

FINAL TRANSCRIPT

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PRESENTATION

Terry Burman - *Signet Jewelers Limited - Group Chief Executive and Director*



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Good morning. Is it still morning? -- yes. It's still morning. Thanks for attending our presentation.

I'm Terry Burman. I'm Signet Chief Executive. And with me is Mark Light, the CEO of our US division. Also presenting today are Tryna Kochanek, our Senior Vice President of Store Operations; Ed Hrabak, our Senior Vice President and General Merchandise Manager; and Bill Montalto, our US Chief Operating Officer. In addition, Tim Jackson, our Investor Relations Director, is sitting here. Raise your hand, Tim. Thank you.

Before you begin, we'd really appreciate it if you would turn off all of your cell phones, Blackberries, whatever other handheld devices you may have that are newly invented. They will interfere with the audio. So we'd really appreciate it if you'd turn us off.

We'll go through -- actually, I need to turn mine off -- we'll go through a preferred presentation and with a short time for questions after each speaker. In addition, we have scheduled time at the end for further questions before we go to the Kay store on 34th Street.

With regard to any questions about trends in the third quarter, we just cannot make any comments. Our Q3 sales will be announced in two weeks, and our results on November 24. So any answers on trends so far this year will reflect our position through July.

Similarly, it's not our policy to give sales guidance, and therefore will not be commenting on our outlook for the -- on our expectations for the holiday season.

I'd like to draw your attention to the Safe Harbor statement. Today, we aim to demonstrate why you should invest in Signet. We have a record of consistently gaining profitable market share in good times, and the accelerated rate of sector rationalization provides significant opportunity for further gains in the current environment.

Supported by our strong balance sheet and cash flow, we have meaningful and sustainable competitive advantages that drive our market leadership. One of the most meaningful of these is the quality of our field operations, which you'll see when we visit the stores this afternoon.

We believe that we have an effective strategy for the current tough environment and an experienced management team able to implement it. This means that we're well-positioned for the recovery when it comes.

First, a brief look at our market leadership as the world's largest specialty retail jeweler. In the US, which accounted for about 75% of our sales and operating profit last year, Kay and Jared are our leading brands. Kay is the number one brand by sales in the middle market. Jared is the leader in the upper middle market, and in just 12 years, has been developed to be the number four jewelry retail brand in the US.

It is an off-mall category killer concept. In the UK, which accounts for about 25% of our sales and operating profit, H.Samuel is our largest format and the number one brand. And it's targeted at the middle market. Ernest Jones is our second format and the number two brand in the UK. Ernest Jones is focused on the upper middle market segment.

Our sustainable competitive advantages in both the US and UK include customer service, with staff training, development and incentivization embedded in our culture and operations. Customer merchandising, where we have the most sophisticated supply chain and demand-driven merchandising Systems, supported by strong inventory management.

We also have the best record for developing differentiated ranges in the middle market. In marketing, all of our leading brands have very high consumer awareness. The combination of high store productivity and a well-above-average marketing to sales ratio give us a significantly larger share of voice, using national TV advertising.



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In both the US and UK, we have high-quality real estate, having applied very strict criteria consistently over time. This is underpinned by a proven management team at all levels of the organization. These points will be developed further throughout today's presentations and in-store.

Our strategy in the current tough environment is to enhance our position as the strongest player in the middle market jewelry sector and to provide profitable market share gains. At the same time, we are focused on profit and cash flow maximization by reducing costs and tightly managing working capital.

We're using our strong balance sheet as a competitive advantage, for example, in our supply chain, in real estate negotiations, and in the provision of consumer credit. We have a very disciplined approach to investment, whether in terms of operating expenditures or use of capital. Our focus on national TV advertising is an example of this.

For capital investment, we require a 20% IRR on a pretax discounted cash flow over a five-year period. The key assumption in these appraisals is sales. Therefore, until sales visibility returns, we have very significantly reduced capital investment, with store space expected to be broadly stable for at least the next 18 months. In addition, there are very few new shopping centers being developed at this time.

Underpinning our strategy, we set a number of financial objectives for fiscal 2010. We've implemented a \$100 million cost-saving program in the US, and at the end of Q2, we're a little ahead of plan on its delivery. We targeted a substantial reduction in working capital. And again, we now expect to exceed that goal.

For example, reduction in inventory is now expected to be some \$120 million. Our target at the start of the year was to reduce net debt by about \$200 million at constant exchange rates. As a result of profits in the first half being up on last year and the progress made on working capital management, we now expect the net debt reduction for the year to be between \$275 million and \$325 million.

So this slide looks at the improvement in cash flow in more detail. In fiscal 2009, while net income was lower than in fiscal 2008, a reduced level of investment in working capital and new store openings resulted in an increasing free cash flow of almost \$50 million. In fiscal 2010, we anticipate a substantial reduction in working capital, a lower level of capital expenditure in our existing stores, and significantly less investment in new US stores.

In the first half, we reduced net debt by \$270 million. This further strengthens the balance sheet, reduces risk in the business, and increases our competitive position.

Turning to the future, clearly, our performance will depend on the general economic environment, and that continues to remain uncertain. As I have indicated, we expect little new space growth in the next 18 months. If anything, we will marginally reduce space. Operating results will therefore be driven by our ability to improve operating margins, by leveraging our existing cost base.

To do this, we aim to win profitable market share in our existing stores by utilizing our competitive strengths, and to take advantage of increased rationalization within the specialty jewelry sector.

So now Mark and his team would like to explain in more detail how we plan to do this in the US. Thank you.

Mark Light - Signet Jewelers Limited - CEO of US Division

Thank you, Terry. Good afternoon. One of the key tools that helped define Signet's US division is our mission statement.

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Our mission has three critical platforms. First, how we can earn the trust of our customers; second, the manner in which we treat each other; and thirdly, to achieve a level of return on assets that will motivate investors and lenders to provide capital to expand our Company, increase our market share, and further improve our profitability, and to continuously improve on everything that we do.

Trust in the sales staff and the brand are key elements in the purchase decision. A key aspect of our mission statement is our customer-first philosophy. This underpins everything that we do in the home office and in the stores. It means that every team member is expected to think about our customer first.

For example, if a team member in IT is working on a new program for store systems, they are expected to think about themselves as a customer and how they would react, and think about the customer first when developing that IT program.

Now turning to our sector leading performance -- between fiscal 2002 and fiscal 2007, our operating margin and return on assets were more than twice the industry average. For fiscal 2009, our operating margin was 6.8%, 500 basis points below our five-year average.

There are no structural reasons why operating margins should not return to their former level when the economy and sales improve. However, while the current environment is tough for Signet, we believe that those competitors that remain are under significantly greater pressure. While we would expect to perform better in a stronger economy, we can also outperform in these tougher times.

Now let's take a look at the competitive consolidation. The weak position of the competition is reflected in an accelerated rate of rationalization within the sector. Up until 2008, the number of specialty retail jewelry firms reduced by about 400 firms each year, with probably a similar number of net store closures.

In 2008, Friedman's and White Hall, two top 10 specialty firms with 800 stores between the two of them, were liquidated. And it is estimated that in total, 1,800 jewelry stores closed, representing about 8% of space capacity and about 5% of specialty sales. In 2009, two further top 10 brands went into Chapter 11, and we anticipate closures in 2009 to be in the range of about 750 to 1,500 stores -- a little less than 2008, but significantly ahead of historical years.

Furthermore, many of those competitors who remain in the business continue to weaken, as they are forced to make draconian decisions, and cut expenses and cut inventory, which also reinforces our competitive advantages within the jewelry sector.

Turning to our two key brands in the United States -- last year, Kay had 926 stores and sales of \$1.4 billion, which was 40% more than the number two brand in the middle market. The number of Kay stores increased by about 25% over the four years to fiscal 2009.

Productivity remains very similar despite the immaturity drag on average sales per store. Our focus on customer service is reflected in every store having at least one qualified diamondologist. Over the last five years, we have successfully developed Kay in off-mall locations, and these sites have accounted for nearly all of our new stores.

Now take a look at Jared. Over the last 10 years, Jared had accounted for the majority of our space growth, and at the end of fiscal 2009, had 171 stores. It is an off-mall category killer concept, with superior selection and superior service. It's targeted at a customer one notch above our mall stores.

Each store is just over four times the size of a typical mall store in space and in terms of size. Jared is equivalent to over 600 mall stores in space. With sales of \$726 million last year, it is the third-largest mid-market specialty jewelry brand in the United States, and has achieved critical mass.



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We began advertising Jared on national TV around three years ago and have seen a significant increase in awareness since then. However, the concept still remains immature, with only about 45% of the stores having traded for more than five years, and has further space growth opportunities.

