FINAL TRANSCRIPT

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SIG - Q3 2010 Signet Jewelers Ltd Earnings Conference Call

Event Date/Time: Nov. 24. 2009 / 1:30PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Good day and welcome to the Signet Jewelers quarter three results conference call. Today's conference is being recorded. At this time I'd like to turn the conference over to Mr. Terry Burman. Please go ahead, sir.

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Thank you, operator. Good morning and welcome to the conference call for Signet's third quarter and year-to-date results for fiscal 2010. I'm Terry Burman, Chief Executive, and joining me from London is Walker Boyd, Finance Director.

The presentation that we will be talking to is available from the webcast section of the Company website www.signetjewelers.com. In this presentation and in the questions and answers we will not be commenting on trading so far in the fourth quarter nor on the sales outlook for the balance of the holiday season.

Before I go through our operating performance, Walker will give the Safe Harbor statement and review our financial performance.

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

Thank you, Terry. During today's call 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 risk factors and cautionary language in Signet Jewelers' Annual Report on Form

20-F filed with the SEC on April 1, 2009 and other filings made by the Group with the Commission, which can be found on the Group website at www.signetjewelers.com.

Additionally, certain financial information used during this call are considered to be non-GAAP financial measures. For a reconciliation of these to the most directly comparable GAAP financial measures please refer to the Company's release dated November 24, 2009, available on the latest news section of the Company's website.

The third quarter saw us build on the good progress we made in the first half in executing the strategy we set out in March this year. That was to enhance our position as the strongest middle market specialist jeweler by focusing on profit and cash flow maximization to further strengthen our balance sheet and reduce business risk.

In the year-to-date we have increased reported profitability and, excluding relisting costs and the benefit of the change in vacation policy, it has been maintained. Free cash flow has significantly increased. Simultaneously we have gained profitable market share in a consolidating sector and have strengthened our competitive advantages. These factors all also leave us very well placed for the holiday season.

Group same store sales fell by 1.9% in the quarter and by 3.4% for the year-to-date, with the third quarter seeing a broadly consistent performance throughout the period. This reflects a continued strong performance by our US mall brands with same store sales marginally positive and some early signs of a slowing in the sales decline at Jared. In the UK there was a similar pattern to the US with H.Samuel, in the mid market, continuing to perform in line with the first half and Ernest Jones, in the upper mid market, seeing an improvement.

The impact of space change in the US added about 70 basis points to sales in the quarter as a result of store openings last year. In the UK space had a positive impact of 4.7% in the quarter and 3.8% year to date, attributable to the timing of the refit program and this will not be repeated in the fourth quarter.

Total sales for the Group at constant exchange rates were little changed during the quarter and fell by 1.6% to just over $2b for the year-to-date. The weakness of sterling against the dollar had a major adverse impact on reported UK sales. Q3 saw an improved performance on last year, with a more than halving of the loss before tax for the quarter to $10.5m and a loss per share of $0.08.

Including the impact of the $10.5m relisting cost in fiscal 2009 and the benefit of $15m from the previous finance change in vacation policy in fiscal 2010, reported operating income for the year-to-date was up $26.7m to $95.9m. Excluding these factors operating income was a little ahead for the year to date. The vacation policy benefit will not be repeated in fiscal 2011.

Fiscal 2010 interest expense for the 39 weeks includes refinancing costs of $4m and $400,000 in the quarter. The impact of exchange translation was not material in either the quarter or year-to-date results. The 39-week tax charge was $22.5m based on the expected rate for the full year of 32.4%. Reported earnings per share for the 39 weeks were $0.55, up 57.1% from the prior year earnings of $0.35.

Compared to Q3 last year operating margin improved in the quarter by 180 basis points, reflecting the increased gross merchandise margin and the benefit of tight cost control in the US and the UK. The US also benefited from the change in vacation policy. As there is no major gift giving event in the US during the quarter, operating margin in the US is less than in the first half.

For the 39 weeks operating margin was up 100 basis points on the comparable period, excluding the impact of relisting cost, again reflecting tight control of costs, improved merchandise margins and the benefit of the change in vacation policy.

Let me now turn to progress towards our fiscal 2010 financial objectives. The year-to-date US gross margin is 80 basis points ahead of last year and up 30 basis points in the UK. For the year as a whole, the expectation remains that the gross merchandise margin in the US will be at least level with that of fiscal 2009, with the benefit of mix and some softening in diamond prices offsetting continued upward pressure in gold costs.

