:24) down, up, down, up. I'll kick it off with some store productivity and comps, and then [ph] might well (02:22:31) hand it over to talk about the bridal side of things. On the store productivity, we haven't given guidance in terms of what the productivity and how quick we can close the gap, but what we have said is when you look at the Zale stores' productivity, which is currently $1.5 million per store, $1.6 million per store compared to a Kay, which is about $2 million per store, there is no reason why we can't close that gap, and we will work on closing that gap. It will take some time, the synergies are part of the answer. There is other areas that will help to close that gap. So over time, definitely you'll see that productivity level increase and we'll do it in a very, I'd say much quicker time span than when you saw one of the slides that Mark had presented, he showed if you go back to 1990, I think the Kay average sales per store was $900,000 and you look at 2015, where we're at today being over $2 million.

That was 15 years of excellence and execution, dedication. We know that we have those lessons, we have that understanding and we take that, and we're applying that in a much condensed timeframe to the Zale. So absolutely we'll be closing that store productivity, but we're really not prepared to talk about the number that we're targeting or how quick we'll achieve that. In terms of comps, we're not giving comp guidance in terms of – we talked about our Q2 quarterly guidance, reiterated that guidance of 2% to 3%. Long-term, we haven't given guidance as to what we expect for the comp sales. What I would say is when you look at our operating margin target that we're talking about the division, you would be correct to assume that Zale comps will be on an accelerated basis, as you compare that and contrast it to our UK or Sterling Division. And I think your third question was with bridal.

<A - Mark S. Light>: It relates to bridal and gifting, where do we see growth opportunities. We see growth opportunity in both categories for certain, as you have seen over the last year to two years by focusing on best in bridal has been a category that's been growing very well for us. And in the U.S. the amount of weddings a year continues to be about well over [ph] 2 million (02:24:35) weddings a year, we don't see any dip there. If anything we see the American consumer getting their engagement rings at a little older age rates which is helpful to our strategy because what they end up doing, because they're little older they're spending little more on their engagement rings. So we see great opportunities in bridal categories, continue to grow. And gifting we think is a tremendous opportunity to continue to grow in gifting. It's our jobs to continue to make sure, we innovate on both areas of the business, whether it would be gifting or bridal, we kind of continue to develop these trends. I don't know if George you want to add to that.

<A - George W. Murray>: Yes, and I think you were asking about the self-purchase, we do have a very strong inside around self-purchasers, the Piercing Pagoda business is a self-purchaser, the majority of the sales there. So it gives us a good leading indicator that we can apply across to the other divisions. And I think the other piece of just understanding, being best in bridal for us it means that that's a must win piece of business. So we are constantly researching, trying to understand the marketplace at a better level. We do a lot of proprietary research. There is some headlines out there about marriages are down but what we're actually seeing is they're waiting longer, the millennials, to get married, and we're also seeing that divorce rates are actually falling and this getting married at a later point in time is creating a stronger marriage bond that we are very, very interested in trying to make sure we understand that and stay right on trend in that area.

<Q - Scott D. Krasik>: This is Scott Krasik from Buckingham Research. Thank you. Two questions. First, since there is so much experience within the company, what are the leading indicators or factors that usually signal a reacceleration in the category because as you said the growth rates recently are slowing a bit? So what have you seen in the past? And then second, branded jewelry has obviously, always been important in luxury, fashion jewelry it's playing a big role. How do you view that in fine jewelry and maybe expand on the strategy there?

<A - Mark S. Light>: As you saw from Michele's chart, if you go back 25 years, you'll see that in the U.S. [indiscernible] (02:26:51) the jewelry sector is going pretty consistently at 3% to 4.5% over 25 years, and is in all

industries. So there's dips here and there, but our industry is growing on a very consistent basis, and as you saw Signet has outgrown the marketplace. So what we have found, which will help stimulate the marketplace is innovation, new products, new ways of advertising, new ways of marketing, new ways of promoting and incremental marketing, and [indiscernible] (02:27:17) just continue to develop new ways and stay on top of the business and have innovation. That's what we have found and we'll continue to do that. So that for us, it's all about continue to innovate and continue to invest. I don't know if there's anything you want to add at it George.