I'd like to now review with you our priorities in fiscal 2010. We entered the downturn as an industry leader and we aim to enhance those trends in the current year by investing in high return investment initiatives, such as marketing and differentiated merchandise programs. This is enabling us to gain profitable market share and maximize gross margin merchandise margin dollars.

As a result, in the first half of the year, while the US specialty jewelry sales declined by over 11%, and our total sales were only down 2.4%, and our gross merchandise margin increased by 60 basis points. At the same time, we are using our experience to make significant yet commercial – commercially sensible expense savings and inventory reductions, some of which are permanent and others to reflect the lower sales rate.

This meant our operating margin increased by 110 basis points in the first half, and our operating income margin increased by 10% on a reported basis; little change on an underlying basis, adjusting for the one-time benefit of a change in our vacation policy.

We continue to apply our strict investment criteria as a result, given the lack of sales visibility with new space growth, has basically been eliminated. For the same reason, maintenance capital expenditure has also been reduced in the short-term without detracting from our attractive store environments, as we have consistent store modeling programs for many, many years. Overall, our US capital expenditure this year is expected to be about \$37 million as compared to about \$76 million last year.

Looking at the changes in our space in more details, during fiscal 2009, we reacted swiftly to the changing environment by stressing our sales models when assessing store investment, and as a consequence, significantly increased the number of leases we exited at the end of their term.

In terms of lease renewals, we always have a pool of stores that are at the end of their leases; and while profitable, do not justify a full remodel. These stores are normally rolled out on a short-term lease basis.

The majority of the closures have been in our regional brands, as they typically have a lower sales per store. The impact to sales is minimized, as nearly all are in malls where there is also a Kay; and our Kay stores can market to those customers of that closed regional unit.

We anticipated the position in fiscal 2011 will be similar, although we continue to monitor the environment as the year progresses. We would expect to resume gradually some level of store expansion when the economy improves, dependent on new stores achieving our IRR criteria. However, dependent on the economy, we certainly believe there is an opportunity to gain profitable market share by leveraging our competitive trends, and to take advantage of the accelerated rate of sector rationalization.

In summary, Signet's outperformance is based on its sustainable, operational and financial competitive advantages that have been built over time by its very experienced management team. Our executive committee has on average about 20 years' tenure in the jewelry industry.

We also maintain a narrow and deep focus on all aspects of our business. We continually look to build on our strengths and the fundamental retail disciplines, underpinned by our controls and information systems.

At this time, I will be happy to take your questions. If you have any questions, if you would, Tim has got a microphone, and please state your name and what firm you are with.



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QUESTIONS AND ANSWERS

Valerie Brown - *AllianceBernstein - Analyst*

This is Valerie Brown with AllianceBernstein. I have two questions. The first is, I was not aware that there were any Kay stores off-mall. Could you speak to the number of doors that are off-mall and if you view that as a more profitable format for Kay?

And then, secondly, in terms of the industry consolidation, clearly there are benefits to you in terms of market share; but I'm wondering what the impact will also be in terms of pricing pressures, as some of those stores start to liquidate merchandise.

Mark Light - *Signet Jewelers Limited - CEO of US Division*

Okay. To answer your first question, Valerie, we have roughly about 130 Kay off-mall stores. And just to give you a brief history, everything we do, we test before we invest. And about five years or so ago, we saw the growth of off-mall formats, lifestyle centers and power centers. We tested our Kay stores in these centers to get an understanding of what type of opportunity we have, and get some visibility in the sales of these stores.

Through about four years of testing, year-on-year, 10 stores up to 20 stores, we realized that this was a profitable format for us. And we are now -- or up through last year, we're in the midst of a rollout program. We see opportunity to grow Kay in the off-mall format when we have better visibility of the sales and when the economy kind of stabilizes.

As far as your second question -- remind me the second question?

Unidentified Company Representative

Pricing pressures.

Mark Light - *Signet Jewelers Limited - CEO of US Division*

Pricing pressures. Thank you. Pricing pressures, consolidations. Yes, we are dealing with some of our competitors in liquidation mode. In the short-term, we do feel some of that pressure but it's just a short-term phenomena and we get through it ultimately.

And what we find is even when we go against them in the same mall, the stores that are liquidating, at the midst and the tail-end of their liquidation sales, they have inventory that's not fresh, the consumers are not seeing new, exciting new styles. We believe by differentiating ourselves, like last year, we had to do a lot of it, by differentiating ourselves with unique programs like our Open Hearts by Jane Seymour, by our LeVian collections, that we have clearance product in our stores but we're able to differentiate ourselves with these new programs that we're advertising, that these liquidation sales can't obviously carry. So it is a short-term effect, but it it's just a short-term phenomena.

Thank you. Yes?

Todd Slater - *Lazard Capital Markets - Analyst*

Todd Slater from Lazard. Once the industry kind of stabilizes both in terms of demand, the demand side, and as well as supply, is there any reason why the business model shouldn't get back to historic average operating margins or above, given the rationalization of supply? I'm just wondering what your thoughts are on recovering to that type of level.

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Mark Light - Signet Jewelers Limited - CEO of US Division

Sure. To your point, Todd -- how are you, Todd? -- to your point, sales is obviously the primary factor. And it's a matter of how high and how fast we can get our sales back.

For example, in the last two years, when we had 12% operating margins, we lost literally 15% of comp sales. And so it depends on how high and how fast the sales grow. That being said, there are some other issues -- the economy is what we need on our side to get that sales growing faster -- but there are some other issues to a lesser extent; but we need to get our bad debt at a normalized level as it used to be, prior to the economic recession.

And we will also have -- another factor will be that we won't have as many new stores putting pressure on our operating margin when we get out of it. So, yes, sales grow as fast and high as they went down, and we also -- one other thing, Todd, I do want to say -- we do also have the benefit of our \$100 million expense cutting program that will help us out through this also. So --

Todd Slater - Lazard Capital Markets - Analyst

(inaudible -- microphone inaccessible) so given the \$100 million reduction, what type of productivity do you need to get back to? Do you need to recover fully that 15% to get back to those types of -- the 12% operating margin level? Or some lower-level now, given the lower structures?

Mark Light - Signet Jewelers Limited - CEO of US Division

Sure. Some of the \$100 million will be permanent. Some, like advertising -- historically, we've been at 6.5% to 7% of a gross spend; we'll grow -- a lot of that \$100 million is discretionary. So it will depend on the sales environment going forward.

What we have seen is roughly about 3% comp sales when we start leveraging sales, but it's a rough estimate. But roughly around 3% of comp sales increases.

No? I can see you're not satisfied.

Todd Slater - Lazard Capital Markets - Analyst

(inaudible -- microphone inaccessible) until you can get back to those levels (multiple speakers) --

Mark Light - Signet Jewelers Limited - CEO of US Division

No, no, not to those levels. I'm saying we're starting leveraging sales; they're going to start leveraging sales and it's roughly in that zone. So it's going to depend on how high and how fast we get those growth.

Todd Slater - Lazard Capital Markets - Analyst

I think it was your question, you want to know --

Mark Light - Signet Jewelers Limited - CEO of US Division

Exactly when?

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Todd Slater - Lazard Capital Markets - Analyst

How much sales increase we need in order to get back to a 12% operating level (Inaudible question - microphone not available)?

Mark Light - Signet Jewelers Limited - CEO of US Division

I cannot give you an -- a lot is going to depend on the environment, and it depends on what discretionary we put back in, to give us a balance, obviously, to how much advertising and payroll comes in. It's going to depend on the environment. There's a lot of moving parts, Todd, so I can give you an exact amount.

Todd Slater - Lazard Capital Markets - Analyst

(Inaudible question - microphone not available)

Mark Light - Signet Jewelers Limited - CEO of US Division

We feel comfortable.

Todd Slater - Lazard Capital Markets - Analyst

(Inaudible question - microphone not available)

Mark Light - Signet Jewelers Limited - CEO of US Division

We feel comfortable, depending on the economy and the pace of how high and fast our sales growth will be. But yes, and we have the benefit of a lot of the expenses that are in our expense reduction program.

Steve Kernkraut - Berman Capital - Analyst

It's Steve Kernkraut, Berman Capital. The question deals with a lot of the apparel retailers have reduced their costs -- their product costs have gone down materially because they're sourcing everything overseas. But you're in a different kind of ballgame. I mean, how adverse is the commodity cost increases causing your prices to go up? I mean, gold is up, but are you able to be able to maintain that through the manufacturing price process similar [costing] as you had last year?

