FINAL TRANSCRIPT

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SIG - Signet Jewelers Ltd at Morgan Stanley Arizona Field Trip

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PRESENTATION

Unidentified Company Representative

Good morning. I'm going to read the disclosures. Please note that all important disclosures including my personal holding disclosures and Morgan Stanley disclosures appear on Morgan Stanley public website at www.MorganStanley.com/researchdisclosures.

And with that, good morning everyone. My name is Jay [Sowo]. I work for Michelle Clark covering specialty retail. Today we are very pleased to have Signet here with us. As you know, jewelry has been a difficult category, but Signet has a very interesting story. Here to talk about that story is Walker Boyd, Signet's Group Finance Director, Mark Light, Signet's US CEO and Tim Jackson, Director of Investor Relations. And with that, I would like to turn it over to Walker Boyd.

Walker Boyd - *Signet Jewelers Ltd - Group Finance Director*

Thanks. It's a pleasure to be here this morning and, particularly as we changed our primary listing to New York last year and we continue to increase our profile amongst US investors. I would ask you again just to note the Safe Harbor warning.

Signet is the largest world's largest specialty jewelry retailer. In the US, which accounts for about 75% of our sales and operating profit, Kay is the number one brand by sales in the middle mass-market. Jared is the leader in the upper middle market and is an off-mall category killer concept. And you will visit a Jared store later today.

In the UK, which accounts for about 25% of sales and operating profit, its family owns the number one and targeted at the middle-market. Ernest Jones is the number 2 and focused on the upper middle market segment.

As you are all aware, the general environment is very challenging and jewelry sales were particularly hard hit over the holiday period with industry sales down 18.5% in the US. The sector also faces challenges from volatile commodity costs, in particular the increasing cost of gold. These factors have meant weaker jewelry operators have been managing for cash and running going out of business sales, which has also called some short-term disruption.

Given no favorable change in the market invite macro environment, the outlook remains very uncertain. However, despite the markets -- despite the negatives that the market has been focused on, the jewelry sector in general and Signet specifically has some very major attractions which should not be overlooked.

While the level of jewelry expenditure is discretionary, the expression of romance and appreciation through jewelry satisfies some very important human needs. As we saw over the holiday period, consumers may trade down, but they do continue to buy jewelry. For those firms that remain financially and operationally robust, the acceleration of sector consolidation is good news.

At the end of 2008, there were about 25,000 specialty jewelry doors owned by about 22,500 firms with total sales of some $29 billion. We estimate there was a reduction of some 1800 specialty doors during the year representing about 5% of market share. We expect this accelerated rate of consolidation to continue in calendar 2009.

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Increasingly, the jewelry sector is one where sustainable competitive advantages built on scale and expertise are becoming very important to the detriment of the traditional independent. Signet has established itself as the strongest and fittest of the middle-market firms based on such scale, expertise and consistency of execution. We see opportunities to reinforce that position in the current market and to ensure we are well placed when the environment begins to improve.

Over the previous 5 years, our operating margin and return on assets have been about twice the industry average. For fiscal 2009, our operating margin in the US reduced to 6.9%. However, while the current environment is tough for Signet, we believe that our competitors are under far more significant strain. For example, whilst our sales performance was disappointing in the holiday season, we continued to significantly outperform the same-store sales and gross merchandise margin over the holiday season. The impact on some of our competitors is highlighted on the next slide.

During the last year, 3 of the top 10 middle-market brands have either liquidated or gone into Chapter 11 and [Findlay], which owns [Bailey Banks and Biddle] announced last month a major restructuring program whereby they will exit from some 566 department stores and close about 40 of their 108 specialty jewelry stores. In addition, Zales has also recently announced a further restructuring and the planned closure of 115 stores predominately Zales and Gordon's locations over the next 15 months. In marked contrast to Kay and Jared, none have shown any significant increase in total sales or store numbers over the last 6 years.

Last year, we announced our results for fiscal 2009 which weren't impacted by the unprecedented conditions on both sides of the Atlantic. However, the group remained profitable with an adjusted operating margin of 6.9%, and income before tax of $200.9 million on an underlying basis.

