

FINAL TRANSCRIPT

Thomson StreetEventsSM

SIG - Interim 2008/09 Signet Group Earnings Conference Call

Event Date/Time: Sep. 03. 2008 / 9:00AM ET

Sep. 03. 2008 / 9:00AM, SIG - Interim 2008/09 Signet Group Earnings Conference Call

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PRESENTATION

Operator

Good day and welcome to the Signet Group's half-year results conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Mr. Terry Burman, Signet Group's Chief Executive. Please go ahead, sir.

Terry Burman - *Signet Group - Group Chief Executive*

Thanks, operator, and welcome to the conference call on Signet's half-year results. I am Terry Burman, Group Chief Executive, and I have with me Walker Boyd, our Group Finance Director. Walker will review the financial results, and then I will take -- and then I will comment on our operations in the US and the UK. We will then both be pleased to take any questions that you may have.

Before we discuss the Q2 results, I would like to remind you that the move of the primary listing to the US was overwhelmingly approved by shareholders on August 19 and should become effective on the 11th of September. This will as subject to the necessary regulatory approvals be accompanied by a secondary listing of the shares on the London Stock Exchange, which is expected to commence on the same day.

And now I would like to turn the call over to Walker.

Sep. 03. 2008 / 9:00AM, SIG - Interim 2008/09 Signet Group Earnings Conference Call

Walker Boyd - Signet Group - Group Finance Director

Thank you, Terry. During today's presentations, we will in places discuss Signet's business outlook and make certain forward-looking statements. Any statements that are not historical facts are subject to a number of risks and uncertainties, and actual results may differ materially. We urge you to read the risks and other factors and cautionary language in Signet's annual report on accounts for the year ended 2nd of February, 2008 furnished as an exhibit on Form 6-K with the SEC on May 1, 2008 and which can be found on the group website at www.signetgroupplc.com.

In the half-year, group total sales were little changed at just over \$1.5 billion. The exchange rate for the year-to-date was \$1.98 to the pound against \$1.99 in the comparable period, and exchange rate movements had minimal impact in the period.

Group like-for-like sales decreased by 3.4%. Operating profit before nonrecurring costs connected with the move of listing to New York was \$90.3 million against \$116.9 million last year. The one-off costs were \$10.5 million, and reported operating profit is \$79.8 million.

The lower operating profit reflects the deleverage in the US business due to the 5.2% decline in like-for-like sales. As a result, operating margin, excluding the relisting costs, was 5.7% compared with 7.3% in the first half of fiscal '08. Net financing costs were up by \$3.7 million over a comparable period, primarily reflecting the cash outflow in fiscal 2008, as well as a reduced pension credit.

Profit before tax before relisting costs was \$78.7 million against \$109 million last year. On a reported basis the profit before tax was \$68.2 million. Tax rate was 35.8%, in line with the anticipated full-year rate. Diluted earnings per share before relisting cost was \$0.032 compared with \$0.04 in the comparable period last year with this half's reported figure being \$0.026.

Turning to cash flow, capital expenditure was \$66.7 million against \$58.1 million last year. The group continues to anticipate a full-year spend similar to last year of about \$140 million with a lower US spend reflecting slower net space growth being offset by higher UK investment, primarily due to a return to the normal refurbishment cycle following the successful test of the new Ernest Jones format.

Net debt at the end of the quarter was \$433 million, up \$78.5 million from the level 12 months ago, primarily as I mentioned as a result of the cash outflow during fiscal 2008.

In the first half, the net debt position was up by \$58.7 million against \$121.6 million increase in the comparable period last year, both periods including a dividend payment of about \$107 million. This improvement reflects tight management of working capital and lower tax payments, which more than offset the lower level of profits.

We continued to manage working capital tightly and maintained our strict investment appraisal discipline. As a result of continued tight cash flow management, we now expect an increase in net debt during the year to be in the flat to \$40 million range compared to the 40 to \$80 million range originally indicated.

I will now hand you back to Terry who will talk about the developments in the business and the operational initiatives that we have taken.

Terry Burman - Signet Group - Group Chief Executive

Thanks, Walker. The three key features remain as at the end of the first quarter. First, retail trading conditions remain very challenging. While they are not any worse, there is no sign of them getting better.

Second, we continue to take actions to realign costs, inventory and the rate of growth of the store portfolio to reflect wider economic conditions.

Sep. 03. 2008 / 9:00AM, SIG - Interim 2008/09 Signet Group Earnings Conference Call

And third, we remain on track to at least maintain gross merchandise margin percentage at last year's level, having implemented a new pricing architecture in the period for mid-February to the end of March.

Reflecting the continuing difficult trading environment, total sales were little changed at \$1.2 billion. Like-for-like sales decreased by 5.2% with some benefit from better weather over Valentine's Day compared with the prior year.