<A - George W. Murray>: I would just say with the brands, there is no really set target, and that we're over 30% right now. We don't have a set target. So what Mark said, innovating, coming up with new brands, and letting the customer take it through and see what resonates with them and what it can grow to. So that's really is the key with the brand as far as [ph] what we (02:27:48) definitely know customers like it, they resonate with it very much, our sales people do as well. So it's driving our business and also gives us the room for that incremental margin. So the strategy is to push it as far as we can to keep innovating and see where it'll take us.

<A - Mark S. Light>: The other thing is we do constantly do tracking studies and surveys to make sure that our product category is staying relevant to the generations as case and things change. And innovation, Ed did mention earlier the Signet wide innovation that's coming this fall for us. That will be a significant piece of communication. And we believe that the category operates as many do on new news, excitement, and staying relevant, and in the right media, and communication.

<A - Mark S. Light>: To George's point, something I do want to re-emphasize. Probably the most important piece of information is that our customers through thorough research that we continue to do, was done before the recession, after recession, during recession. And most important information is, our customers are key [indiscernible] (02:28:53) truly believe that our product is one of the most important ways of displaying and expressing emotion. And that our [ph] category (02:29:00) our product is continually in favor with our customers. Now, it's our jobs as merchants to continue to stay innovative in market and advertise and develop new brands. But the good news is, the customer segments out there, the millennials and the entire population [ph] not (02:29:15) definitely prefers jewelry to be one of their top ways of expressing emotion, probably the most important thing, and then it's our job to continue to stay innovative and compete with the other categories of business out there to trying to grab our customers' discretionary income. Yes.

<Q - Lorraine Hutchinson>: Hi, Lorraine Hutchinson from BoA. There's a lot of new news around real estate and store openings [ph] of Zale (02:29:36) in the UK in addition to store remodels. Can you just walk us through the capital requirements that you expect over the next few years, and if we should expect an elevated level from this year?

<A - Michele Santana>: Yeah, Lorraine, thanks for the question. So with regards to real estate, which I think is, it's amazing story for us, and that was – we really got excited when we saw the opportunities with our Zales brand, as we discussed, and as well as our UK. I mean as we talked about, the story has evolved from the past 12 months to 18 months. So when we look forward in terms of our working – in terms of our capital expenditures, I would anticipate that we're going to have some elevated capital expenditures for combination, one is the real estate, to support that real estate growth story that we discussed today. And then also we've been talking with synergies and the critical nature of the IT systems that there still could be some elevated level as we work through IT, which is such an underpinning for our synergies. So I would expect for the next couple of years out, you can see some elevated capital expenditures to support that.

<Q - Dorothy Senghas Lakner>: Dorothy Lakner, Topeka Capital Markets. I want to go back to something Ed was talking about, just in terms of merchandising. And you've talked about all the efforts in diamond sourcing and so forth, and having the ability to bring new trends to markets soon. I just wondered if you could talk a little bit more about how quickly, how much that changed, how much the [ph] lead times (02:31:10) may have diminished over the past couple of years?

<A - Edward Hrabak>: Okay. Good question. What we've seen and again it's, margins out there for some of the manufacturers is little tougher, and unfortunately one of the places where they cut back a little bit is on product innovation. So we've seen the need for more innovation. So what Mark said, we want to keep that millennial customer,

we want to keep our jewelry relevant to them, we keep them coming back. So we need that innovation. We weren't getting enough innovation from our vendor community. So that is the reason why we decided to move up the supply chain, if you will, with design and to open up our own design center.

The best example I can give you is, the program we talked about that, we can't really talk about yet, because it's too new, that we're going to launch this fall. We started consumer research on that about a year-and-a-half ago, last spring. The product development started I believe a little bit in like late last year, early January, February. It was [ph] in test this (02:32:08) spring. That would have normally taken probably a year-and-a-half or so to get the designs tested, and all that. We did it probably in, call it six months, eight months somewhere in that zone. So I would say, almost cut it in half, that is going to be critical to keep doing – because this is not a one in done. This is a strategic strategy of us. We have the scale now between a Jared ad campaign, a Kay ad campaign, a Zale ad campaign combining that, and really creating an industry trend. And now we can do that, we can create our own trends, if you will. So again, it's not one and done. This is meant to be an ongoing strategy where we can develop proprietary styles, based on research programs, launch them and launch them quickly. [indiscernible] (02:32:52) that helps.