Mark Light - Signet Jewelers Limited - CEO of US Division

We have to deal with the commodity prices, as you stated, gold specifically, which is, as you know, over \$1,000. But going forward, in this past year, the majority of our product is bought right now for the Christmas season.

We have had some benefits due to our strength of our balance sheet in the diamond market, because the demand for diamonds dropped so significantly over the past year, we have been able to make some good buys over this past year on diamonds. So we are getting some benefit on our diamond buys, but we are feeling some pressure on gold.

Steve Kernkraut - Berman Capital - Analyst

And secondly, you mentioned your receivables. Do you own your receivables still?

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Mark Light - Signet Jewelers Limited - CEO of US Division

Yes, we do.

Steve Kernkraut - Berman Capital - Analyst

Are you considering selling them or getting out of the credit business?

Mark Light - Signet Jewelers Limited - CEO of US Division

No, we are not. Bill is going to give you a little bit more of an update on our Accounts Receivable program, but no, we are not. And he'll give you the reasons and the rationale why we are plan on keeping our receivables.

Ben Spruntulis - Citigroup - Analyst

Ben Spruntulis, Citi. Just to piggyback on his question, do you hedge your bets for gold and diamond, or are they long-term contracts?

Mark Light - Signet Jewelers Limited - CEO of US Division

We do have a hedging policy, and we've had -- historically, we have a little bit of hedging going for next year, but small. And diamonds, we don't hedge. What we do is we'll buy and we'll make opportunistic buys, but we'll stay within the confines of the amount of inventory we need. Any other questions?

Barbara Wyckoff - Jesup and Lamont Securities Corporation - Analyst

Barbara Wyckoff, Jesup and Lamont. Up until July, how was the engagement business last July? How is the engagement business? And then before holiday, what was the trend?

Mark Light - Signet Jewelers Limited - CEO of US Division

Up through July, our bridal business has been slightly better than our averages -- slightly better than overall.

Barbara Wyckoff - Jesup and Lamont Securities Corporation - Analyst

(Inaudible question - microphone not available) holidays?

Mark Light - Signet Jewelers Limited - CEO of US Division

Up through holidays, our bridal business was -- last year through holiday, the bridal business outpaced the overall business. Did you ask something, Terry?

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Terry Burman - *Signet Jewelers Limited - Group Chief Executive and Director*

I just wanted to send a hedging question. We take care of all the hedging [at group], so what we do is we hedge gold in the US and the UK, and then we hedge currency in the UK for the amount of gold and diamonds that we have to buy, because those are traded in dollars. So that's -- and we have hedging policies, but we don't disclose just how much we have hedged. But we do have a hedging policy and we report to the Board on it quarterly.

Mark Light - *Signet Jewelers Limited - CEO of US Division*

Okay. At this time, I want to turn the presentation over to Tryna Kochanek, our Senior Vice President of Store Operations.

PRESENTATION

Tryna Kochanek - *Signet Jewelers Limited - SVP of Store Operations*

First, I'd like to discuss with you the importance of service. In specialty jewelry retailing, recruitment, training and retention of the brightest and the best is a priority, as they are the final two feet of the supply chain, the space across the sales counter.

Our typical customer is making a purchase with considerable emotional content, and has only a limited amount of knowledge. There's fear to the unknown, and this is reinforced because all the merchandise is under lock and key. As a result, our sales associates are a critical part of every transaction, as they have to welcome the customer, build trust through education, find the right piece of jewelry and, ultimately, close the sale.

We continue to invest in training and customer service, as this is a critical and fundamental part of our sales proposition.

Recruitment is also a priority. In any business, but particularly in ours, store and field staff are always looking for the right people. The key to finding a candidate is the right attitude. We can give them the appropriate training.

Therefore, we have developed tests for potential recruits to confirm that they have the right attitude, right sales goal and customer focus. Within the sector, we are currently a very attractive employer due to our training, consistency and growth and stability.

All district managers and vice presidents in the Operations Group, regardless of their background, must run a sterling store. This ensures that they have an in-depth knowledge of our policies, procedures, customer focus, and more importantly, they fit into our culture.

Feel free to ask many of the associates you'll meet this afternoon what their backgrounds actually are. We believe we have the best training in the industry. We believe in a consistent development of staff at all levels following structured programs throughout the year.

We review our training requirements based on customer feedback, what our associates tell us, and management priorities for the business. The programs and supporting materials are developed by a training team specialist, who works very closely with merchandising and marketing departments, so that we can train and educate on the products that we are promoting.

We actually evaluate many of our training programs using an ROI model to monitor how effective they are. The administration of staff development has been significantly improved by the introduction of the sterling performance matrix that you will see demonstrated in the store. This system has also meant that our district managers, one of our most critical resources, are devoting more of their time to staff development, the key to our superior performance.



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Next, clear, measurable objectives -- another important practice at Signet is our daily store standards. Each associate knows every day the key measures needed to achieve success, factors over which they have a direct influence over, such as sales, other revenue generators and multiple unit transactions.

These standards are tracked on a daily report of performance against target and it's displayed daily in their background. Stores also performance goals in regards to a customer satisfaction index. Staff are helped by training programs to achieve these standards. This is reinforced by continuous coaching from their store manager and peer support staff. You'll see this during your visit this afternoon.

We have strong team incentives. All of our field staff is strongly incented. It's typically 20% to 25% of their compensation is coming from incentive programs. Last year, we were obviously in the mid-teens due to the fourth quarter performance.

Monthly commission is based on a mix of individual and store performance, encouraging the team to work -- or the staff to work as a team. The commission rate increases as more stretch targets are met throughout the month.

Store management also receives commissions, but a far more important element to their incentive compensation is a profit bonus. We are the only chain jeweler that gives our managers the opportunity to earn an annual bonus based on the individual profits of their store. District managers are incented on key performance indicators such as recruiting levels, training and, obviously, sales.

At Signet, system support drives productivity. The sterling performance matrix, of which I referred to, is a computer-based communication tool between the stores, field management and the home office that we rolled out in 2007. It will be demonstrated later today.

It helps field operations identify, understand and prioritize tasks and ensure each store has on-time communication. Since we introduced this, we've had noticeable improvements in district and store manager productivity.

It has improved overall efficiency of field communications, giving better feedback and problem resolution, and improved process monitoring and compliance in such areas as merchandise test, recall or trade-ins. It's also given us a financial return and benefit on gross margins of merchandise and inventory efficiencies.

In summary, our people make the difference. We give our staffs the tools to succeed, superior training, the ability to focus on the customer because they have well supported by store systems, a great merchandise selection, consistency and quality that makes it easier to sell and has a value proposition.

Staff have clear performance standards, receive timely feedback on their performance, and they're strongly incented. As a result, we have retention rates that are well above the average as seen in many retail organizations, reinforcing the quality of the in-store execution. Additionally, this correlates to our customer satisfaction index, which continues to rise.

Before I turn this over to our next speaker, I would like to take any questions you have.

QUESTIONS AND ANSWERS

Neely Tamminga - *Piper Jaffray - Analyst*

Neely Tamminga, Piper Jaffray. So a question for you on this unemployment situation that we have out there. Are you finding -- and clearly, your employees are quality employees. Is this an opportunity to upgrade, by taking from other high sales support retailers that might be a little bit more distressed? Or how should we be thinking about your employment pool with this unemployment situation?

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Tryna Kochanek - *Signet Jewelers Limited - SVP of Store Operations*

Obviously, with the consolidation of just our sector, the employment pool has become greater. And then the total overall unemployment, yes, we are able to attract even a higher candidate that we may not have attracted as quickly. People have fear, so they do go to a stable organization where they believe they can have a long-term career.

Valerie Brown - *AllianceBernstein - Analyst*

Valerie Brown with AllianceBernstein. Since the customer relationship is so important, you mentioned the sales associate, I was wondering what kinds of systems you have in place, like the CRM systems, such that data is captured and held at the store level, if you have the unfortunate circumstance, if you lose a customer but you don't want to lose the customer. Could you talk about the, I guess, systems that are in place for customer loyalty and customer relationship management?

Tryna Kochanek - *Signet Jewelers Limited - SVP of Store Operations*

Yes, we have -- thanks, Valerie -- yes, we have those systems, and I may ask Bill for some help on this. But we retain customer data equally at store level, but at the home office. It's part of our marketing plan. There's so many assortments or effective ways out there -- name, address, phone number, e-mail. We do retain those.

And then also they have a personal trade book, which they're able to contact customers. Does that answer your question? We have good system support for that.

Bill Montalto - *Signet Jewelers Limited - US COO*

I could answer that if you want me to.