On an underlying basis, the like-for-like performance in the US in the two quarters was very similar. For the half gross merchandise margin was up 90 basis points on last year with the increase in the second quarter being 110 basis points. US operating profit for the first half was \$94.8 million against \$126.3 million in the comparable period. Operating margin was 7.9%, down by 250 basis points on last year.

As Walker said, this primarily reflects deleverage due to the like-for-like sales decline. While action has been taken during the half to realign costs to the current level of sales, the benefit of these initiatives will not fully impact until later in the year.

For the full year, we expect costs, excluding the impact of new space, to be similar to last year despite an anticipated increased level of bad debt and inflationary increases in occupancy costs, utilities, freight and staff wages.

Over the half average transaction values were up by about 7% in the mall brands and 6% in Jared. In the second quarter, the increases were 8% and 7% respectively and reflect the impact of the price increases implemented in February and March and mix changes.

Looking at the impact of the price changes, our overall conclusion is that we remain encouraged by the results. While we have seen a decline in unit volume, it was a little less than expected, and we believe that achieved gross margin dollars are ahead of where they would have been had we not moved our prices.

Within the marketplace nearly all our chain competitors have increased prices. However, none have done so as comprehensively as we have. Independents have been slower to adjust their prices. We have reduced store staff powers and head office staff. Numbers will be down by about 150 by the end of the year on the base of about 2000.

We have also trimmed many miscellaneous cost. The gross advertising to sales ratio is planned to be about 7% down from 7.5% last year and more in line with historic levels. The reductions have been greatest in lower returning media and formats. National TV for Kay and Jared will field the least impact because they are the most effective form of marketing. However, general media inflation means the Kay TV impressions will be down by about 6%, while Jared will be broadly flat.

Even with this realignment, we anticipate that our share of voice within the jewelry sector may well increase. The net bad debt charge to sales ratio increased by 110 basis points on the comparable period and remains outside the tight range of the last 10 years. However, it has been meaningfully offset by additional income from the portfolio. Credit participation increased by 100 basis points over the first half of last year, reflecting a higher level of credit applications while approval rates were lower.

During the half we employed a leading external consultant to review our credit operation. Their conclusion was that the performance of our credit portfolio was in line with what they had seen in other portfolios and did not reflect any factors specific to Signet. They also concluded that our systems and controlled procedures were robust.

In addition, they have suggested some initiatives that may help to improve our performance over time, for example, by further segmenting the collection strategies that we employ.

We have continued to review our store portfolio and net space growth plans for the current year. While there has been little change to the number of new openings, our planned level of closures has increased further and is now about 50 compared with our normal level of 15 to 20.

Sep. 03. 2008 / 9:00AM, SIG - Interim 2008/09 Signet Group Earnings Conference Call

These stores are split roughly 40% Kay and 60% regional brands and are being closed at the end of the lease term.

In addition, 11 regional stores will be rebranded as Kay as part of our regular portfolio review. We now anticipate a net space increase this year of about 4% with a broadly similar level expected in '09 and 2010.

Turning to the UK, the feature that stands out is the continued outperformance of our business compared with other non-food retailers. Like-for-like sales for the half were up 2.3%. In the second quarter, when like-for-like sales were down 0.6%, we were still ahead of the majority of non-food retailers.

The performance in H.Samuel and Ernest Jones is very similar. This reflected the benefit of operational initiatives that we have been implementing for some time now, which are having an increasing impact on the business. Particularly strong categories are fashion and premium watch brands in Ernest Jones and diamonds in the H.Samuel.

Business continues to implement its long-term strategy of improving store productivity. This is being achieved by improving customer service, by focusing on staff training and incentives, evolving the merchandise mix to better reflect our competitive strengths, executing our marketing more effectively and investing in the real estate portfolio to significantly enhance the in-store environment.

As a result of these initiatives, we are increasingly differentiating ourselves in the marketplace. Reported total sales were little changed at \$384.7 million. The US dollar exchange rate was GBP1.00 to \$1.98 against GBP1.00 to \$1.99 in the comparable period, and therefore, the movement had minimal impact.

In the second quarter, the main drivers of performance also drove the average selling price, which was up over the comparable period by about 13% in both H.Samuel and Ernest Jones. Overall gross merchandising margin was up 70 basis points in the quarter and 60 in the half over the comparable period last year. The full-year expectation is that it will be broadly flat.

A tight control of cost has been maintained with only a marginal increase over the first half last year. The UK achieved an operating profit of \$4.5 million compared with an operating loss of \$0.6 million in the same period last year. Full-year operating costs are anticipated to be similar to fiscal 2008.