<A - Mark S. Light>: By the way, the added benefit of our New York Design Center quite frankly is, it has our vendor partnership being [indiscernible] (02:32:59) becoming more creative. I was happy to hear from our buying team at this last jewelry show that we saw more innovation from our vendor partners at this last show that we have in the past because they know, if they are not going to be innovate, we're going to do it ourselves. So [ph] more better way than (02:33:11) both of us continue to be innovative and come up with more great ideas. Yes [ph] Amy (02:33:16).

<Q - Simeon A. Siegel>: Thanks. Hi, guys. Simeon Siegel at Nomura. Michele, so in terms of over the next three years, and I don't know if this is too granular, but as you think about the Zale's gross margin, is there any reason that over this medium-term you shouldn't be at parity with the core Sterling and maybe occupancy rate aside? And then if I can for Ed, so you outlined a nice amount of Jared openings coming through and you have the unit growth. Can you talk to any color around what that is in square footage, presumably they're going to be smaller stores, and any thoughts around productivity versus the current fleet. Thanks.

<A - Michele Santana>: Yeah. So in terms of gross margins, and I'll put the caveat out there that we don't give guidance in terms of our gross margins. But directionally it's a great question because we should be able to close that gap on a gross margin basis. When you look at our Zale versus Sterling, I mean, in fact what I would take you to is if you back to our comment in terms of synergies, the $150 million to $175 million, we talked about 50% of that over the next three years are directly related to gross margin initiatives particularly on the supply chain and the purchasing side. So that in itself will definitely move to [indiscernible] (02:34:27) that gap, I'd say fairly close between the Zale and the Sterling. And then Ed, do you want to add?

<A - Edward Hrabak>: What's the second part of that?

<A - Mark S. Light>: [indiscernible] (02:34:35) asking for square footage growth for the Jared division going forward as it relates to some of the smaller boxes, and we're really assuming, we're not giving those estimates out as of yet, it's something that we're still planning and we're not giving that out yet. Got you there.

<A - Edward Hrabak>: Thank you.

<A - Mark S. Light>: Got you Ed. No problem.

<Q - Oliver Chen>: Hi. Oliver Chen from Cowen & Company. Thank you for today. Regarding the customer segmentation work that you've been doing, where should we notice the most changes in the proprietary brand portfolio or the store experience in terms of where you see the most upside? Also, on the must have trend creating initiatives, what price range are you thinking? And is the timing going to be very different from this year versus last year? We do think there's a big gift giving opportunity and I do expect holiday to be so competitive. And finally, you've done such a good job with your M&A strategy over the years. What kind of filters will you have at large as you think about M&A, as you conquered Canada and added some great brands?

<A - Mark S. Light>: Okay. So let's start with, George why don't you take the segmentation?

<A - George W. Murray>: Sure.

<A - Mark S. Light>: Examples of segmentation by several divisions.

<A - George W. Murray>: Sure. So, on the segmentation side, we do see differentiation between the store brands in terms of our target customers. So that gives us a way of communicating and pushing apart the offer for each of those brands to take more of the middle market and not push in against each other. So if you look back historically, Zale was kind of aimed at Kay, and Kay was aimed at Zale, and had competed very effectively over a long period of time with each other doing substantial volume.

Right now what we're seeing from the consumer segment is that there's a significant opportunity because the customer doesn't overlap as much as we had initially thought. That gives us the ability to push out and take store brands and leverage the product brands that are – the leadership brands for those stores as a way to keep driving incremental sales. In terms of the question around all of the – which brands will be favored, not favored. It's pretty strategic discussion that we're not ready to put out into the marketplace right now. But we do see the way forward in terms of leveraging the product brands to help the store brand to continue to drive against these customer segmentation.