Tryna Kochanek - *Signet Jewelers Limited - SVP of Store Operations*

Yes.

Bill Montalto - *Signet Jewelers Limited - US COO*

Valerie, all of the -- in every point-of-sale transaction, the customer's name and address is captured along with their e-mail address. We have a database back at the home and office of over 25 million customers. And within that, there is a CRM system, there's a behavioral system that we look at, which scores and pulls out of that high prospects for mailing. I'll talk a little bit about that on my presentation.

But within the stores, the store system itself has the ability for the store to look at their customers by different kinds of purchases, different kind of purchase categories. They can bring up these customers for different events that they're going to be planning for.

They can get -- all of this, by the way, is scrubbed. It's scrubbed for name and address, and it's also scrubbed against Do Not Call lists, so that we're not pulling up something in the store and making a contact or a call with the customer, where the customer has indicated that they don't want to be called. So it's a pretty robust, comprehensive system that we've got.



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John Buskin - McAllen Capital - Analyst

[John Buskin] from McAllen Capital. No doubt you guys have a best-in-class organization in the field. Where do you see the opportunities from here? What are the initiatives you have in place, either to lower costs or increase productivity as we go into the [third and fourth quarter]?

Tryna Kochanek - Signet Jewelers Limited - SVP of Store Operations

To lower costs or -- I'm going to turn that over to Mark --

Mark Light - Signet Jewelers Limited - CEO of US Division

Are you talking specifically in the field or are you talking about --?

John Buskin - McAllen Capital - Analyst

In the field. I mean, the double-edged sword of being best-in-class is you're probably as good as -- maybe as good as you're going to get. Are there more opportunities to increase productivity of the team in the field or lower the costs, hours, or decrease the discounting at the counter?

Tryna Kochanek - Signet Jewelers Limited - SVP of Store Operations

Okay. All right. Okay. Thank you for clarifying your question. Are there opportunities -- there's always opportunities, for sure.

In terms of lowering payroll, we lowered our payroll into the sales to make it efficient early on in the year and throughout the year. Are there are additional? We don't see any at this point for the end of the year.

Our training programs and our differentiated merchandise are superlative to anyone. So as long as you continue to reinforce that behavior, and you support it with the right amount of product, the right amount of training, you're always going to get better.

We have a very, very effective discount controls within the organization that are systematized and supported daily. So there's always opportunity; we continue to look at it. So, yes, we believe there's always opportunity. At this point, we have taken as much as we believe we can so far for the rest of the year.

Bill Montalto - Signet Jewelers Limited - US COO

Differentiated merchandising programs, but Ed will talk about the Jane Seymour, the Leo Diamond, LeVian, Love's Embrace. The more we add these type of unique differentiated programs, the more our people embrace these programs. And they seem to capitalize and even get better at their selling techniques; get better information to communicate the features and benefits.

But that -- and you'll talk about it when you're in the stores, but when we had these differentiated programs, our people are able to sell better, sell with more confidence, deal with liquidation sales, deal with these competitors that don't have differentiated programs. And it seems to be our people really seem to be getting more and more confident within our programs.

And because of that, we are able to -- there's a whole benefit that we're -- where we are able to get better people. Now, you're asking specifically third or fourth quarter, so she's got the labor in line. We've got that in mind. But now it's going to be about

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efficiencies and how much they can maximize sales because of our differentiated offering, because of our improved advertising and because of everything else we have to offer this third and fourth quarter.

PRESENTATION

Tryna Kochanek - *Signet Jewelers Limited - SVP of Store Operations*

Okay. At this time, I'd like to do it over to Ed Hrabak.

Ed Hrabak - *Signet Jewelers Limited - SVP and General Merchandise Manager*

Good afternoon. The merchandising team essentially has a very simple task -- to get the right product at the right price in the right place and at the right time. This right product includes the development of differentiated ranges, which is an increasing opportunity for us.

Our objective in merchandising is to generate superior gross margin through the pursuit of supply-chain opportunities, while delivering exceptional product and quality to our stores and, ultimately, our customers.

In specialty retail jewelry, merchandising has additional priorities, and these are -- first, ensuring a consistency of quality, as every diamond is unique. So that every time a piece of merchandise is removed from the display case by a sales associate, they know what to expect and they can sell with confidence.

Next, optimizing inventory investment, given that it is the largest element of capital employed. And while jewelry has a low stock turn, there is very little seasonality, with fashions changing slowly. Therefore, it is possible to test merchandise and respond to changes in consumer buying patterns in a timely manner. This takes discipline, good systems and experienced management. But if done well, this means inventory risk is very low.

Our ability to test and monitor the performance of merchandise means that our assortments are the most up-to-date and relevant to the consumer within the jewelry sector. The 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.

Few competitors have the scale to do this. We then monitor its performance and, based on the customer's response or the pool, combined with the gross margin return on investment, we then determine whether we expand, modify or terminate the program.

While there is a core product range that is supported by advertising and runs across Kay and the regional brands, we also adjust the merchandise range to take account of each store's propensity to sell, which reflects demographic, regional and economic variations.

To help drive sales, we also differentiate our product by offering clear features and benefits. These may be obvious in terms of price and quality, but they also may be more subtle. For example, in terms of the consistency of the color of a diamond, between an earring, necklace and ring ensemble being presented to a customer.

Now let's take a quick look at the supply chain. Most middle-market specialty jewelry retailers buy from wholesalers and manufacturers, as they have insufficient scale to justify any other approach; and as a result, have few opportunities to improve their supply-chain efficiency.



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We have invested in the people, procedures and systems that enable us to source our diamond merchandise, using store owns, purchase loose, and cutters and polishers, and set by manufacturers on our behalf. About 50% of our diamond sales are derived from product source in this fashion.

Now the advantages of directing sourcing are first, a cost savings on our largest input costs; second, the assurance that the diamonds we buy are consistent with the quality of merchandise we sell; next, when combined with our strong balance sheet, provides ability to take advantage of market opportunities; and greater transparency into the manufacturer's costs, which we leverage when we buy complete.

We have also built long-term relationships with key vendors, which means lower cost merchandise as we give vendors long production runs that help them achieve better utilization levels throughout the year. The ability to pull forward or to forward delivery dates, depending on actual sales performance, particularly important over the holiday season.

Priority service when we make a request and first choices of new ranges. And they are willing partners in the development of differentiated and exclusive merchandise programs.

Differentiated merchandise drives footfall and sales, protecting margins by lowering the risk of discounting by competitors. Due to our size, record of developing programs and strong balance sheet, we are normally offered new merchandise concepts ahead of our competitors.

By securing exclusive distribution, we can be much faster to market than others who are trying to coordinate many different retailers. This is particularly important when it comes to testing new ranges.

It also means we can deliver a clearer, more cost effective marketing message that complement our retail brands rather than dilute the impact of our marketing dollars. We are also better able to execute the future development of these ranges.

I'd now like to look at some particular examples, all of which you will see in the store later today.

First, the Leo Diamond, which we tested in 2000 and was rolled out to all stores in 2002. We have continued to develop the range by adding new shapes, products and sub-brands. The Leo has become the industry's most successful branded diamond program. IDEX Magazine, published by a respected industry exchange and research provider, stated that the Leo Diamond was, quote, one of the most recognized diamond cuts in the United States.

The Jane Seymour Open Hearts collection was first identified as a concept in early 2008. We then developed a manufacturing relationship, and by Mother's Day, had it in stores to begin testing. It proved very successful, and we rolled it out for holiday 2008, when some designs actually sold out. We restocked for Valentine's Day and the range has continued to perform strongly. Therefore, for this holiday, we have expanded the range and improved availability.

The Pandora Program, which consists of hundreds of charms and a build a bracelet or build a memory concept, had historically been available only to independents or in small collectible outlets. In 2008, a test program was implemented in Jared, and the results were very positive.

Importantly, one of the primary benefits of the Pandora Program is its traffic building aspect. The consumer is typically a female self-purchaser who has never visited a Jared before. They often come in groups and the nature of the product encourages them to return to Jared over and over again.

We are currently rolling out Pandora to nearly all Jared stores, and we'll be advertising it in a new Jared TV ad for this holiday 2009. This has been an important new product for Jared, as it is attracting new customers within the typical Jared demographic, and is very good at increasing frequency of visit, which is important, given the decline in traffic seen over the past year.



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Next, I'd like to share with you our newest program in development, Love's Embrace. The development of our Love's Embrace assortment has been built on the lessons we learn from the Open Hearts by Jane Seymour collection; and again, is a good example of our ability to get to market ahead of competitors with a well-tested range.