Income before tax was impacted by two one-off items, one the fair value impairment of goodwill of some $[560] million, which primarily related to goodwill arising from acquisitions made in 1990 or before, and which had not previously been reflected on our published IFRS balance sheets. The adjusted results supported were in line with the estimates given in our Christmas trading statement in January.

Looking at cash flow, largely as a result of the reduced investment in new store space in the US, free cash flow improved to $[50] million last year against $1.4 million in the prior year. Our fixed charge cover was 1.47, confirming that we remained in compliance with the terms of our borrowing agreements at 31 January, 2009.

Despite the very difficult trading environment and the adverse impact of exchange rates, the group balance sheet remains strong with interest cover of 7.9 times and gearing, that is net debt to shareholder funds of under 30%.

As the economic environment deteriorated in the fourth quarter, we initiated discussions with our two lending groups with the objective of gaining relief on our fixed charge cover. The goal was to give us additional financial flexibility in the medium term and to more appropriately structure our borrowings. Given the change in strategy with regard to US space growth, our total debt capacity of $900 million being larger than required.

We were therefore pleased to announce in the last 2 weeks, changes in our agreements which resulted in meaningful relief to our fixed charge cover until January 2013 and a reduction in facilities to $650 million including a paydown at par of $100 million on our private placement borrowings. We would estimate that excluding one-off fees, the net impact will add approximately $3 million to $5 million to interest costs in fiscal 2010. As a result of the changes, we believe the group has created long-term security in its financing given the [full] year released to the fixed charge cover with the size and structure of facilities more closely matched to its future financing requirements.

I've already touched on our strategy of derisking the business and enhancing our position as the strongest player in the middle-market. Our financial objectives for fiscal 2010 reflect these goals, particularly our belief that a strong balance sheet is a competitive advantage. Reflecting the lower level of sales, we have put in place a $100 million cost reduction program in the

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US and we are targeting a significant [work] reduction in working capital including a reduction of inventory in just over $100 million.

Group capital expenditure is planned to be about $55 million against $115 million last year. And as a result, we anticipate the reduction in net debt for the coming fiscal year of about $200 million. We have made an encouraging start to fiscal 2010 and Mark will speak to this during his presentation.

Just before I hand over tomorrow to discuss the strengths and strategies of our US business, let me touch briefly on our UK business. As in the US, we have the leading middle-market jewelry brands and on a standalone basis, if operating in the US, our UK business would be about 60% greater than the 3rd largest specialty jeweler.

Looking at it from a UK perspective, we are larger than the next 5 jewelry stores chains combined, [putting] scale and sustainable competitive advantages, very similar to the US. These are reflected in our financial performance. Over the last 5 years, our operating margin and return on assets have been about twice the industry average.

For fiscal 2009, our operating margin was 8.9%. As in the US, fiscal 2010 will be challenging. However, we believe that our competitors will be under significantly greater strain, particularly those that are financially stretched.

Our strategy in the UK is therefore very similar to the US. Given the weakness of sterling over the last 12 months, we do have the additional challenge of a higher cost of goods sold and as a result, we are expecting UK gross margins to be somewhat below fiscal 2009. We have taken action to ensure that the cost base is stable despite noticeable underlying inflation and we are planning to reduce inventory in the UK by some $50 million and capex by $24 million.

For the first 7 weeks of the new fiscal year, same stores decreased by 3.8% with (inaudible) [pleasing] being down just 80 basis points. Year-to-date, gross merchandise margin is up slightly. And now I will hand over to Mark, who will take you through the US business. Thank you.

Mark Light - *Signet Jewelers Ltd - CEO - US*

We believe that we have the key advantages in the basic retail disciplines in customer service, store operations, and supply-chain and merchandising, marketing, real estate, credit, and management. I will describe each to you, but the real test is what you will see today in our Jared store and even more importantly, when you're out around the country and you go shopping shop one of our stores.

In specialty retail jewelry, recruitment and training and retention of the best and the brightest is the number one priority as they are the vital, final 2 feet of the supply chain which is the space across the jewelry counter. Our typical customer is making a purchase with considerable emotional content and has only limited product knowledge. There is a fear of unknown and this is reinforced by all the merchandise being under lock and key.