For the UK, as the weaker pound has an increasing adverse impact during the fourth quarter on the cost of gold and diamonds, we continue to anticipate that fiscal 2010 margin will be a little below last year.

In the third quarter US expense savings, excluding inflation, bad debt and volume impact, amounted to approximately $21m resulting in year-to-date savings of $70m. The expense reductions in the third quarter were, again, slightly ahead of target. In the UK, expense control remains strong and we are likely to achieve the planned broadly flat expense target for the year as a whole.

Looking at our balance sheet objectives, capital expenditure in the year-to-date amounted to $30m and we remain comfortable with our full year target of $55m. We continue to apply a hurdle at 20% IRR on a five year DCF basis for capital expenditure.

Group inventory at the end of the quarter is $246.7m down on last year, reflecting some benefit from timing differences for holiday season intake. We now anticipate achieving an additional $30m of inventory savings compared to our expectation at the end of the second quarter.

At the same time we have invested in new product ranges such as Love's Embrace and Pandora. We have also focused on working with vendors to ensure that if sales trends in the early holiday season are better than we anticipate we will be able to obtain additional inventory for the key selling period immediately ahead of Christmas.

Our consistency of execution, leading systems and stable staff over many years means we have built good predictive models of sales patterns SKU by SKU. We can therefore monitor performance on a daily basis to identify which items are selling better than expected and which are doing less well. We are then able to adjust our inventory levels accordingly.

We're able to do this as jewelry styles are not seasonal, therefore vendors can carry sales stock for orders anticipated to be delivered next year or, if necessary, to manufacture additional units as there is little set-up time. Another major advantage we have is our strong balance sheet and supplier relationships, which give flexibility to align inventory to consumer demand.

Net debt at October 31, 2009, which is approaching our seasonal peak, was $160.7m, down substantially from the comparable figure of $577.8m a year ago. This somewhat overstates the underlying improvement due to timing differences on intake for the holiday season inventory. Gearing, that is the ratio of net debt to shareholder funds, at October 31, 2009 was 9.5%.

There was a $310m reduction in net debt in the 39-week period, rather than the normal seasonal increase, which saw net debt increase by just over $200m in the comparable period last year. This turnaround is due to a number of factors.

First, increased cash flow from operations just under $136m, up from $120m last year. Secondly, an inflow of $217.4m from tight management of working capital compared to the prior year's $72.6m outflow, a $290m change. Last year's working capital outflow included an adverse $42.5m foreign currency impact on currency swaps. Thirdly, reduced investment of $17m in new US stores, compared to just under $90m last year, a $72m reduction. And lastly, the elimination of distribution to shareholders, a cash saving of $107.4m.

We now anticipate the reduction in net debt this year to be in the range of $300m to $350m compared to our original target of $175m to $225m. The latest increase in projected cash flow primarily reflects the better than planned inflow from working capital. I now hand you back to Terry.

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Thanks, Walker. I'll cover the US first. Total sales for the quarter decreased by 1.7% to $459m and by 2.2% for the year-to-date. Reflecting changes in merchandise mix, the average transaction price for the quarter was down again in the malls by 3.2% and in Jared by 7.7%, excluding the Pandora range. In the year-to-date the average transaction price was down in the mall brands by 6.4% and in Jared by 8.8%, again excluding Pandora.

For the mall brands the fall in ASP was balanced by a 7% increase in transactions. For Jared transactions were broadly similar, including the benefit of new stores but excluding the impact of the Pandora range. The decline of ASPs were less than in the first part of the year as we began to anniversary the step-down we saw in the second half of fiscal 2009. Promotional activity in both the wider retail marketplace and in the jewelry sector was less in the third quarter than in the corresponding period last year.

For the quarter, operating income in the US was $4.8m, an improvement of $11m on the comparable period last year. This included a benefit of $5m from the previously announced change in vacation policy. The better performance was driven by an increase in merchandise margin of 140 basis points over prior year and a reduction in operating cost slightly ahead of our plan.

As a result, year-to-date operating income increased by 23% to $111.6m, including a $15m benefit from the vacation policy change. In the fourth quarter, there will be an adverse impact of $3m due to the vacation policy change, giving a full year impact of $12m. This benefit will not be repeated in fiscal 2011.