There are, of course, important distinctions from the Jane Seymour collection, in order to minimize cannibalization between these two programs. Love's Embrace specifically targets the person who wants to declare love for another person, with the expression of You Will Always Be Surrounded By The Strength Of My Love.

Additionally, the product design is considerably different, predominantly using larger diamonds; and therefore, the range is higher price points. The concept centers around a design where the diamond is surrounded by a precious metal or embraced, and signifies that love is a constant in a changing and often intimidating world.

I would now like to open it up for any questions you might have. Yes, sir.

QUESTIONS AND ANSWERS

Jeff Stein - *Soleil Securities - Analyst*

Jeff Stein, Soleil Securities. The Pandora Program that you have, in addition to creating incremental sales -- because it's obviously a different customer and a lower ticket -- are you getting any cross-selling and finding when the customer comes in to buy that product, are you converting them to higher ticket transactions?

Ed Hrabak - *Signet Jewelers Limited - SVP and General Merchandise Manager*

It's a little early in effort. What we are seeing is -- again, it's a new customer, so we are getting new trial. Again, very many people, very high percentage, have never been in a Jared before. So we have worked with Trina's group from Operations to, again, make sure that there are -- when a customer comes into a Jared store, they're given the tour of all of the different product lines that are there.

So, even if you're coming in specifically for Pandora, you're getting a tour of all the other products. And again, they're, again, bringing that customer database into it, and again, we're using them for some linkups to a LeVian program, which again, is typically a self -- a female self-purchaser.

Jeff Stein - *Soleil Securities - Analyst*

And can you just address the issue of private label penetration? Where are you today on either exclusive or private label product? And do you have any target?

Ed Hrabak - *Signet Jewelers Limited - SVP and General Merchandise Manager*

Our differentiated programs, the exclusive, semi-exclusive programs, the differentiated programs are probably -- is right now about 20% of our business, and that's before the launch of our Love's Embrace. So we do anticipate that going up a little bit.

But no specific target. It really depends on the strength of our programs and really how the customer receives them in the pool.



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Jeff Stein - *Soleil Securities - Analyst*

Can you elaborate on your ability to pull forward supply, if Christmas demand is better than expected and when you need to make those decisions by?

Ed Hrabak - *Signet Jewelers Limited - SVP and General Merchandise Manager*

Sure. A good question. I'm going to hit on a couple of different areas, if I can. I think it's important to note jewelry, different than a lot of other retail categories, has a very slow turn and doesn't experience the seasonal changes that a lot of other sectors do. Nor are we dependent on one or two products to really make the Christmas selling season.

Secondly, I think, dependent upon our expertise, we have great inventory managers back home. We have great relationships with our vendors. And with those systems and with those relationships, we can -- we actually start monitoring at this point sales by day.

So we can quickly identify if there is a shift in a consumer shopping pattern, whether it's up or down, we can pull that product forward, or we can -- actually, as what happened last year, if you remember when the sales dropped, we were able to push orders off because of our vendor relationships; and on our entire inventory base, we finished up, I think, about \$20 million over our total inventory projection, 1% or 2%, within line with our overall inventory.

So it works both ways. If sales are up, we can rack and pull product forward; again, based on our vendor relationships. If sales are weaker, we can push those orders up.

Todd Slater - *Lazard Capital Markets - Analyst*

Todd Slater again. A question on the exclusive proprietary or private label product, which is now at 20%. Can you talk about where -- what that penetration was last year or the year before, where that's come from, and where you would like this -- where you think that should get to?

Obviously, it's a differentiator as a traffic driver, but could you talk about what the influence of that will have on the gross margin line? I imagine there's some, in some cases, royalties and other expenses, but maybe there's some higher margins also involved in that product. What does that do good or bad to the growth? How does that impact the gross margin line?

Ed Hrabak - *Signet Jewelers Limited - SVP and General Merchandise Manager*

Okay. You had a couple questions in there. I'll try and get them, so remind me if I miss anything. Again, no specific target. It really isn't. It really comes down to the programs, the programs that we develop ourselves. Some programs the vendors bring to us, and again, how well those firms are received by the consumer.

So, it's at roughly 20%. We anticipate it to go higher with Love's Embrace. Where it will ultimately be, we don't know. It is an advantage for us? Absolutely. Again, Katrina and the sales people get behind it. They know they've got something.

The Journey program that was out a couple years ago, where everybody carries the same program of the retailers, it becomes a pricing war. A lot of topline sales but nobody makes any money.

So I do believe that there is a slight opportunity to improve the margins, that will definitely help. I think the more we do it -- it's a strategy of ours to build these differentiated brands. It gets us out of the sea of sameness; really make us a destination for shopping -- but no specific target.

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Todd Slater - Lazard Capital Markets - Analyst

Is it a higher IMU product? Or is just when you say positively impact the margins, you'd just anticipate less markdowns because it's not competitive with other stuff (multiple speakers) --?

Ed Hrabak - Signet Jewelers Limited - SVP and General Merchandise Manager

It depends on the program. And again, are there things to compare to? So it's a combination of some have a higher IMU. Again, I think the biggest part of it is the fact that it's not comparable, and you don't experience the level of discounting that you do. When, again, most of the retailers are carrying identical products, and price is the only differentiator.

Unidentified Company Representative

We do believe the higher we can get with differentiated [exclusive] product, the better it is for us. It's better for several reasons. Obviously, we differentiate ourselves, we don't get into discounting issue, as I discussed. And we can advertise and differentiate ourselves through national advertising better.

So as far as the consumer will take us, we would like to go. And that's what I was saying. We let the consumer pull us, and the more they'll pull us, and the more we'll test, higher is better for us.

Todd Slater - Lazard Capital Markets - Analyst

It sounds like it should have a positive influence on the gross margin structure in the model.

Ed Hrabak - Signet Jewelers Limited - SVP and General Merchandise Manager

Oh, yes.

Todd Slater - Lazard Capital Markets - Analyst

And then also just remind us, one of your major competitors went into inventory liquidation mode not that long -- last year or maybe early this year. And I'm wondering if you could just remind us -- what impact that had. Do you think that is over? Do you expect a more rational environment now from your largest competitor in the US? And do you think that will be a sort of a net positive going into Christmas?

Ed Hrabak - Signet Jewelers Limited - SVP and General Merchandise Manager

Let me start with it -- Todd, as far as a rational perspective, I really can't make any comment on that because some of our competitors have made decisions on liquidating the merchandise that we feel has been irrational decision. They weren't managing, like we do, for gross margin dollars, not just for sales.

So has it affected us historically? To some degree, of course. When you have a competitor across the hall giving product out for 60 plus 20 plus 10, there will be some effect. And mostly when they start putting those prices on your basic items.

We have seen less of it. We have, obviously, they're trying to get the margins back in place or back in line. So we have seen a lot less of it.

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What are our expectations for this fall season? We're not really sure. What I do know, and I will stress, is that we believe, with our marketing programs, which we believe will have the highest voice share of voice out there, with our differentiated merchandising program, with the superb operations customer service team we have, we're going to get the most of a profitable market share out there.

That's what I can tell you. But they've made some decisions that we just don't -- wouldn't agree with. And some would say it was an irrational decision.

Todd Slater - Lazard Capital Markets - Analyst

I think after last year, last holiday, last Christmas season, they hit -- their margins got hit by about 530 basis points. And that was a bottom-line horrible experience for them. And this entire year, they behaved more rationally; so we haven't seen that kind of price cutting from them.

As Mark said, they seem to be trying to regain their -- they haven't regained fully their margin level, but they're trying to push back in that direction.

John Buskin - McAllen Capital - Analyst

It's John again. Love's Embrace, how big of an inventory commitment is that going to be? I know you said you were at 20 now with the proprietary stuff and without Love's Embrace, Love's Embrace is 5% or 10%?

Ed Hrabak - Signet Jewelers Limited - SVP and General Merchandise Manager

Of what, the sales?

John Buskin - McAllen Capital - Analyst

No, your inventory commitment, be it either --

Ed Hrabak - Signet Jewelers Limited - SVP and General Merchandise Manager

We don't comment on specific inventory commitments of a program. We just -- obviously, we're excited about it. It's a great initiative. (multiple speakers)

John Buskin - McAllen Capital - Analyst

Sure. We are too. (Multiple speakers) So we're just trying to gauge how big you expect it to be for holiday and how much inventory you might have committed to it might give us an idea of (multiple speakers) --

Ed Hrabak - Signet Jewelers Limited - SVP and General Merchandise Manager

I can't comment on the exact inventory levels. We'll say we've had this product in tests since April from about 100 stores, and we're very pleased with the results. We know, based on that test, what worked, what didn't work, and we're able to -- we think we're in a great position here to maximize sales with the proper inventory levels for November and December.