The group's strong balance sheet and superior operating metrics on both sides of the Atlantic enables the business to continue to implement its proven strategy. Appropriate adjustments and execution are being made to reflect the challenging economic conditions with tight control of costs, inventory, gross merchandise margin and investment in new space. As a result, the business will be well-positioned when the economy improves. However, in the short-term, the consumer environment in both the US and the UK remains very challenging. As always, the results for the year will be significantly influenced by the group's performance during the very important Christmas period.

Operator, we will now take any questions that the callers may have.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Bill Armstrong, CL King & Associates.

Sep. 03. 2008 / 9:00AM, SIG - Interim 2008/09 Signet Group Earnings Conference Call

Bill Armstrong - *CL King & Associates - Analyst*

Could you discuss how competitors' liquidations are impacting your business currently? I know Zale is pretty much finished with their liquidations. I guess Whitehall is continuing, and there may be some others. I was wondering if you could just update us on that situation in the US currently?

Terry Burman - *Signet Group - Group Chief Executive*

Sure. In the first half, we were impacted by the Friedman's liquidation, which as far as we can see in the marketplace is completed except for a handful of stores. We were also impacted by the significant discounts in Zales as they cleared \$127 million worth of merchandise at cost. We believe that the impact of those clearance sales, and this is approximate -- this is based on estimates -- impacted our same-store sales or our like-for-likes by about 2%, negatively impacted our same-store sales.

Whitehall has begun their liquidation sales about close to two weeks ago. They are supposed to run through Christmas. We believe that they will -- before they get to the fourth quarter that they will -- and this is our belief, not anything that we know from them. We believe that they will probably start consolidating down to fewer stores. Just how many we can only guess at.

But we believe that that will occur before the fourth quarter. We do not think that the impact from Whitehall will be any greater than that which we saw in the first half from the Zales and Friedman's liquidations.

Bill Armstrong - *CL King & Associates - Analyst*

Okay. And just two quick questions on credit. Could you remind us what the 10-year historical range is on the bad debt charge?

Walker Boyd - *Signet Group - Group Finance Director*

It is Walker here. I think in terms of last year '07/'08 was at the top end of the range, which was 3.5% of net bad debt as a percent of total sales. The low end of that range over the 10 years would have been around about 2.7% of sales.

Bill Armstrong - *CL King & Associates - Analyst*

Okay. So is this alarming then that you're at 3.9 for the first half of this year?

Walker Boyd - *Signet Group - Group Finance Director*

Well, I think it is all -- first of all, you need to be careful in terms of taking a half-year percentage and relating that to the full year because clearly with the seasonality of the sales, the ratios at the half-year are somewhat different from what they are at the full year.

Having said that, as we say in the statement, we are above our -- what had previously been a tight range for the last 10 years. We continue to manage the portfolio tightly.

We are not in terms of overall lending strategies meeting any fundamental changes. But we do have a team of credit analysts who look for common characteristics in terms of bad debt trends with certain groups of customers, and where we see the risk of bad debt being too high against the gross margin dollars earned, then we will close down these particular attributes, and we have done so in a couple of cases during the first half.

Sep. 03. 2008 / 9:00AM, SIG - Interim 2008/09 Signet Group Earnings Conference Call

So I think clearly based on what Terry said in terms of our analysis, of the analysis that was carried out by a third-party, we see this as something that is not specific to Signet but to the US consumer generally, and we continue to see it as a competitive strength to maintain the credit in-house.

Bill Armstrong - *CL King & Associates - Analyst*

I see. Is there normally any seasonality between the first half and the second half in terms of bad debt percentage?

Walker Boyd - *Signet Group - Group Finance Director*

Well, you do get variations because when you measure it as a percent of sales, then clearly the full-year percent of sales we tend to be less than the half-year because of the seasonality of sales. Clearly in the way that the bad debt occurs, you do tend to get some seasonality because again, as the bad debt flows through from peak selling periods, that tends to come through a certain number of months after. And that's why when we compare ranges, we don't tend to compare quarter on quarter in terms of consecutive quarters. We look at what was the bad debt performance in that corresponding quarter in the previous year because I think that does give a better guide as to trend. And again, if one looks at the half-year, our net bad debt as a percent of sales this year at 3.9% is higher by 110 basis points than it was in the corresponding half-year last year.

In terms of range, the previous high in the 10 years would have been 3.2%. So we are about 70 basis points higher than the previous 10 year half-year number.

Bill Armstrong - *CL King & Associates - Analyst*

Okay. And then one final question. Income from your receivables portfolio is up despite higher bad debt expenses and fairly flat sales. What is driving the higher income?

Walker Boyd - *Signet Group - Group Finance Director*

Yes, as we said in the announcement in terms of impact on P&L, we do get a meaningful offset from higher income to offset the higher bad debt charge. That is largely a reflection that the average payment by consumers, whilst it is still above the minimum payment, is by a lower margin than we have seen historically. So that, for example, in the full-year '06/'07, the net monthly payment was about 130% of the minimum last year. That reduced to about 120% of the minimum, and we have seen similar sort of trends in the first half of this year.