While the outlook for the holiday season is very uncertain, we believe that we are well prepared. We remain focused on customer service with well trained and highly motivated store staff. Our differentiated merchandise ranges such as the Leo Diamond, Le Vian and Open Hearts by Jane Seymour have been expanded and we have rolled out our exclusive Love's Embrace collection across the division and Pandora in Jared.

Testing of Love's Embrace has shown it to be complementary to the Jane Seymour range as it has a higher average ASP and a different emotional appeal. The performance of the collection has been very encouraging to date.

Pandora is mainly a charm bracelet collection that has strong appeal for gift giving and to the female self-purchaser. It is also very good for driving repeat visits. Most other distributors of Pandora are small independent operators, but as a customer profile suitable for Jared, it is typically a customer who has rarely shopped there before. As a result, in the Jared locations where Pandora has been tested, there has been an increase in traffic and a significant number of new customers have been attracted.

As Walker has already discussed, our supply chain flexibility remains robust so that we are well able to adjust inventory levels as appropriate during the holiday season. We have again increased our promotional cadence in the fourth quarter compared to last year. We have done this without compromising our merchandise margin objective, by capitalizing on our supply chain expertise and balance sheet strength to take advantage of opportunities in diamond prices.

Turning to marketing, planned TV impressions for Kay will be down mid single digits on last year, with Jared a little up. We believe that we will continue to maintain our leading share voice in the jewelry sector, supporting our proven successful advertising campaigns.

In addition to promoting the Kay and Jared brands, there is an increased focus on advertising our differentiated merchandise within the marketing program. We have also continued to improve our e-commerce websites, for example, by adding a build-a-ring feature to the Jared website and further expanding the merchandise selection for both Kay and Jared.

For the year-to-date credit participation is up 70 basis points. While approval rates have increase by 160 basis points in the year-to-date, they are still below the level of two years ago. Net bad debt to sales showed a further increase year-to-date to 6% of sales, up 120 basis points on the corresponding period last year, partly attributable to lower recoveries.

The bad debt performance continues to be driven by the wider economic environment, particularly changes in unemployment. We remain strongly of the belief that maintaining our in-house credit operation is a particular advantage, especially in the current environment in which consumers are being refused credit and borrowing limits are being reduced. Relying on a third-party provider for this important part of the offer brings an additional risk to sales and cost.

The implications for credit card income of new legislation continues to be reviewed. While steps to mitigate this are being planned, the net impact on income before tax will be adverse and is expected to exceed $10m in fiscal 2011. However, as provisions have not yet been finalized, the extent of the impact cannot be estimated with any degree of certainty.

The economic environment in the fourth quarter remains very challenging, with high levels of unemployment, low hours worked and a significant increase in savings rate, all putting pressure on consumer expenditure. However, we do see some opportunities in the fourth quarter, which may help us to offset these factors.

We have seen significant consolidation within the specialty sector over the last two years. We estimate more than 10% reduction in number of doors. Also this holiday there are fewer liquidation sales. In addition, many jewelers are under significant financial pressure, which has reduced their ability to compete with us.

The maintenance of a consistent credit offer due to our strong balance sheet is a further competitive advantage. While the level of promotional activity in the retail marketplace is again expected to be higher than normal, it is anticipated to be less than last year. As price discipline was greater in the jewelry sector than in many other gift giving categories last year, we believe that jewelry sales were at a competitive disadvantage in holiday 2008, which will be less of a factor this year.

We recognize a very challenging environment, however we believe that the initiatives we have taken this year leave us well prepared to take advantage of any upside opportunities that this holiday season may present.

Now turning to the UK business, total sales for the quarter were $154.4m, up 4.5% at constant exchange rates. At reported rates they declined by 4.7% reflecting the weakness of pound sterling. For the year-to-date total sales were up 0.8% at constant exchange rates and down by 17.6% as reported. The average exchange rate for the year-to-date was $1.57 in comparison to $1.92 in the prior year.

H.Samuel same store sales were down by 0.2% for the quarter, with the average sale price increasing by 9.6%. The increase in ASP reflected price increases implemented to counteract higher input costs due to the weakness of sterling and higher gold costs and mix benefits.