As a result, our sales associates are the critical, are critical to every transaction as they have to welcome the customer, they have to build trust through education and they have to find the perfect piece of jewelry and ultimately close the sale. Therefore, recruitment and training is the number one priority for a store like in Signet. In selecting people with the right attitude and that is number one key.

We can supply the necessary training. We have a consistent program to develop all of our staff and this philosophy has been central to our business for the last 10+ years. The training is integrated with our merchandising and marketing departments.

So for example, when we launch a major new merchandise program, the sales staff are fully trained to sell the key features and benefits of that program. The training is carefully planned and our scale means that we can use specialized training staff to

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prepare the material. We can then closely monitor down to the individual sales associate that the training is being done and being done appropriately.

Our training needs are reviewed three times a year, so it is always timely. For example, last year, our people were trained on how to sell in an environment where our competitors were discounting heavily and how to compete against going out of business sales. We have a very strong corporate culture, and this is reflected in all of our senior field management have been running or ran a Signet jewelry store. And even if we recruit a senior vice president from another company, they must run one of our stores first.

Another important -- in practice at Signet is our daily store standards. Each associate knows every day what their key standards are to be successful. These standards are their controllables over which they have direct influence over, such as sales, other revenue services that they sell, and multiple unit transactions. These standards are tracked daily and reported on a daily basis and then targeted and hung up on the back wall of each store. The staff are helped by these training programs to achieve these standards, and this is reinforced by continuously coaching from the store managers and through peer support.

All of our field staff are strongly incentivized with typically 15% to 25% of their compensation coming from incentive programs. Monthly commission is based on a mix of individual and store performance which encourages the staff to work as a team. The commission rate increases as more stretch targets are met throughout the month.

Store managers also receive sales commission, but a far more important element of their incentive compensation is their profit bonus. We are the only jewelry chain that gives a manager in opportunity to earn an annual bonus that is based on the profitability of their store. Our district managers are incentivized by key performance indicators such as recruitment, training, and of course sales.

As well as great people, we need the systems and processes to support them. Our store performance matrix is a computer-based communication tool between the stores and field management and the home office that was rolled out in fiscal 2008. It helps field operations identify, understand, prioritize, and schedule tests. It has increased gross margin through improved process monitoring and compliance in areas such as merchandise test, product recalls, and trade-ins.

Since it was introduced, we have seen a noticeable improvement in district and store manager productivity. The system has also improved feedback and assists problem resolution. Hard copy manuals have been eliminated so reducing shipping costs and ensuring that stores have the most up-to-date information. And we have store learning from this program how to maximize the benefit, but we have already achieved great results.

Turning to our merchandising, jewelry fashions change slowly over time, and therefore we are able to test and refine every product and program. No competitor has the scale to test merchandise across 200 stores combined with the systems to analyze results in as much depth or in as timely a manner as Signet. Therefore, our selection is the most up-to-date and relevant to the consumer with very high in-stock levels and low inventory risk.

Our buyers select which product to test. This is then put into 25 to 200 stores for a period of 60 to 90 days across different sized stores and market demographics. We then monitor its performance and based on the consumer's response, or what we would call the pull, combined with the gross margin return on investment, it will determine whether we expand a program, modify it, or terminate the program entirely.

While there is core product ranges that is supported by advertising, we also adjust merchandise ranges to take account into each store's propensities to sell which reflect the different demographics, regional differentiations, or the economic variations of that store.

To help drive sales, we also differentiate our products by offering clear features and benefits. These may be obvious in terms of price and quality, but they can also be very subtle. For example, in terms of the consistency of diamond color and clarity that

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a bracelet has all matched diamonds or a ring may have all diamonds that have matched color and clarity. Our Test Before We Invest philosophy means we maximize sales while minimizing mistakes.

We intend to continue our strategy of maximizing gross merchandise margin dollars, which includes maintaining our pricing disciplines. As Walker said, gold remains volatile, but the underlying pressure has recently been upward. It represents about 20% of our cost of goods sold and will put some pressure on our costs.