<A - Mark S. Light>: All right. [indiscernible] (02:37:04), store design is a critical element. So we're using research to make sure we get the store design that aligns with our customer segmentation. Obviously, advertising, there's distinct alignment when it relates to advertising, how you communicate with those customers. Merchandize offering as George talked about, is something we're working on and making sure, but as you all know, I mean you could see I was just in a major mall yesterday. I saw Ralph Lauren in about five different places, how you present those brands and how you direct those to the customers will be involved in how we determine what's appropriate for each store.

The question, Ed, was I believe – [ph] Oliver's (02:37:40),second question was...

<A - Edward Hrabak>: Price points...

<A - Mark S. Light>: Yes.

<Q - Edward Hrabak>: ...on the must haves. There's really no set model. I mean as we've seen over the years, it's really going to depend on again the market research. Where is the hole in the donut, if you will, for the consumer? And then how do we fill that? If its diamond fashion, it may be a little bit price point. If it's marked towards anniversary band, that maybe a higher price point. So it's really going to flex on what that must have item is and the category that it's really in. Does that help?

<Q - Oliver Chen>: Of the opportunity on the gifting side, is the must-have program going to be targeted at that in terms of the holiday competitive?

<A - Mark S. Light>: Well, it won't be a bridal because it's going to be far reaching. So it's going to be gift-giving. Our assortments of lower price point of product is solid, was solid, and so we're in the lower price points there. What we are seeing particularly in diamond fashion is what the consumer is pulling through. For example, Diamonds in Rhythm which has been very strong for the Kay, Jared, and Unstoppable Love for Jared. Those price points started under $100. Customers pulling through on over $400 price point, so we are seeing – again, it's up to what the customer pulls through. So it is gift-giving. We will have again depending on the message, again an anniversary band which leads itself towards a more older customer or affluent, maybe a higher price point. Diamond fashion as a gift could be $100, $200 something of that nature.

<A - Edward Hrabak>: Also, mentioned as you saw a brand new program called Miracle Links which is obviously a gift-giving program, which gives for a present for anybody who has children. So as Miracle Links, we have this new program and there's a lot in the works, Oliver. We have a lot innovation as it relates to things in the pipeline for gift-giving. It's a very important category.

Running over to third question? Still got the mics, so we got [indiscernible] (02:39:30).

The third question you asked Oliver and I recall was what filtering mechanism are we going to use as it relates to future for potential acquisitions going forward? And first of all, I think you all know that I want to reinforce the point, we just acquired Zales a year ago. So it is biggest acquisition of our company and our industry. So we are still in the process of integrating Zales and getting their systems and their team members aligned with the Signet perspective.

So I got to always say that. But the first filter that we always use is what we share with you is our filter, is our Vision 2020. We talked about what is our core? What do we do? We're a mid-market jeweler. We're a mid-market mall jeweler. So our filter mechanism is our Vision 2020, and that's why actually George referred to. When we acquired Zales, every check mark, mid-market, best in bridal, Digital Ecosystem, expansion of geographic footprint that filter Zales hit every check mark and that's the main filter we're going to use to go forward. So we deliver to you and our investor community and our team members to make sure we stay close to the core and make sure we're acquiring a business where we know we can bring [ph] expertise (02:40:34) to enhance that business. So that's the answer to filter question. [indiscernible] (02:40:42).

<Q - Rick B. Patel>: Hi. Good morning, everyone. Rick Patel from Stephens. Just given all your work around customer segmentation, can you talk about where millennials split versus older customers or the percentage of customers that are sentimental or versus gift givers et cetera, the same for younger customers as they are for older ones? And along the same theme of millennials, our physical location is just as important to these younger customers. Are they are for older ones? And then a question for Seb. You talked about the importance of being best in watches and you talked about the importance of having the right fashion and luxury watches. Can you talk about which brands you see it's being critical for that success and is there opportunity to develop exclusivities around the watch portfolio?

<A - Mark S. Light>: George, why don't you take the segmentation question?

<A - George W. Murray>: Yes. So in terms of the segmentation, it's attitudinal based as opposed to demographic based. So we're not looking per se at millennials or boomers. We're looking at who is buying within a midmarket. And what are the attitudes that are driving them through the different store brands or different product brands. So the segmentation pivots differently. It's a great aperture for the incremental opportunity for us, because it allows us to look and communicate on attitudinal triggers and messaging that's much more appropriate for how somebody feels about jewelry or what they're trying to express with jewelry, and therefore, it's a very different way of looking at it.