Following similar patterns with their US brands, the more up-market Ernest Jones saw an improvement in trend, with same store sales declining by 0.3% in the quarter. The average sale price was up by 12%, excluding the impact of new charm bracelet ranges. In the UK there was a reduction in operating loss of $300,000 in the quarter to $3.6m. This was attributable to a reduced level of store refurbishment and continued tight control of expenses as merchandise margin declined by 10 basis points.

In the fourth quarter gross merchandise margin is expected to show a larger decrease, due to the weakness of sterling, and this impact is anticipated to continue during fiscal 2011. Year-to-date operating loss of $3.9m compares to an operating income of $1.9m in the same period last year, a satisfactory result given the trading environment.

The macroeconomic outlook for the fourth quarter in the UK is very similar to that in the US, and as in the US we believe our market position has improved during the year as we have been able to strengthen our competitive advantages while many other specialty jewelers have been otherwise focused.

We have improved our customer service and the product knowledge of our sales associates, with training remaining a priority throughout the year. We have been innovative in merchandising with over 25% of holiday sales expected to be from new products tested during the year, many of which are exclusive to Signet. This includes an increase in key volume lines, where we have used our supply chain expertise and buying power to work with vendors to deliver product at exceptional value to consumers while preserving a healthy margin.

In marketing, H.Samuel will remain the only jewelry brand with the scale to utilize national TV advertising. This year we are using 10 second ads to promote key volume lines. For both H.Samuel and Ernest Jones we will again increase the focus on customer relationship marketing, taking advantage of a database with over 14m names. We have also improved our e-commerce sites during the year and H.Samuel and Ernest Jones are the two most visited specialty jewelry sites in the UK, based on data from Hitwise.

In summary, we believe that we have a record of consistently gaining profitable market share in good times, and the accelerated rate of sector rationalization provides an opportunity for further gains. An effective strategy for the current tough environment, and an experienced management team able to implement it, maintained a tight control of the business, appropriately realigned expenses, reduced inventory and strengthened our balance sheet and improved our ability to respond rapidly to any change in consumer behavior ahead of our competitors.

Supported by a strong balance sheet and cash flow, we have significant and sustainable competitive advantages that continue to reinforce our market leadership. This means that we are well prepared for this holiday season and for recovery when it comes.

Operator, we'd now be pleased to take any questions that any of the callers may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). We will take our first question today, which comes from Jeff Stein from Soleil Securities. Please go ahead.

Jeff Stein - *Soleil Securities - Analyst*

Morning, guys. A couple of questions for you. One being looking at SG&A in the fourth quarter, during Q3 your SG&A expenses were down roughly 9% year-on-year. I'm wondering, given the fact that the fourth quarter probably has, or does have, the highest percentage of advertising dollars, should we expect the year-on-year SG&A in Q4 to be down by a greater percentage than we saw in Q3?

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

I think, Jeff, you're right in your supposition about the impact of advertising costs and that will have a downward impact on it. I think one thing you need to remember, however, is that going the opposite way will be the effect of exchange translation, because we are now entering into a period where sterling has stabilized and, therefore, the impact of exchange will have a decreasing effect and that certainly is one reason why our SG&A in the first nine months of this year is down by as much as you suggest.

Remember this year we're translating at an average exchange rate of $1.57 against last year $1.92, but as we move into the fourth quarter that average exchange rate is going to be much closer in the fourth quarter this year to the fourth quarter last year. So the impact on reported SG&A from exchange translation will begin to neutralize, and that will certainly have an impact in reducing our SG&A reduction in the fourth quarter.

Jeff Stein - *Soleil Securities - Analyst*

Got it, got it. And Walker, can you talk a little bit about the credit card legislation change and the impact that you expect it to have on your credit income next year? I'm not quite sure I understand what changes would cause you to see roughly a $10m drop.

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

Well, as Terry said during the discussion there, it's premature to get into detail on that because the exact implications and terms of some of the new clauses has yet to be determined. But certainly, based on what we're aware of so far, there will be restrictions on our ability to charge late fees and the amount of late fees that we can charge. And also some of our interest, there will be restrictions on our ability to charge interest on certain overdue accounts. So at the moment, based on what we know is why we would expect the adverse impact to be at least $10m, but in terms of exact numbers we need to wait until the final clauses of the bill are pronounced.

Jeff Stein - *Soleil Securities - Analyst*

Okay and final question for you. In the third quarter did you deleverage in occupancy expenses in the US?

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

When you say -- as a percentage of sales?