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Terry Burman - *Signet Jewelers Limited - Group Chief Executive and Director*

It could have a noticeable impact on our sales.

John Buskin - *McAllen Capital - Analyst*

Is it fair to assume as big as the Jane Seymour Open Hearts?

Terry Burman - *Signet Jewelers Limited - Group Chief Executive and Director*

We hope so.

Ed Hrabak - *Signet Jewelers Limited - SVP and General Merchandise Manager*

I hope so, yes.

John Buskin - *McAllen Capital - Analyst*

Any changes of significance in AUR in the fourth quarter with the holiday?

Ed Hrabak - *Signet Jewelers Limited - SVP and General Merchandise Manager*

I'm sorry, could you repeat that again?

John Buskin - *McAllen Capital - Analyst*

Any changes -- any significant changes in AUR that you're expecting into the fourth quarter? Did you decide, given the economic environment, you might have some lower price point SKUs or you're not really changing the mix? (multiple speakers)

Ed Hrabak - *Signet Jewelers Limited - SVP and General Merchandise Manager*

No, I think what we've had -- you'll see Bill talk a little bit about our catalog here shortly. You'll see that we have, last year in the catalog, which most of you have, we had some things called Super Values.

Again, we manage for gross margin dollars, but we have a balance of the differentiated programs, which provide a higher gross margin. We also have some of these Super Values, which are opportunistic buys, which can be driving sales or also driving the margin. So you'll see there's actually a sizable increase in some of that product in our catalog. So -- but as, in general, very comparable, a real focus on the differentiated programs.

Neely Tamminga - *Piper Jaffray - Analyst*

A question over here from Neely from Piper Jaffray. In terms of your marketing push and campaign, I haven't really seen anything related to digital, Facebook apps. What's your marketshare position? Does it make sense for you guys to explore that? Do you have the infrastructure to do so?

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Ed Hrabak - *Signet Jewelers Limited - SVP and General Merchandise Manager*

I'd possibly turn it to Bill.

Bill Montalto - *Signet Jewelers Limited - US COO*

In terms of what we -- we call this new media is a category that we put it into. New media has -- it's been something we've been testing. We have done work with podcasts or satellite radio. We've done Internet radio. We're about to do some stuff with Facebook. As a matter of fact, we're about to do something with YouTube.

So it's an area that we're exploring, and I think you'll see, as I said, in terms of YouTube and Facebook, you'll see something come out here for the Christmas season.

The point I would make, though, is that we believe that we still have a long way to go in terms of television advertising. We have a big playing field there. We've been very successful with TV advertising. And so with regard to how we would allocate our money, you would still see a major portion of that going to TV.

If we had new money to put in, we'd be putting a major piece of that into TV. It's been very successful for us. It's a category where TV brings to life, jewelry. It gives you the emotional appeal. You get language, you get acting. So, that's where it would go.

PRESENTATION

Ed Hrabak - *Signet Jewelers Limited - SVP and General Merchandise Manager*

Okay. With that, what a good segueway to Bill Montalto, our Chief Operating Officer.

Bill Montalto - *Signet Jewelers Limited - US COO*

Good afternoon, everybody. It's a pleasure to be speaking to you all. As you can see, I'm going to start my presentation with marketing.

We do have the largest marketing budgets. We have the most consistent messaging and brand proposition in the midmarket specialty jewelry sector. As well, we have two of the three brands with the scale to make cost effective use of national TV advertising, as I just commented on, which again, we believe is the most efficient medium in this sector, in the middle market sector.

And we therefore have focused our marketing spend this year on television advertising for both Kay and Jared. And while the marketing budget is -- it's been realigned to be more normal, to be in a relationship more normal to expense the sales, the number of holiday TV impressions for Kay will only be down in the mid-single digits; and for Jared, it will be up a little bit.

The structure of our TV ads, which incorporate a product segment, creates really good opportunities to promote the differentiated merchandise that Ed talked about, as well as to get contributions for suppliers.

And continuing with our creative construct, both Kay and Jared advertising are built to have a logical rationale, supporting an emotional appeal. And before I leave this slide, it's important to recognize that we have a successful record of creating, managing and growing brands, both store brands and product brands.

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Kay's advertising creative is about a gift-giving event, the association with romance and appreciation. It's meant to have broad customer appeal, a strong emotional link to the brand-name, a clear call to action, a product, and of course, what would Kay advertising be without a kiss?

This is a lot of messaging in 30 seconds, but it's executed without confusion. It's done in an engaging way and, importantly, it's done in a memorable way.

The campaign has been running for 10 years, so it benefits from the cumulative effect, where the impact of the ads reinforces Kay messaging. And as a result of these advertising efforts, our research shows a significant level of brand name recognition and ad awareness.

Now, all of these elements we think are demonstrated in the following ad, featuring the new Love's Embrace collection.

(Video plays)

Looking now at Jared. Jared advertising includes the following elements -- a high number of brand mentions to raise name awareness; the characters gaining peer approval in their choice of destination; an element of humor to make the brand accessible; demonstration of a wide selection of merchandise to give a reason why to shop at Jared; a product element; and a visual at the store at the end for brand recognition.

And please note, there is no kiss in this advertising. That very valuable position is owned by Kay Jewelers.

What I'd like to do now is I'd like to show you a Jared TV spot for Pandora that we call Three Daughters. It's not tied to a specific seasonal period, and it exhibits all of the elements that I just mentioned.

(Video plays)

PRESENTATION

Bill Montalto - *Signet Jewelers Limited - US COO*

Okay. While broadcast advertising accounts for the majority of our marketing spend, it is part of an integrated marketing program that we are continually developing. Playing a major role in that is the database that I talked about before, the database of over 25 million customer names, and we mine them. We have behavioral scorecard systems back at the home office, and what we do is we identify high potential prospects, high potential customer prospects to reach via direct mail, e-mail communications and telephone. And these efforts are used to communicate general marketing, information, special promotions and in-store marketing events. And before I leave this, let me just mention or add on to something that Tryna said before, as well. We do have a strong customer service system back at the home office where customers through surveys will feed in information through a system that we have a scoring to store on different categories, reproduce something called a Customer Experience Index. What also feeds that is the Internet, and they can also add to that, and they can also add to that through our customer service representatives with telephone calls.

So that CEI as we call it, Customer Experience Index, is something that goes out to the stores. It is on their standards. It is rolled up by district manager region and company and division; we look at that all of the time. The Customer Service Committee manages that, and we pay a lot of attention to it, particularly the verbals that come out of that, that come through the comments that we pay an awful lot of attention to.

I want to turn to our Kay and Jared websites. They are managed as an integral part of our customer offering, and the primary focus is to enhance customer service. Now our integrated approach is again reflected in parity of pricing across all channels of



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distribution, along with, for example, the ability to pick up merchandise, order it online, in-store, or to return merchandise that you have gotten from our online system, you can return it back into the store if you need to. And although e-commerce is a small area of the business, it is rapidly growing. It is profitable, and we continue to invest and improve the customer experience on both the Kay and Jared site.

Another important marketing tool is our traditional catalog. You have one in front of you. We publish 10 catalogs a year, and we have a total distribution of nearly 27 million copies annually. And what I would like to do is I would like to contrast what you have in front of you with the one that I have.

Now you have the Christmas catalog from 2008 in your package there, and what I have is I have the catalog from 2009. Now we have not released it because of competitive reasons. This is not published yet. This is not out in the public domain. This will be out sometime in November. But what I would like to do right now is just contrast some of the differences by just showing you a few pages.

So, for example, I'm going to show you a 2 2/3 spread of our Open Hearts by Jane Seymour. For example, last year it was a one page spread on page six of that catalog, and you can see much bigger spread, 2 2/3 pages, more product, obviously more pages, and with the exception of I think only two items on this page, all of this merchandise, all of the expanded merchandise has been tested in our stores through the spring season. That's Open Hearts by Jane Seymour.

Leo Diamond here, it's all on a nice two-page spread, and what is important about this is again more Leo product styles, more Leo product size ranges on this.

Of course, a two-page spread introducing our Loves Embrace collection. "You will always be surrounded by the strength of my love." I think it is a terrific emotional appeal. Two-page spread and all of the product on this page with the exception of one item has been fully tested in our stores for the spring season.

Well, this is -- Terry has asked me to compare this with the Everlon collection. I think -- are you familiar with the Everlon diamond product that is being put out or supported by De Beers? I'm not getting any -- let me explain that. (multiple speakers).