It does cover across millennials, Gen Xers, boomers. I mean, it's broad because of its emotional commitment or emotional communication with jewelry. So they break into different segments. The segments are very large. The opportunities across these are very substantial for each of our store brands. There's no store brand that's boxed in because of this. And importantly, we're not saying if you were to walk in and you're coming in at Kay and somehow I understand you're not a gifter, well, whoever [indiscernible] (02:42:45) to Zale across hall or vice versa. We are going to continue to give great customer experience to anybody that walks in our store, sell purchaser or gifter. It's just a way for us to be able to target and incrementally grow the business at a faster rate with the segmentation strategy.

<A - Mark S. Light>: And the second question, Rick, what was the second question? I'm sorry.

<Q - Rick B. Patel>: [ph] Other one (02:43:12)

<A - Mark S. Light>: Importance of physical locations versus the younger customer millennials?

<A - George W. Murray>: Yes. It continues to be very important. Shopping is an activity. Shopping is actually a very emotional, very connective activity for men and women and what we find is the millennials who might buy from us online, they actually ship to a store to go see it, actively touch it, make sure particularly in the bridal category where they want to be able to touch the ring, see it, see how it looks, and so there's a very, very deep understanding for millennials. They're not just buying everything online through mobile, no human contact, social media activity that's going on, the mobile activity. It is a very, very physical world. And there's a lot of emotional communications going on at the store level or the shopping experience, which is not – it's not – if you go in to a mall, you're not just going to see baby boomers walking laps around the mall. You're going to see millennials and full generational activities.

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<A - Mark S. Light>: That's the beauty of our category Rick quite frankly, is that because our product is about emotion and it's about trust, that at every age group, they want to have someone to interact with and treat with them and work with them on understanding diamonds, and understanding if it's a write thing to make, and they want to make the right move. So it's a [indiscernible] (02:44:38) business that to George's point, because it's an emotional purchase and it's very much importance about trust, they believe in stores and they go. They don't act differently. I mean that's the big point because we have the benefit of having this emotional product. [indiscernible] (02:44:52)

<Q - Rick B. Patel>: Yes.

<Q - Andrew W. Hughes>: Thank you. Yeah, it's Andrew Hughes from UBS. Very kind given it's your IRR targets for your new stores and your stores refits. Would you use IRR as a main screening mechanism for buybacks and acquisitions? And if you did, would it be lower than those figures you've given us for [ph] physical (02:45:16) business?

<A - Michele Santana>: So when we go through and we evaluate our share buybacks, we definitely are looking at driving EPS growth and there is a return. However, first and foremost, it's about investing back in our business. We are a growth company which hopefully that came loud and clear from today's presentation, and we do need to invest back in the business to drive that growth to further accelerate market share gains and EPS growth. So first and foremost, we need to look at strategic initiatives that come along the way. We need to look at investing back into our business. And then we have share repurchases which remain to be a key tenet of our capital allocation policy. We do look at things in terms of the return, the EPS generation that we'll get on the assumptions that we're making into it, but I would say if looked at it little bit of a different filter than when you look at just the strict financial criteria, that we have over 20% IRR for new store, 25% for a remodel, but there definitely is a return mentality to anything that we're looking at.

<Q - Andrew W. Hughes>: And in terms of that medium-term M&A, is it equally likely to be within existing market, so would you look at new geographies?

<A - Mark S. Light>: As we said earlier and Michele said, we're going to stay as close – the best return for all of us is the close we stay in the core. So existing markets are obviously at our core. We'll look at any opportunity that makes sense that relates to our mid-market strategy, but the existing markets are the place we believe we get the fastest investment returns.

<Q - Andrew W. Hughes>: Thanks.

<A - Mark S. Light>: [indiscernible] (02:46:55) you got someone? Maybe in this side. Any else in this side, any more questions for us?

