

# FINAL TRANSCRIPT

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## **SIGYF.PK - Q1 2007 Signet Group Earnings Conference Call**

Event Date/Time: Jun. 08. 2007 / 9:00AM ET

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## CORPORATE PARTICIPANTS

**Terry Burman**

*Signet Group - Group Chief Executive*

**Walker Boyd**

*Signet Group - Group Finance Director*

## CONFERENCE CALL PARTICIPANTS

**David Jeary**

*Credit Suisse - Analyst*

**Steve Oldfield**

*Cazenove - Analyst*

## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to today's Signet Group Q1 results conference call. For your information, this conference is being recorded. At this time, I would like to hand the call over to your host today, Mr. Terry Burman. Please go ahead, sir.

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**Terry Burman** - *Signet Group - Group Chief Executive*

Thank you and welcome to the conference call on Signet's first-quarter results. I'm Terry Burman, Group Chief Executive, and I have with me Walker Boyd, Group Finance Director. Walker will review the financial results and then I will comment on the operations in the U.S. and the UK. We will then both be available to take questions. Walker?

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

Thank you. 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 the Annual Report on Form 20F that was filed with the SEC on May 4, 2007, and which can be found on the group website at [www.signetgroupplc.com](http://www.signetgroupplc.com).

This is the first time that we have reported in dollars, and therefore the comparatives have been restated at the exchange rates that were then applicable. Pro forma dollar income statements, balance sheet and cash flow for the last five years and the last eight quarters are available on our website.

Turning to the first quarter, group total sales rose by 10.9% to just over \$840 million. up 8.1% at constant exchange rates. The exchange rate for the quarter was \$1.96 to the pound against \$1.75 in the comparable period. Group like-for-like sales increased by 3.1%.

Operating profit was \$54 million against \$56.3 million last year. The results were adversely affected by net expense timing differences in respect to the U.S. marketing events, which are estimated to have reduced the operating profit by about \$5 million. Operating margin was 6.6% compared to 7.7% in the first quarter of fiscal '07. Constant exchange rates operating profit declined by 2.9%.

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Group expenses were \$4 million against \$3.6 million. Net financing costs were up by \$600,000 over last year, primarily due to the impact of the \$100 million share buyback program, which was substantially completed during the quarter.

Pretax profit was \$50.8 million against \$53.7 million. At constant exchange rates, pretax profits were down by 4.3%. Tax rate was 36%, in line with the anticipated full-year rate. Earnings per share were \$0.019 compared with \$0.02 in the comparable period.

With regard to cash flow, there was a net outflow from operating activities in the quarter of \$4.3 million against a \$25.5 million inflow in the first quarter of last year. This is principally attributable to slightly higher than anticipated inventory levels in the U.S. and faster vendor payments reflecting overall advantageous changes in terms.

Capital expenditure was \$28.3 million against \$26.1 million last year and the group remains on track for a full-year spend of between \$170 and \$190 million. Net debt at the end of the quarter was just over \$286 million, up \$160 million from the level 12 months ago, again primarily as a result of the share repurchases of nearly \$100 million made since July 2006.

I will now hand you back to Terry, who will talk about developments in the business.

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**Terry Burman** - Signet Group - Group Chief Executive

Thanks, Walker. Looking first at the U.S., reported sales showed a rise of 10.1% in the quarter. In a more challenging U.S. retail environment, like-for-like sales increased by 3.2%. The underlying like-for-like sales growth is estimated to have been 1.9% after adjusting for the adverse impact of weather disruption over Valentine's Day and the benefit from the timing of a promotional event at the start of the quarter. A similar event in connection with Mother's Day at the end of the quarter is treated on a consistent basis for like-for-like purposes.

Average transaction values in both mall brands and Jared increased by around 5%, reflecting price adjustments made last year to help offset the rise in commodity costs and the continued move by the consumer to larger, better-quality diamonds. As anticipated, the gross margin percentage was down versus the first quarter of fiscal 2007, reflecting mix changes and commodity cost increases. Overall, commodity price pressures have reduced as diamond costs, which account for about half of U.S. cost of goods sold, were broadly stable in calendar 2006 and gold price increases have moderated.

U.S. operating profit was \$59.9 million again \$62.7 million in the comparable period. Operating margin was 9.5%, down by 140 basis points on last year, including some 80 basis points due to the adverse impact of net expense timing differences in respect to marketing events. The bad debt charge to sales ratio was comfortably within the tight range of the last 10 years.

Turning to the UK, trading conditions in the non-food retail sector remain challenging. At constant exchange rates, total sales rose by 1.7%. On a reported basis, total sales were up 14% to \$182.1 million, benefiting from the movement in the U.S. dollar exchange rate from GBP1 to \$1.75 to \$1.96.