Okay. De Beers has put out a program, which is called the Everlon diamond, and it is a program that they are supporting a little differently than what they have done in the past. In the past they have had, for example, Three Stone jewelry, the Journey diamond are examples of what they have done in the past with industry advertising, advertising they have put out there to support the industry. This year what they have done is they have created a product called the Everlon, which in some ways is -- in many ways is different to this in terms of its intent. It is a jewelry that is in the style of a knot, and it has, if you will, a similar concept and that it is meant in these particular times because both organizations did research. This product, the Everlon comes through us from Leo Schachter, which is the company that gave us the Leo Diamond, that being the Love's Embrace. The research that was done led to a product in this particular time with this economic environment to a product that would give the consumer the feeling of security. So we have Love's Embrace. De Beers has the Everlon product. Obviously Love's Embrace clearly communicates what that is. What you saw in the add, what we did is we had a morphing piece there where the couple was embracing each other and the jewelry was then -- we just morphed into the jewelry. With the Everlon, the industry was asked to participate in that.

So it is a generic program. All retailers were invited to participate in that program while making a contribution to support the advertising for the industry, and De Beers would put in a matching piece of that advertising. We chose not to do that. We chose not to do that because, first of all, we were out in the marketplace with this back in the spring season. We had it in the market. We had results. We were doing very well with it. We believed we had a better product design. We believe we had a better concept in the terms of how we were conceptualizing that concept, that creative. It was exclusive to us, of course. It is not going to be generic.



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We built an ad, I think, that has a very strong ad, very strong emotional appeal. We are not going to have to tag it as we would have had to have done if we were using the generic advertising. We are not going to be in, if you will, a sea of sameness with all of the other retail doors that are doing this.

So hopefully I have given you some sense of what is happening with the Everlon diamond collection and how we have distinguished ourselves with the Love's Embrace collection.

Let me continue. The other thing I wanted to show you was the Le Vian. And the Le Vian spread is different this year from last year's catalog in that we are emphasizing the heritage of Le Vian, and we are also showcasing the exclusive and the trademark chocolate diamond product range that Le Vian is offering.

And the other point or two points I will make is that we also have the super values that Ed spoke about before that we can put out in our catalogs or put out in our assortments because of our supply chain. The efficiency of our supply chain allows us to do this, and this year we have nearly 50% more of those special values represented in this catalog.

And the other thing or the last thing I would say is this is a 36-page book as compared to the 32-page book. So more pages, more product.

Let me move on now to credit. It is very important that within the midmarket jewelry sector, you really have to have a private label credit offer to compete. And, as management, we have to decide whether to outsource the management or the risk or assume it in house. Unlike most of our competitors, our scale means that we have the ability to have that option, to make that decision. And, as you know, and maybe referring -- is it Steve back there? To answer Steve's question, we prefer to manage the credit operation and associated bad debt risk ourselves. And the banks that provide this 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 the cost risk in terms of the fees paid.

So given these dynamics, we prefer to manage it within the context of our business rather than give it to a third-party or rather than give to a third-party significant influence over half of our sales. To manage credit we work with third-party specialists to write our scorecards using our credit data. We decide on our credit strategies, and we set our own customer service standards.

Now this is particularly important when providing credit to the bridal market for -- because of the young couples with limited credit history. These all give us further competitive advantage in the market, particularly in the current environment when many banks and third-party suppliers are withdrawing lending capacity. And this is, of course, a particular problem for smaller retail jewelry operators.

As always and, of course, in the current environment, we continue to look for ways to improve our credit operation and procedures. For example, we have tested selectively increasing down payments. Lending against certain parameters has been tightened. Against others, it has been stopped altogether. And then following a normal periodic review by a third-party specialist, an outside third-party specialist, one of our authorization scorecards was amended earlier this year, which resulted in an increase in approval rates while maintaining -- and I think to stress that -- while maintaining the risk profile.

And early indications are that losses are as predicted, but, of course, obviously we are monitoring this very carefully. We constantly are looking at this to make sure that it is going well. And, as always, we have been very proactive in responding to the deteriorating trends and have worked hard to improve our collection strategies. I must note, however, that future performance of the portfolio will continue to be largely driven by the underlying economic environment.

Our provisioning policy, we believe, is objective, and trends are quickly reflected in our quarterly earnings data. And, as you are aware, that bad debt to total sales ratio is up 110 basis points in the first half. So, in summary, we believe, we firmly believe, that that capability of an in-house credit -- of in-house credit remains a significant competitive advantage in terms of customer service and in the ability to manage our credit offering within the context of our total business.



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So I would be happy to take questions from you if you would just state your name and what company you are from.

QUESTIONS AND ANSWERS

Bill Armstrong - *CL King & Associates - Analyst*

Bill Armstrong, CL King. Just to clarify then, Love's Embrace isn't exclusive to Kay?

Bill Montalto - *Signet Jewelers Limited - US COO*

It is exclusive to Sterling Jewelers. It will be in Kay. It will be in our regionals, and it will be in Jared.

Bill Armstrong - *CL King & Associates - Analyst*

How long will that be exclusive for?

Bill Montalto - *Signet Jewelers Limited - US COO*

Forever, yes, it is an evergreened relationship. I'm sorry with Everlon, that is not the case. Because Everlon, as I recall, help me out here, I believe it is a two-year deal.

Unidentified Company Representative

Yes, I just explained it is a two-year -- I believe a two-year licensing agreement.

Bill Montalto - *Signet Jewelers Limited - US COO*

That is correct.

Unidentified Audience Member

A question on the book. I imagine the Holiday Book is kind of a big deal around holiday times, right? I'm just wondering is the timing and delivery of that book similar this year versus last year? And then it is a small little detail question, but I noticed when you flashed up the value price page this year, that you were featuring a [8%] loss and last year was more of a whole dollar savings message. Have you tested that message earlier, and what sort of results did you see from that?

Bill Montalto - *Signet Jewelers Limited - US COO*

Sure. Let me answer both questions for you. The timing of the book is similar to last year. We do on occasion test whether different timing would make it more productive, and we have landed where we are. We think it is the most productive use of that. We have -- back at the home office, if you will, we have a campaign management toolkit, which allows us to do that kind of testing where we can challenge, if you will, the champion.

But to answer your question directly, the timing will be similar to last year in terms of the way the book is published and sent to our customers. And with regard to dollars off or percents off, we have done both. Frankly, we have done both, and I don't know that we have a preference for one or the other. We at times depending upon the dollar amount, if the dollar amount is

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significant enough, it is something we might use. So, for example, if it is up to \$999, we might prefer that than saying 25% off. It will depend on the individual circumstances of what we are trying to promote.

Randall Remaczak - Fidelity - Analyst

[Randall Remaczak], Fidelity. I just had a question on bad debt to sales. Where does that stand right now? And is that an annualized number or a gross number?

Bill Montalto - Signet Jewelers Limited - US COO

The bad debt to sales -- you are going to have to wait for that in terms of third-quarter announcement will be out on November 24 if you want to wait for that. In terms of your other question, was whether it's --?

Randall Remaczak - Fidelity - Analyst

I guess what was at the end of the second quarter and then that number I was just curious.

Bill Montalto - Signet Jewelers Limited - US COO

Do we give the absolute number?

Unidentified Company Representative

The number at the end of the second quarter was a year-to-date number of the trailing 12 months, and it was about 5% of the US sales.

Bill Montalto - Signet Jewelers Limited - US COO

If that were to continue, it would be 10% of sales.

Unidentified Company Representative

No.

Bill Montalto - Signet Jewelers Limited - US COO

No.

Unidentified Company Representative

No, it was 5% of first half sales (inaudible) 5%.

Bill Montalto - Signet Jewelers Limited - US COO

Okay. So and it is annualized?

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Ben Steele - AH Asante - Analyst

[Ben Steele], [AH Asante]. I have a question about advertising. I was wondering if you could tell us how much your advertising budget is as a percent of net sales and if you are now just kind of trend for the past one to three years?

Bill Montalto - Signet Jewelers Limited - US COO

I did not hear the second part of the question.

Ben Steele - AH Asante - Analyst

Just trend within how much of the advertising budget for the past one or three years going backwards.

Bill Montalto - Signet Jewelers Limited - US COO

What we try to do with the advertising budget is we try to maintain a historical average of between 6.5% and 7% on a gross basis. And so that is what we are shooting for, and that is what we are shooting for this year. In terms of historical perspective, I mean last year we did spike up because of the falling sales last year. So we would have come in last year over the 7%. If you go back before that, we would have been more in line with the 7%.