However, there are opportunities in the diamond market which represents around 55% of our COGS. Our supply-chain expertise and balance sheet strength allows us to capitalize on this softness. We can also use our scale and our expertise to further expand our exclusive merchandise which benefits gross margin.

For the first 7 weeks, we saw meaningful increase in our gross merchandise margin. Reflecting the elimination of promotional pricing for our Journey program we had last Valentine's Day. We are also getting the benefit of a wraparound of our price increases that was taken in the first quarter last year and we have advantages of our merchandise mix changes. In fiscal 2010, our target is to at least maintain gross merchandise margin.

An increasingly important area for us is the development of exclusive merchandise to differentiate us in the marketplace. Signet is the ideal partner for manufacturers developing branding initiatives due to our commitment to testing and fully supporting successful programs. We are able to drive branding through advertising and have the critical mass to sell significant quantities.

In addition, we also have strong supplier relationships and we have a proven track record that demonstrates that we can make it work. Examples of this are our Leo Diamond program, our Peerless Diamonds as well as our [Levion Collection] and our Open Hearts by Jane Seymour collection, all of which you will see today in the store tour.

Moving on to marketing, Signet derives significant competitive advantage from its leading brands and our ability to consistently promote them. The "Every Kiss Begins With Kay" campaign strongly resonates with consumers and Kay has the largest marketing budget in the sector to drive traffic. Kay has benefited from the message being consistently applied over time and across all media. We have established a significant brand-name equity.

I will now show you a Kay ad for Mother's Day which combines the core Kay message with the promoting of the exclusive Open Hearts by Jane Seymour campaign. (Video Plays).

We also have regional brands that are very well established in their respective local markets which are supported by catalogs and direct marketing. Our He Went to Jared campaigned has nearly double the typical industry advertising support and has clearly established a strong national brand identity. However, this is not yet the level of Kay. The ad I'm about to show you reinforces our most important category, which is engagement ring at Jared's. (Video Plays).

This slide compares our advertising spend with that of our largest specialty competitor and that of a typical jewelry chain. While in our accounts we give gross spend, and Zales figures are net of vendor contribution, adjusting our data to a net basis does not materially change the numbers. We spend a considerably higher percentage of sales, yet also achieve much higher operating margins.

This commitment to making -- to marketing means that we are able to use national television advertising, which is the most effective and efficient method to reach consumers. This is reinforced by having two extremely strong campaigns.

Kay has 926 stores and sales of $1.4 billion, which is 40% more than the number 2 brand in the middle-market. Kay also has very high store productivity. Our focus on customer service is reflected in every store having at least one qualified diamontologist. Over the last 5 years, we have successfully developed Kay in off-mall locations which means we have a continued opportunity to increase our marketing leverage.

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Jared is our fastest-growing brand with 171 stores at the end of fiscal 2009. It is in off-mall category killer concept with superior selection and service and it targets a consumer one notch up from our mall stores. Each store is over 4 times the size of a typical mall store and in space terms, Jared is equivalent to over 600 mall stores. With sales of $726 million last year, it is the third-largest mid-marketing specialty jewelry brand in the United States.

We began advertising Jared on national television just over 2 years ago and have seen a significant increase in awareness. The concept remains immature with only about 40% of stores having traded for more than 5 years. These have satisfied our investment criteria and at maturity have a 4 wall contribution rate and a return on capital employed slightly above that of a mall store.

Space growth is a major use of cash and adds operational risk to the business. For example, in fiscal 2008, we invested about $180 million in fixed and working capital to fund a 10% space growth. We also have a pool of stores that come to the end of their leases which, while profitable, do not justify a full remodel. These stores are normally rolled over on a short-term lease.

During fiscal 2009, we reacted swiftly to the changing economic and buyer meant, stressing our sales models while assessing store investment. Therefore, we now are much more likely to terminate such leases just as the ones I described. The majority of our closures are expected to be regional brands, and the impact of sales is minimized as nearly all of these are the same malls as our Kay stores, which we market to the customers of those closed stores.