The outcome of that is that the portfolio turns more in about seven and a half months as opposed to seven months, and we, therefore, are earning income over a longer period of time in terms of the overall portfolio. And that is the main driver of the increased income from the portfolio.

Bill Armstrong - *CL King & Associates - Analyst*

I see. Thank you very much.

Operator

Ben Spruntulis, Citigroup.

Sep. 03. 2008 / 9:00AM, SIG - Interim 2008/09 Signet Group Earnings Conference Call

Ben Spruntulis - Citigroup - Analyst

Two questions if I may. Firstly, just on the price realignment strategy, I'm just interested, can you give us a sense of how your volumes and average selling prices have moved in each key geography across the first half? That is the first question.

Secondly, I'm interested in the US gross margin, if you're able to quantify that movement across the first-half and also give some details over the moving parts that impacted pricing versus commodity costs increases versus mixed promotions on the overall margin?

Terry Burman - Signet Group - Group Chief Executive

Okay. I will take a stab at that. In terms of the average price points, and then Walker will try and fill in on the gross margin details. As we said, the average prices are up in the mid single digits in both Kay and Jared 6% and 7%. Price increases were, if you average them out, were probably, across the whole merchandise range, were probably in that range or maybe a little higher than that. Let's see what else did you ask about price points --

Ben Spruntulis - Citigroup - Analyst

Prices on ASPs and volumes in both markets, how those moved in the first-half?

Terry Burman - Signet Group - Group Chief Executive

Right. In the UK the price -- I'm sorry, the average price points were up in the double-digit -- were up double-digits in both H.Samuel and Ernest Jones.

I think it is important to recognize when you're looking at average price points, that merchandise strategy can have an impact on moving average price points. So, for instance, especially in the UK and especially in H.Samuel where we are selling more diamonds and we are driving our merchandise mix to categories that carry higher average price points, it is not just a simple comparison because you're not comparing like-for-like. And to a certain extent, similar kind of merchandise -- merchandising initiatives are occurring in the US in both Jared and the mall divisions. As we are successful at selling higher quality and larger sized diamonds, for instance, in Jared, with our loose program, with our Pinnacle [Peerless] diamond, that does tend to raise your average price point. So I think you have to be careful in terms of what is the cause and effect.

In terms of unit volumes, while we don't comment specifically about the unit volumes, from both -- the effect of both, the general economy and the price increases has had a negative impact on unit volumes. That would be expected, and it would be expected from both of those elements.

So, as I said, unit volumes have been negatively impacted in both markets. Walker will now attempt to answer your questions about gross margin.

Walker Boyd - Signet Group - Group Finance Director

Yes, I think maybe in some ways I'm going to repeat some of what Terry said. If we look at the US in Q2, then we had 110 basis points increase in our gross margin percentage. And, as you would expect, that is very much down to the benefit of the price increases.

As we said, given that we cost on an average basis, then the most favorable impact to the price increases is going to be felt in the first quarter. Going forward we still have some cost inflation in terms of the gold commodity cost to work through into our selling margins and, therefore, which is why we would expect some lower gross margin increase going forward.

Sep. 03. 2008 / 9:00AM, SIG - Interim 2008/09 Signet Group Earnings Conference Call

On top of that, as we also said previously in the US, we recognized in today's environment that we would have an increased promotional cadence, and we saw some element of that in Q2, although we did not use all of the amount that we had earmarked as possibility.

So I think in the US the movement on gross margin, although there is some impact on mix as Terry demonstrated or talked about in respect to the mix between the malls and Jared, it is largely a reflection of the price increase more than offsetting the cost inflation in commodities.

In the UK where gross margins were up by 70 basis points in the half, it is more complex again as Terry has alluded to. If one looks at mix and Ernest Jones the strength of watches is clearly adverse in terms of our gross margin percentage. But, on the other hand, in terms of H.Samuel, less gifts and more diamonds is favorable to gross margin percentage.

So again, I think unless you get down to the specific category almost by brand, it is somewhat difficult to start giving percentage points. So I think the bottom line is that the UK saw a reduced level or a lower level of price increases than the US because up until the last couple of weeks, the weakness of the dollar against Sterling has been favorable to the UK.

I think the only other point I would add going forward is that in the UK we would also expect some increase in our promotional cadence. We have seen success over the last year or so with more targeted promotions, and I would expect that to be the case in the forthcoming Christmas period. So again, going back to the overall guidance for the year, we would expect UK gross margins to be broadly flat year on year.

Ben Spruntulis - Citigroup - Analyst

Just to clarify the quarter two gross margin in the US is at 110 basis points. That is a quarter two number, isn't it?