<Q>: Hi. Just a couple of follow-ups on questions that have already been asked. You mentioned elevated CapEx levels for the future. Can you just provide some specificity on what elevated might mean relative to fiscal 2016 levels? And then I had a question on the 9% mid-term target at Zales, which I guess doesn't appear to be a target but you're not willing to talk about mid-term productivity gains at Zales, your expectations there, but can you just give us a sense of what, so we can do our own math on what the mid-term target might be just the drop-through margin on incremental productivity at Zales?

<A - Michele Santana>: Yeah. So let me start with your CapEx question. I think this year the guidance – and James, you can chime in if I say the numbers incorrectly – was $275 million to $325 million of CapEx for fiscal 2016. So when you go out for probably the next couple of years with what I mentioned the real estate growth strategy we haven't placed as well as the IT, you could see some elevation of those levels, materially different. I don't know if it's materially different, but I wouldn't want to stand here and commit to you that you would expect to see our CapEx levels ebbing over the next two years. But outside of that, we're not providing numbers going past our FY 2016 on our CapEx. So hopefully that gives you some direction of how to think about that.

Your second question regarding – you just said it absolutely correctly, the 9% is not a target. It will be more than 9%. That's just taking the mathematical calculation of the synergies employing [ph] it through (02:48:43). You were attacking that into, you mentioned, store productivity and I didn't catch the word, what your question related to that

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was?

<Q>: If you could give us a sense of...?

<A - Michele Santana>: How quick can we close the gap?

<Q>: Well, I guess you don't want to comment on how quickly you can close the gap.

<A - Michele Santana>: Right.

<Q>: But can you give us a sense of what incremental margins are actually are at Zales, just so we can dimensionalize what the actual margin might end up being in the fiscal 2018 time period?

<A - Michele Santana>: So you're trying to get to a margin which you know is greater than 9% and somewhere between 15%.

<Q>: I want you to make it mild and easier for us, Michele, just given the number where it's going to be?

<A - Michele Santana>: So here's what I would guide you. We're not going to quite give you a number, but if you're kind of in your low-teens, you're probably there. You can take the $22 million benefit annually, put that in, you figure out how much more that's going to increase the operating margin, add some growth factor to that and my guess is when you put that through the models that probably get you into the very low-teens. Does that help?

Okay. Great.

<Q - Dominick Lucci>: Mark, good afternoon.

<A - Mark S. Light>: Good afternoon.

<Q - Dominick Lucci>: Dominick Lucci, Park Avenue Capital Management. We've been long-term investors for a number of years. I just want to thank you and your management team. My question is regarding a topic that's been in the media recently. I'd like to get some color if I can on yourself, the management team, as well as the board's approach to your cyber security policy? Thank you.

<A - Mark S. Light>: First of all, thank you for your kind words and thank you for being a long-term shareholder. Obviously, as we all do, we take our cyber security approach very, very seriously. And one of the many things that we've done is we've increased our, let's call it, our management level and the type of people we have running our IT system and we just brought in somebody as a new Chief Investment Officer (sic) [Chief Information Officer] (02:50:53) in January. His name Dan Shull, we introduced him earlier. So maybe Dan, just an overview of what you can share a little bit more on that front for us?

<A - Daniel Shull>: Thanks. We know it's an important question and I think the simplest answer today is to say that we're just going to take this incredibly seriously and we really believe in a risk-based approach. What we're confidently looking at is what information do we have as a company and how valuable is it? And then taking the right approach to protect that information, so it doesn't mean that you have to protect everything in a most consistent way, but you take the most important assets that you have and you make sure that they have the minimum risk and that's really the approach that we will use going forward.

Mark S. Light

Anybody else? No. Once again, thank you all very, very much for joining us today. We really appreciate your attendance. We have a lovely lunch for you across the Hall A and the [ph] Vanderbilt (02:51:46) room. There are seats around the tables. You can see a lot of our team members are there – two people at each table to chat with you and talk in more detail. Thank you all very much.

Company Name: Signet Jewelers Ltd
Company Ticker: SIG US
Date: 2015-06-24
Event Description: Investor Conference

Market Cap: 9,504.71
Current PX: 118.62
YTD Change($): -12.95
YTD Change(%): -9.843

Bloomberg Estimates - EPS
Current Quarter: 1.151
Current Year: 6.715
Bloomberg Estimates - Sales
Current Quarter: 1384.250
Current Year: 6534.833

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