In addition, far fewer new store proposals are now achieving our 20% internal rate of return investment hurdle and in many cases, developers are bringing very few new projects. Therefore, we have a sharp increase in store closures and reduced store openings. We expect this pattern to be accentuated in fiscal 2010 when there will be a small overall reduction in space. We anticipate that position in fiscal 2011 will be similar, although we will continue to monitor the environment as the year progresses.

About 53% of our business are made on our in-house credit card. As we anticipated our receivable portfolio performance also afflicted the economic and buyer meant. With net bad debt as a percentage of total sales rising to 4.9% and 9.2% of credit sales, which is meaningfully higher than the tight ten year prior [year's] range.

The monthly collection rate fell to 13.1%, reflecting a further reduction in the average monthly payment. Even so, the debt maturity remains at roughly 8 months. In fiscal 2009, we saw an increase in applications, which was largely offset by a significant decline in approval rates of about 300 basis points. This reflected a weakening of the consumer's personal balance sheet.

There were also a number of initiatives to tightening lending practices while leaving the underlying strategy unchanged. Obviously future performance of the portfolio will continue to be largely driven by the underlying economic environment.

To compete within the middle-market jewelry sector, you have to have a private label credit card. As management, we have decided whether to -- we have to decide whether to outsource the management of the risk or to assume it in-house. Unlike most of our competitors, our scale means that we have that option.

It is important to remember that by outsourcing credit, the risk does not disappear. It just alters how it impacts the business. We prefer to explicitly manage the credit operation and associated bad debt risk ourselves. The banks that provide the service do it to make a profit. As a result, the credit risk becomes a sales risk to the retailer in terms of the level of credit granted, and a cost risk in terms of the fees you have to pay.

Furthermore, non-jewelry factors such as pressure on the bank balance sheets can influence the bank's lending decisions. And specifically in today's environment when third-party lenders have had to make a decision which a lot of it is very much based on their own balance sheets and on their own operating statements. We, therefore, prefer to manage it within the context of our business rather than to give a third-party significant influence over half of our sales.

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As a result, we write and control our own store cards. We decide on the collection strategies, and we set our own customer service standards. These all give us further competitive advantage in the marketplace. In-house credit sales is an enabler rather than a sales driver. We sell jewelry, not credit.

Underlying everything that I've spoken about so far is a proven management team and good management disciplines. We have in place strict investment disciplines which underpin everything that we do. We have a culture of continuous improvement in that we are never satisfied with the status quo.

However, we always test an initiative before investing behind it so that we do not waste our scarce resources or our management time. We have demonstrated an ability to implement that based on our depth of experience, of which our US executive committee has an average of 20 years experience in the jewelry sector. We have sector leading systems and procedures in place, which means we know what is going on in the business and can respond properly and in an informed manner and it sure that these decisions are made and implemented appropriately.

We are driven by the performance of every individual sales associate, every individual SKU, every individual store, yet we also have time for the big picture. Above all, we bring consistency of execution to the business. So everyone knows what they should be doing and are not frequently distracted by repeated changes in priorities.

We entered the downturn as an industry leader, and we aim to emerge it with an improved competitive position which includes a stronger balance sheet. In operations, it's even more important than normal to leverage our competitive advantages such as marketing, and purchasing power while remaining focused on maximizing gross merchandise dollars.

In these economic conditions we are derisking the business including the elimination of store space growth. We are using our experience to make significant expense savings and inventory reductions without doing harm or long-term harm to our core business. We're focusing on cash generation by maximizing profit and reducing inventory.

Capital expenditure can also be reduced in the short term without detracting from our attractive store environment as we have had a consistent store refurbishing program for many years. Capital expenditure has also been reduced due to the lower level of new store openings.

Looking now at how we intend to drive sales in the US, we will maintain our focus on training to give our store staff every advantage. In merchandising we are continuing to add new exclusive programs and expanding our current programs such as Jane Seymour collection that was very successful over Christmas and over Valentine's Day. In advertising we will again drive our key brands a concentrating on our leading share of voice in the most efficient medium, network television.