David Wu - Telsey Advisory Group - Analyst

David Wu, Telsey Advisory Group. I just had a question in regards to the scorecards. So are you continuing to modify the scorecards? And if so, should we expect a continuing increase in the approval rates?

Bill Montalto - Signet Jewelers Limited - US COO

The way we work with scorecards is we look at them annually. That is a regular process that happens within our business, and then we modify them periodically when we believe that there is a purpose for doing so. The whole idea of the scorecard is to try to separate good from bad.

We don't anticipate doing that anymore this year. We would look at that again next year. So I don't -- there's no other scorecards that we are planning on changing this year. You would not change it in any case before the Christmas season. This is at this point everything is really frozen.

Unidentified Company Representative

But the change does not necessarily mean that we are going to have an increase in bad debt. The change went through our same risk models. The same standards.

Kyle Cavanaugh - Palisade Capital - Analyst

Kyle Cavanaugh, Palisade Capital. What is the average financing term of your customer at the length of financing? (multiple speakers)

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Bill Montalto - *Signet Jewelers Limited - US COO*

It is a little over eight months. The portfolio will turn over in a little bit over eight months.

Kyle Cavanaugh - *Palisade Capital - Analyst*

And what is the definition of net bad debt? What are you netting out?

Bill Montalto - *Signet Jewelers Limited - US COO*

Net bad debt, and we talk about net bad debt, okay -- yes. We are not used to doing this a lot. So I'm looking to him to help guide me whether I can answer the question or not. When we look at net bad debt, what we are really saying is that there are different elements to bad debt. There is a specific charge that we have when accounts are being reserved for bad debt. And then there is accounts that have already gone bad. They have gone bad through -- they are past 210 days, so they are written off accounts. But we are still getting payments from those accounts. We are still working those accounts, and so the two of those we net as net bad debt.

Kyle Cavanaugh - *Palisade Capital - Analyst*

So what is your -- I guess what is the reserve amount, and what is the actual charge-off amount? I guess reversing the netting out, what are the two numbers?

Bill Montalto - *Signet Jewelers Limited - US COO*

Well, we --

Kyle Cavanaugh - *Palisade Capital - Analyst*

What are you actually reserving for? Is it 6% and you are charging off 5%, or is it vice versa?

Unidentified Company Representative

We are charging off bad debts on a 90-day pass due on recent (inaudible) cases. So anything that is 90 days pass due you make 100% (inaudible) on, and then you net back any recovery you make on that 100%.

Kyle Cavanaugh - *Palisade Capital - Analyst*

Okay. And you always pull in a recovery? You never --? You are never, like, short?

Unidentified Company Representative

All recoveries include 90 days.

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Bill Montalto - *Signet Jewelers Limited - US COO*

Plus a 3% general reserve and anything earlier than 90 days. So there is -- you had that because you got that in pieces. You have got a general reserve on anything more current than 90 days of 3%, a full reserve on anything that is over 90 days but less than 210 days. So 100% reserve on that. And we get in terms of bad debt charge the actual write-offs each month, plus any change in the reserve because of movement of aging. Credited against that are the recoveries, the over 210s or the over 90s that we collected on. So you have got that? Okay.

Unidentified Company Representative

(inaudible - microphone inaccessible)

Bill Montalto - *Signet Jewelers Limited - US COO*

Bad debt expense.

Unidentified Company Representative

It comes through in the cost of goods sold line.

Bill Montalto - *Signet Jewelers Limited - US COO*

Well, we are mixing up bad debt charge, and we are mixing up a balance sheet item, the reserve, with an expense, and we are trying to -- (multiple speakers). Right. The reserve is a balance sheet issue. The bad debt charge is an income issue. I know you do, but I just -- we are using those terms interchangeably here.

Unidentified Audience Member

I don't know if you have disclosed this, but if you separate out credit as a separate entity, does it make money every year, and then this year did it make money? Or can you give us just the sense the contribution to earnings or the positive or negative contributions to earnings and the delta, not just to understand its impact on the business?

Bill Montalto - *Signet Jewelers Limited - US COO*

You know, we don't separate it out. I mean that is not typically what we have done. Obviously we have looked at it. We do look at it periodically, and in the past, before the economic downturn, credit broadly when you looked at the income from finance charge, late fees, convenience fees and you looked at the cost of the operation, bad debt, (inaudible) charge for carrying costs and all of that financing the receivables, it is generally neutral to a little bit positive in terms of profit making. It is not the case currently, though. I mean in the current environment, it is at a loss, a bit of a loss.

Unidentified Audience Member

Just as a follow-up, if it is neutral to earnings and you have places to put capital to grow the business which are accretive to earnings, I realize you think it is strategic, but I consider things that is strategic more that generate a positive return in good and bad economies. So just I look at a lot of retailers that don't have this, they seem to be -- don't have their own credit. They seem to still be doing okay. How often do you evaluate whether or not this needs to be profitable in order to be a truly strategic part of the business?

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Bill Montalto - *Signet Jewelers Limited - US COO*

We look at this on just about an annual basis in terms of the performance of the credit operation in-house against the benefits that we get out of it from the standpoint of being a sales enabler, kinds of sales that we think we would lose if we were to take credit out of the business. So we look at this on a fairly frequent basis.

Unidentified Company Representative

If you looked at our main competitors, credit sales percentage in 2000 before they sold their receivables, it was similar to ours in the low 50% penetration range. Theirs is now, since they outsourced it to Citibank, their credit sales percentage is below 40%, and ours remains in the low 50% range.

So credit is an integral part of the jewelry sale. There's not a lot of retailer formats out there that you see that have over a 50% penetration in credit sales. We think that, as Bill said, it is an integral part of our business. We would not want to see that kind of deterioration because we hand it over our -- that decision-making process to another company who may make decisions based on their corporate objectives rather than our corporate objectives.

So we could have sold our receivables portfolio many times over to GE, to Citigroup and to other credit service providers. But given the environment right now and how they are making decisions about granting credit, we think that that would have been disadvantageous to us. As long as we have the strength of our balance sheet to maintain the granting and approval and collection of credit and the customer service aspects of it, we think it is a competitive advantage, and we think that the return that we are getting is in the sales differential, and that is how we have to justify it. Not based on the income on the portfolio. We think it justifies itself based on the sales differential. And again, I would just refer you to Zales' credit sales percentage compared to ours versus what it was when we both had our receivables in-house.

Mark Light - *Signet Jewelers Limited - CEO of US Division*

Thank you, Bill. We are running a little bit behind schedule. So if you have any more questions, we will be going on a bus together. We will tour the -- just a real quick closing statement, some housekeeping issues.

Obviously the economic outlook is uncertain. We all understand that. However, we believe that provides us with a great opportunity to increase our profitable market share. We will do this by the following. We are going to continue to focus on reinforcing our competitive advantages while our competitors are struggling and we widen our strengths. We are going to continue to take advantage of the increase in the sector rationalization. We are going to continue to utilize our superior systems, our management experience and respond quickly to changing conditions. We are going to continue to use our strong balance sheet and cash flow to our advantages. By driving performance in our existing stores, we are focused on a lower risk growth strategy rather than requiring heavier investment in new stores. Therefore, we believe we are well positioned for when the consumers recover.

Real quick, Tim, let me just give you some quick update of what we're going to do here. We are going to board the bus downstairs to go to 34th St. store. It is on the 43rd St. side. The bus is on the 43rd St. side. It will take about 15 minutes depending on the traffic obviously to get there. We will be at that store for around an hour, and you can learn about our performance matrix, our associate training programs, our store standards, and then you will receive a diamond presentation, and we will point out a lot of our differentiated programs in our Kay stores.

There's about 50 of us here, so we're going to have you separated in four groups. That is on the color of your badges. We will tell you when we get to the front door at Kay's. It's going to be a little tight maneuvering in there, but we're going to break out in four different groups. We've got some of our operational people in the store working on it.



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After that, we are going -- for those of you who would like to come with us to the beautiful Jared store in Watchung, New Jersey, which we hope to see all of you there, we will take about an hour, and we will do a Jared store tour. We will see our design repair center. You will hear about our Jared selling system, and you'll visit our time piece boutique, and you can look at our Pandora.

Then we would like for you to personally experience the Jared wow experience, and you will have an opportunity to personally shop in our Jared stores, and you will be able to understand really what is a big part of our differentiation, see our store standards, understand the knowledge our people have. We want to tell you that we are offering you today, we never have a sale on Jared, but since you are all such beautiful future investors, we're going to offer you today a 20% discount at Jared's. And I would like to remind all of you that Christmas is only two months away. So Jared is ready for you.

Thank you, all. We will see you down by the bus.

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