Walker Boyd - Signet Group - Group Finance Director

Yes.

Operator

[James Pan], CPE Partners.

James Pan - CPE Partners - Analyst

Just a couple of questions. Given the liquidations and the promotion activities of your competitors in the industry, where do you think our market share ended up in the first-half?

And I guess the follow-up question is, do you have any idea where they will end up in the next six months or through the Christmas season or Valentine's 2009 season?

Terry Burman - Signet Group - Group Chief Executive

Right. I would guess that we broadly maintained marketshare. Certainly I'm comfortable that within the middle market that we have maintained marketshare. The market is not just homogenous. It is made up of some of the upper end players also, and that is where most of the growth is occurring in the jewelry industry. But we have not seen -- for the full first-half, we have not seen macro industry overall performance.

Sep. 03. 2008 / 9:00AM, SIG - Interim 2008/09 Signet Group Earnings Conference Call

As you can see, our sales were broadly flat in the US. And the market, if it grew at all, I would estimate would be in low single digits. But again, we're competing against that middle market, and I would be surprised if once you dissected the numbers, I would be surprised if that grew.

In terms of where the marketplace is going, I'm not going to sit here and start projecting where the market is going. I think that wherever the market goes, that I believe that we're positioned to get at least our fair share and probably some more. As the liquidations sales go on, the bad news is you have to compete against them. But on a long-term basis, the good news is it takes a lot of capacity out of the market place and positions us even better for the eventual recovery.

James Pan - CPE Partners - Analyst

I agree with that. I just wanted to go back as one of your competitors made a statement saying that they expect comp store sales to be in the negative 1 area I think, negative 1 area for the remaining of the FY year. Can you make some kind of -- do you feel comfortable saying something similar in a sense that you will be better than negative 1 or around negative 1, or should we keep the same-store sales negative single digits for the US?

Terry Burman - Signet Group - Group Chief Executive

I'm not comfortable in giving any sort of projection like that. We are meaningfully impacted, and our results are meaningfully influenced by the macro environment. And since I cannot predict the macro environment, it is a huge element. And it is a huge element of our results that I just think it is -- I don't see how it is helpful at all for me to be wild guessing what the macro environment is going to do and to make those guesses public.

James Pan - CPE Partners - Analyst

Fair enough. Just going back to the bad debt charge, are we charging more interest now, or has our underwriting or the credit changed since the credit crunch?

Terry Burman - Signet Group - Group Chief Executive

No, our interest rates are the maximums allowed in the statutes in each state. Interest rates are governed -- are set on a state by state basis, and we charge the maximums allowed.

James Pan - CPE Partners - Analyst

And I guess can you review the aging of the debt in a sense that did you have the nonpayments accelerated at a particular period at a time like the first 60 days of the credit given out, or are they happening closer to then? Is there anything that is I guess -- that you can tell us in terms of the different pattern in terms of nonpayment? I think before you said the nonpayment was typical I think in previous calls. Is there anything different in this one?

Walker Boyd - Signet Group - Group Finance Director

No, I think given our provisioning policy is that we provide for a bad debt on 100% on a 90 days past due on a recency basis. You can clearly see that our roll rates to 90 days have continued to show an adverse trend, and that is reflected very quickly in our loss rate. So there's nothing subjective in our provisioning policy. We will provide 100% on any date that is 90 days past due on a recency basis.

Sep. 03. 2008 / 9:00AM, SIG - Interim 2008/09 Signet Group Earnings Conference Call

In terms of the 30 and 60 roll rates through then, it would come as no surprise to say that these have also shown an adverse trend on previous years. I don't think there is nothing that has fundamentally changed in terms of these, the mix between 30, 60 and 90. And, as I say, given our provisioning policy, any significant movement on our portfolio is recognized fairly quickly on a quarterly basis in our loss rates.

James Pan - CPE Partners - Analyst

Okay, great. Just one last quick question. You said that the expected cash outflow is \$40 million this year. Is that before dividends or after dividends?

Walker Boyd - Signet Group - Group Finance Director

No, the range is flat to \$40 million, and that is the movement in net bad debt. So that is after payment of total dividends of about \$120 million a year, and that clearly previously we had been guiding to an outflow of between 40 and 80. So that improvement is a reflection of the tight working capital and tight control of working capital on both sides of the Atlantic.

James Pan - CPE Partners - Analyst

Great. Thanks.

Terry Burman - Signet Group - Group Chief Executive

I just want to say, Walker said net bad debt. He meant net debt.

Walker Boyd - Signet Group - Group Finance Director

Net debt. I beg your pardon.

James Pan - CPE Partners - Analyst

That is fine. We understood.

Operator

David Jeary, Investec.