We have made an encouraging start to the new year with same-store sales down 2.7% in the first 7 weeks with Valentine's Day being stronger than the remainder of the period. Overall, Easter and had an adverse impact of about 1% to our sales. This encouraging start of the year has been achieved as a result of the quality of our people, our exclusive merchandise ranges, and the effectiveness and the level of our advertising. But we would like to caution that the outlook still remains uncertain and it's only 7 weeks.

On expenses, we anticipate low single-digit inflation and negligible impact from new store space growth. Given the economic background, there is likely to be a further increase in net bad debt. As we have become much more cautious in our sales expectations in fiscal 2010, we have looked at all the aspects of the business to identify the appropriate balance between cost-cutting and sustaining the competitive strength of the business.

As a result, factoring in inflation and net bad debt, we are planning to reduce expenses by $100 million during fiscal 2010 based on our current sales plan. If we exceed that forecast, we will incur additional variable expenses which will dilute the savings.

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These savings are in the following 3 principal areas -- on the store side the biggest savings are from flexing our store hours which are subject to our minimum staffing levels. At our home office, we have eliminated about 350 positions which was a 15% reduction in staff over the last 15 months. The majority, which was done through attrition, but it does include 114 terminations and was implemented at the end of January.

And we are again reducing our advertising spend. This would be primarily be Kay TV and Jared radio. However, we expect to at least maintain our leading share of voice. We're also changing the policies for vacations, which gives a one off non-cash benefit of $13 million in fiscal 2010, and thereafter savings of about $1 million a year.

I believe that our scale, our high store productivity, our management experience allows us to effectively execute this cost savings program while not undercutting the core of our business. I further believe that the competitors that have weaker balance sheets and cash flow will be forced to make expense reductions that will have more severe impact on their businesses.

Now turning to our inventory, we ended fiscal 2009 with just over $1 billion of inventory which was broadly in line with our plan. In fiscal 2010, the net change in space will have a neutral impact on our inventory. This is in marked contrast to the last 10 years when we had made a significant investment associated with new stores. In addition, we believe that we can trim merchandising levels while maintaining our competitive advantage and selection.

The first area of savings is in non-store inventory. Here we will eliminate the balance of diamonds associated with the rough diamond [sourcing] initiative. We also have efficiency savings that will come from the recent investment in our distribution center in Akron and the store performance software system I discussed earlier.

In the store, we will focus on GMROI and be led by the customers. The goal is to ensure that we have the right merchandise in the right place at the right time. Some store moving SKUs will be eliminated and inventory will be refocused as appropriate. In total, we are targeting approximately $90 million inventory reduction. This will be achieved by controlling the open to buy rather than through additional clearances, as we do not have the wrong inventory but rather want to realign to the lower sales level.

With fewer store openings, new store capex in fiscal 2010 is planned to be less than half of that of fiscal 2009 and one-fourth of that of fiscal 2008. As well as reducing investment in new stores, we are also deferring some remodels. In addition, some home office and infrastructure projects are being significantly reduced, proceeding only with those that have rapid payback or are essential.

The planned capex is below what would be -- what we would regard as the level of maintenance capital expenditure, but is appropriate given the exceptional market conditions and our concentration on cash generation.

Jewelry is a long-term growth industry. It is also a very fragmented sector where scale and sustainable competitive advantages are at an early stage of driving sector rationalization, the pace of which has increased significantly over the last 18 months. We can take advantage of this by gaining share to our existing stores. This helps drive store productivity and operating leverage.

In summary, Signet's performance is based on a superior retail execution, industry-leading operating metrics, a strong balance sheet, and a proven management team.

Before I close, I do want to give a couple words about our store tour today. You will -- we know you have a very busy day today, and a tremendous amount of formats you are visiting. Normally we would take you through a tour in our Jared stores would take 45 minutes to an hour, but since we only have 25 minutes, we're really going to just focus on some of the processes we have and point out our competitive differences and merchandising.

But what we would love to do is invite all of you to go to one of our stores all over the country so you can really experience the true Signet difference. At this time, we would be happy to take any questions that you may have.

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Unidentified Participant

Mark, is it okay if we take questions at the store? Because I think the buses are outside and we really want to keep on schedule. We have got to keep moving. Thank you.

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