Like-for-like sales performance in the first quarter strengthened a little from last year and was up by 2.6%, with H.Samuel increasing by 1.9% and Ernest Jones by 3.5%. A tight controls of costs was maintained and gross margin was little changed. As a result, the operating loss of \$1.9 million showed a small improvement on the comparable period.

The focus of the business continues to be on raising store productivity by lifting the average transaction value. In the quarter, the average selling price in both H.Samuel and Ernest Jones was up by about 10% on the first quarter of fiscal '07. This reflected mix changes and the benefit of selective price increases in 2006.

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With regard to current trading, the U.S. experienced a weak Mother's Day period at the start of the second quarter. Trading since then has seen like-for-likes return to the underlying rate of growth achieved in the first quarter. Sales performance of the UK business has seen a further small improvement to that of the first 13 weeks.

Against this background, we continue to implement our proven strategy and expect U.S. new store space growth to be at the top end of the targeted range of 8% to 10% in the current year. With the U.S. trading environment more difficult, there may be an acceleration of sector consolidation in the medium term. Our strong balance sheet, high operating margins and sustainable competitive advantages make us well-positioned to gain market share.

We will now take any of your questions that you may have. Thank you, operator.

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## QUESTIONS AND ANSWERS

### Operator

(OPERATOR INSTRUCTIONS). David Jeary, Credit Suisse.

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### David Jeary - Credit Suisse - Analyst

I just wanted to ask really a little bit more about the Mother's Day performance and get your take, I guess, Terry, in terms of what maybe happened, one, within the jewelry market, or B., possibly within the wider Mother's Day gifting market to explain the weak performance, please?

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### Terry Burman - Signet Group - Group Chief Executive

Right. The statistics came out for May sales for those retailers that are amounts month by month in the U.S. Those statistics came out yesterday and they were mixed, but essentially May did not return to the levels of March. So I would believe, and what we hear anecdotally about the jewelry industry, I would believe that it is not that the issues were not Signet-specific.

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### David Jeary - Credit Suisse - Analyst

Okay. In terms of your actions into that, then, presumably you did nothing differently than you would normally have done into a Mother's Day promotion, then, Terry?

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### Terry Burman - Signet Group - Group Chief Executive

Correct. We had our traditional Mother's Day promotion, had more advertising impressions, had some creative changes. The merchandising was similar to that which we have been doing, with obviously some new product introductions, as usual, but compared to the prior year, no, there is nothing that we changed that we believe would be responsible for the weaker promotional period during Mother's Day.

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### Operator

(OPERATOR INSTRUCTIONS). Steve Oldfield, Cazenove.

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**Steve Oldfield** - Cazenove - Analyst

Just further on the Mother's Day point, just relating back to some comments that Zale made a couple weeks ago, do you think there was a kind of demographic trend evidenced? I mean, they were basically complaining about gas prices hitting the lower end of the market. Was there any notable differential in sales performance between Jared and the mall businesses?

**Terry Burman** - Signet Group - Group Chief Executive

The gap between Jared and the mall stores was consistent with that which we have been seeing recently. I believe that gas prices, they're starting to take a toll. I would not blame all the ills of the economy on just the gas prices. There's a lot of issues going on. But with the interest rates at this level, the mortgage refinancings that were very popular a couple years ago are now starting to reset, at least the variable ones are, obviously. And housing prices, consumer confidence, gas -- I think gas prices are probably the biggest impact because that hits all consumers. I think it is certainly taking a toll on consumer spending because it is acting like a tax. But I would not say it is all due to gas prices, and it is not just at the lower end. I think middle market consumers are also experiencing pressure on their disposable income.

**Steve Oldfield** - Cazenove - Analyst

Okay, so do you think it is fair to say another interpretation would be that really in the sort of key promotional events, you're chasing more discretionary spending, whereas outside of those periods, really, bridal, which is obviously a more consistent or less cyclical business, is more predominant in the mix? Is that a reasonable view of it?

**Terry Burman** - Signet Group - Group Chief Executive

That is a reasonable and a correct view of it. Bridal increases to a higher percentage of our business during non-Valentine's, Mother's Day and Christmas periods, because during those periods, you're selling more gift-type merchandise, which gets more into fashion and body jewelry than it does into -- and the bridal component is less of a factor. During the nonpeak times, bridal becomes a greater percentage of our sales, and that is a more stable portion of the business.

**Operator**

(OPERATOR INSTRUCTIONS). It appears that there are no further questions at this time.

**Terry Burman** - Signet Group - Group Chief Executive

Well, thank you for participating in this call. Our next scheduled announcement is the second-quarter sales figures on August 9. Our interim results are expected to be announced on September 5, when there will be the normal analyst presentation in London and a simultaneous conference call and webcast for all interested parties. Goodbye.

**Operator**

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

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