David Jeary - Investec - Analyst

A couple of questions. The gross margin questions have been answered, but on the bad debt, is there any noticeable difference on the rate between the mall stores and Jared, is my first question?

And on the second question, we are being a bit insular over here, is any further comments on the updated Ernest Jones format and the rate at which you might roll that out going forward?

Sep. 03. 2008 / 9:00AM, SIG - Interim 2008/09 Signet Group Earnings Conference Call

Terry Burman - Signet Group - Group Chief Executive

Sure. In terms of the -- Jared does carry a lower bad debt level than Kay historically and not a meaningful -- the gap has not meaningfully changed.

In terms of the Ernest Jones format, we introduced the format last year with seven stores that we built in the current open store format and design. We will be converting over the next four years about 35 stores a year to this new format. We expect four years from now to have about almost 90% of our portfolio, including the H.Samuel and the Ernest Jones stores converted to our open store format.

Operator

[Julian Martin], Merrill Lynch. (Operator Instructions).

Operator

Mike Dennis, Piper Jaffray.

Mike Dennis - Piper Jaffray - Analyst

Looking at your cost base, I was wondering if you could explain the increase in the cost in the first half in the US? I'm thinking more of the fact that I think you said before that you're going to keep your like-for-like costs relatively flat. I was wondering if you could make a comment about the absolute cost increase and whether there is a component of a marketing spend in there in terms of sort of prepaying for marketing in the next couple of quarters?

Walker Boyd - Signet Group - Group Finance Director

No, it is not an element of prepaid. I think our overall view is that for the year as a whole in the US, excluding new space, that our expenses on a same-store basis will be broadly flat as Terry mentioned in his comments. In terms of how some of the realignment of expenses worked through from a timing perspective, that will have a bigger impact on the second half than the first half. Examples of that clearly would be in home office. If we are expecting to exit the year with 150 people less than we had at the beginning of the year, then these savings will clearly come through more in the second half than in the first half. And also given the seasonal bias of our advertising towards the key Christmas period and again that realignment from 7.5% gross last year down to the more historic level of 7% will likely have a bigger impact in the second half than in the first half.

So I think overall we would expect, as Terry said, that the underlying expenses on a comp basis would be broadly flat year on year. Clearly given that we have an increase in space of, say, 4% to 5% in the current year, plus the wraparound of a higher space growth in the second half of last year, and overall expenses, including that, will clearly be up in probably about the mid single digits taking account of additional space.

Mike Dennis - Piper Jaffray - Analyst

Right, okay. But in the UK, it felt like from the statement that you had actually managed your costs at an exceptionally good level. I'm taking it as being nearly down in terms of costs in the UK. Is that correct in terms of absolute costs?

Sep. 03. 2008 / 9:00AM, SIG - Interim 2008/09 Signet Group Earnings Conference Call

Walker Boyd - Signet Group - Group Finance Director

Yes, I think in the UK you have got two different aspects. One, in terms of the realignment of expenses year on year, given that we went through an exercise back in 2005. Then there is less realignment in the UK compared to the US, and therefore, it is a more even phasing in through the year. And secondly, and particularly from an advertising perspective given that advertising is a much lower percent of sales in the UK than it is in the US, then you clearly have a lesser impact in the UK from that.

And I think the issue with the UK, I think you're right in your analysis that we have on the face of it some very good cost control in the first half, and I think that is a fair conclusion to draw. It does get affected by things like the timing of the reclosure for refits in terms of the leverage that you look at.

So I think again in the UK overall we would be looking for broadly flat in terms of total expenses with clearly much less impact of space changes in the UK compared to the US.

Mike Dennis - Piper Jaffray - Analyst

Alright. Thank you very much.

Terry Burman - Signet Group - Group Chief Executive

I would just also remind you that space growth in the US impacts the first-half cost base because we're wrapping around 10% as Walker said versus the second half where we have got a 4% net space growth and obviously less impact on total cost.

Mike Dennis - Piper Jaffray - Analyst

Yes, I have noted that. Thanks.

Operator

Todd Slater, Lazard Capital Markets.

Todd Slater - Lazard Capital Markets - Analyst

I have a bigger picture question that you touched on, but I hope you can address in a little bit more detail. It seems that we're in an unprecedented time in which we're seeing or will see a supply correction, and that ought to obviously benefit the one or two strongest players left standing.

So while I'm not looking for guidance on market share gain numbers, I would be curious to hear what your view is on this environment in terms of how it compares to past recessions? What percent of the store base in your market in the middle market might contract in the US? What might one expect here? What is the dynamic in the UK as well, and just sort of how you are positioned differently than in past recessions for better or for worse, and how long you think it takes or should take to recover from this changing landscape, which ought to improve materially on the supply-side I would expect. But I'm curious as to your thoughts on that subject.

Sep. 03. 2008 / 9:00AM, SIG - Interim 2008/09 Signet Group Earnings Conference Call

Terry Burman - Signet Group - Group Chief Executive

Sure. We estimate based on what we have seen, and this is all anecdotal, but what we have seen so far, we estimate that there will be between 1000 and 2000 net closures of jewelry stores in the US this year. We think that most of that is coming out of the middle market.

Obviously you have got the big headline closures that we have seen in Friedman's closing -- Friedman's and Whitehall, which looks like the net closures will be about 800 doors. Obviously other chains, there is some growth going on.

We also understand anecdotally that some of the non-public super-regionals and regionals are reducing store count. So when we get to the end of this week -- our estimates, as I said, in the 1000 to 2000 range, and I would guess that it will probably be in the upper end of that range.

As I said earlier, obviously we're negatively impacted by the liquidation sales. But it is not -- it is an impact that, I call it, takes some of the frosting off. You don't like to have those negative impacts at a time like this. But this is part of the cleansing process that occurs in reducing capacity during any difficult environment.

How long it is going to take to recover from all of this, that depends on the length and depth of the slowdown in consumer spending that we're currently seeing, and a lot of that depends on commodity prices. So you are getting into macro issues that I'm just not in a position to forecast.

What I know is that we have built our Company to withstand this kind of environment. One of the main features of that is the way we have built the Company is to have a strong balance sheet that allows us to continue to prudently invest in our growth strategy. So we're still opening new stores. We may be closing more as a result of the impact of this environment on some of our stores that had -- that it throws into not meeting our investment criteria for keeping them ongoing. But -- and we may be realigning our inventory, but we're not slashing our inventory as many of our competitors have to do, which will further negatively impact their sales. We are maintaining our training budgets. We have still got -- while we outlined our advertising budget with our sales, we are still -- I'm confident we're going to have the greatest share of voice in the jewelry industry out there.

So again, we have built our Company to compete in good times and bad. That is why we have the strong balance sheet, and we're confident that we will be in a position to capitalize on our strong store portfolio and be in a position to increase market share based on the reduced capacity that is coming out of the industry store base.

Todd Slater - Lazard Capital Markets - Analyst

Well, it sounds like you are operating quite rationally. If there's a couple thousand stores going away, can you give us a sense of what percent of that supply in your market, sort of in the middle market do you think that represents?

And also, are you likely to see any similar or any type of capacity reductions across the pond if the UK weakens similar to the US?

Terry Burman - Signet Group - Group Chief Executive

Sure. There is about -- in the US there is about 29,000 jewelry doors. This is again just based on my industry observation, I would guess that competing in our end of the market, the Jared and the Kay end of the market, that it would be someplace in the 20,000 to 24,000 range of doors that we're competing against. So if you take a couple of thousand doors out of that, obviously you can work out the percentage. It is between 8 and 10 -- it is in 8% and 10% of the capacity would be coming out.

Sep. 03. 2008 / 9:00AM, SIG - Interim 2008/09 Signet Group Earnings Conference Call

Now I don't think that -- obviously the capacity is going to come out of lower performing sales doors. So I don't think that the sales mirror the number of doors that are coming out. So I would probably reduce that 8% to 10% to someplace between 5% and 8% on a sales basis.

Terry Burman - *Signet Group - Group Chief Executive*

In the UK we have less comprehensive data available, but there's about 7000 doors in the UK. And there is much less of a non-specialty jewelry presence in the UK as a share of the market. We estimate that presence to be about, oh, maybe about a third of the market. So the market is dominated by specialty, whereas it is split about half and half in the US.

We just don't have any data. But I have got to believe that there is going to be some reduction in capacity in the UK. I don't know if it will be mirror the US or be a little less or a little more. But my feeling is that it will probably be a little less reduction than that which we're seeing in the US.

Todd Slater - *Lazard Capital Markets - Analyst*

Thank you. That is very helpful. I appreciate the overview.

Operator

(OPERATOR INSTRUCTIONS). John Baillie, Societe Generale.

John Baillie - *Societe Generale - Analyst*

Just on the UK, and particularly look at the very quite sharp move in currencies recently against the dollar, maybe the implications for the next six months, and have you been taking any hedging, or is this one reason why you expect to retrace some of the gross margin gains of H1 by the year-end?

Walker Boyd - *Signet Group - Group Finance Director*

There's two parts. I think if you look at the pure currency requirement of the UK in a sense remembering that it's not just gold, which is dominated in dollars but also diamonds and, indeed, a significant piece of the H.Samuel gift businesses sourced in dollars or dollar linked currency. I think that aspect in terms of the weakening of Sterling is unlikely to have a major impact in terms of gross margin this year. And, indeed, even looking into the early part of next year from a currency perspective, we have fairly deep hedging positions. So I think it is longer than a six-month forward look when you start to look at what the implications are.

I think in respect of looking more at the gold than whereas in the last month the US has had some benefit in terms of looking forward at potentially less commodity pressure from gold in dollar terms, clearly that benefit does not go through into the UK because it has been matched pretty much by the weakening of Sterling.

So I think whereas there is maybe less certainly based on today's spot price, less commodity pressure from gold in the future for the US, that is not true of the UK because of the compensating offset in the weakness of the pound.

So I think from a currency perspective, no, it is a longer-term than six months that we need to start thinking about in terms of implications because of our relatively deep hedge position on currency. Gold, the potential benefit to the US would not be mirrored in the UK.

Sep. 03. 2008 / 9:00AM, SIG - Interim 2008/09 Signet Group Earnings Conference Call

John Baillie - Societe Generale - Analyst

But just to make sure I understand the gross margin message for this year, full year, you're expecting to retrace most of the 80 basis point gain in H1. In H2 there is actually a decline in gross margins on (multiple speakers) across the board?

Walker Boyd - Signet Group - Group Finance Director

I think in terms of the specifics of the estimates for the UK gross margin, as in the US, we took some price increases during the course of the first and early part of the second quarter. Therefore, just as in the US, you do get that benefit straight off, and therefore, there is some cost inflation still to come through. And I think also in the UK we recognize in what is likely to be a softening in terms of consumer, we have said we will have some more targeted price promotions.

Therefore, in terms of overall guidance, I think a broadly flat gross margin percentage in the UK is appropriate. I think the issues that you mentioned in terms of currency, as I say, are less of an impact in the current fiscal year and more starting to think about the second half of '09, 2010.

Operator

David Mann, Johnson Rice.

David Mann - Johnson Rice - Analyst

Can you talk a little bit about the health of your Internet business? Can you also relate in terms of the market share or, excuse me, the consolidation of the industry how much of the share of market do you think is now moving to the Internet overall?

Terry Burman - Signet Group - Group Chief Executive

Yes, in terms of sales through e-commerce and the statistics I have seen from Forrester have about 7% of the market through e-commerce sales. The question is, what percent of that 7% are done by brick and mortar retailers who also have e-commerce capability? So I would guess that at least half of it is done by -- is also done by brick and mortar retailers, so it is not really a share shift. It is just a difference in channel, which channel those brick and mortar retailers are distributing through.

Our e-commerce business in the US is growing at a very healthy rate. But we held off entering the channel until we felt that the market was big enough for us to get a reasonable market share. We can make a profit. And, therefore, we avoided the losses that many of our competitors took for years by biding our time and entering when it was strategically appropriate for us.

Now that we're in the market, we have enabled our Kay e-commerce website about two years ago and just enabled Jared in the last couple of weeks. So that startup in terms of Jared is going to provide some healthy growth to our e-commerce sales, as will the continued growth of Kay, including expanding the number of products that we have available on the Kay website and the number of features that we have on that website.

Having said that, still a small percentage of our business representing a little less than 1% of our total sales we estimate for this year.

In the UK we have had both brands up for a longer period of time than we have in the US. I think H.Samuel was three years ago, and Ernest Jones was enabled two years ago. And it represents 2% to 3% of our sales, and we estimate it will be for this year with some quite healthy growth continuing this year.

Sep. 03. 2008 / 9:00AM, SIG - Interim 2008/09 Signet Group Earnings Conference Call

David Mann - *Johnson Rice - Analyst*

Very good. One other question. On the compressed holiday season this year, how are you positioning for that, and how historically has that shorter holiday period affected you in the US?

Terry Burman - *Signet Group - Group Chief Executive*

You could prove any case you want by looking historically at the shorter and the longer holiday season. Because there has been -- because obviously there's a lot of other factors that enter into it. And I could argue either case. I could argue that the same dollars are just read out over November and December. I could argue that it negatively impacts us.

I happen to believe, I personally believe that it's not going to impact us when you look at the fourth quarter as a whole. Obviously having a different break time for Thanksgiving somewhat alters your promotional calendar. But we have gone through this in the past, and we're just making the normal adjustments that we would make considering the calendar shift.

So no major changes. And, as I said earlier, I don't think it's going to meaningfully impact our results negatively or positively.

Operator

If there are no further questions, I would like to turn the call back over to Mr. Terry Burman for any additional or closing remarks.

Terry Burman - *Signet Group - Group Chief Executive*

Thank you, operator. I would just like to remind everyone that our next scheduled announcement is the third-quarter sales figures on November 6. These will be announced at 7:30 in the morning UK time as we're taking part in a sector conference that day. Our third-quarter results are expected to be announced on Tuesday the 25th of November at the usual time of 7:30 a.m. Eastern standard time and 12:30 GMT.

Good-bye and thank you for participating in this call.

Operator

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

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