Jeff Stein - *Soleil Securities - Analyst*

Percent of sales, correct.

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

There wouldn't have been a great deal of difference, because a number of the closures that we are going to have in the year, I think we still have -- of our 75 closures during the year, I think over 40 of them will be post the holiday season. So the impact of space is going -- which will impact our leverage of occupancy costs -- will not really be felt until we get into the new year.

Jeff Stein - *Soleil Securities - Analyst*

Got it, okay. So can I take that to mean you did deleverage occupancy during the third quarter?

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

You mean as a percent to sales?

Jeff Stein - *Soleil Securities - Analyst*

Yes.

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

The cost of occupancy, yes, would have been slightly higher in the third quarter compared to last year, and obviously as we close some of the less profitable stores then we begin to get some benefit of that. But that really will begin to happen more into next year.

Jeff Stein - *Soleil Securities - Analyst*

Okay, thank you.

Operator

Thank you. We now move to our next question today, which comes from Bill Armstrong from CL King and Associates. Please go ahead.

Bill Armstrong - *CL King and Associates - Analyst*

Good morning. Terry, I think you mentioned in your remarks regarding your credit card operation giving you some strategic advantage, and in particular some credit offers that you can offer consumers that your competitors are now unable to do. Could you elaborate on what type of credit offers you are offering to consumers this holiday season to drive traffic?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Bill, actually our credit offers have been consistent for years now, so there's no special credit offers that we're making in order to attract consumers. What I was meaning was that the credit card providers and banks are being much more restrictive on credit than they were last year and, while we are selectively being more restrictive on credit, I think we have pulled back much less than other credit card providers have been pulling back. So the difference between us and most of our competitors, who use third-party providers, that rate of difference in pullback in authorizations should benefit us going forward.

But like I said, I want to emphasize, we have no special new credit offers for our customers. Our credit offers are well tested. Frankly we are skeptical about these promotional credit offers, we believe that consumers buy jewelry they don't buy credit, and that when they go out shopping they're attracted by the jewelry and the presentation of our differentiated merchandise by our sales people.

Credit is an enabler that allows them to buy a piece of jewelry or buy a more expensive piece of jewelry than they otherwise would have purchased without the availability of credit. But as I said we're skeptical about highly promotional credit offers to attract in customers. We've tested these many times and don't find them very effective.

Bill Armstrong - *CL King and Associates - Analyst*

Okay, I understand. Thanks for that clarification. With other banks and other retail competitors becoming more and more restrictive with credit, even more so than you, are you continuing to see increases in the number of applications for credit?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

In terms of total -- Walker, do you have that statistic?

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

I -- no, I don't have the exact statistic, but when I look at participation, I don't think we're seeing particularly a higher proportion of applications. Participation is up by about 70 basis points, and our approval rates are up 160 basis points. So that suggests it's not so much a higher necessarily proportion of applications.

Bill Armstrong - *CL King and Associates - Analyst*

Your approval rates are up 160 basis points?

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

Yes. Remembering that's up on, as Terry discussed in his piece, they're up 160 basis points on last year, but last year was down more than that on the prior year. So compared to two years ago, our approval rates are still lower, but they are higher than they were last year.

Bill Armstrong - *CL King and Associates - Analyst*

I understand. Okay. Okay, thank you.

Operator

Thank you. We'll now move to our next question today which comes from Ben Spruntulis from Citigroup. Please go ahead.

Ben Spruntulis - *Citigroup - Analyst*

Good morning and good afternoon, Walker and Terry. Two questions from me, if I may. Firstly, just going back to your revenue trends within the third quarter. Just interested in -- given we're nearly four weeks into the fourth quarter, have you got any sense of how your market share moved, particularly referencing some data I've seen from spending polls suggesting US market was up something like 7% in October. So any thoughts or comments on that, firstly.

And secondly on the -- just on the prior year, clearly there was a very disruptive market from liquidation, from promotional activity going on. Have you got any sense, or are you able to quantify in any way what you think that did to your fourth quarter revenue trends a year ago?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Let's see. In terms of market share trends, year to date the specialty jewelry market is down about 10% year to date through September. So that's as far as those statistics go. And obviously with our total sales down about 2%, we are gaining market share. The August/September period, looking at the numbers seem to be down about a total of about 5%. So again in the first two months of the third quarter, if you take our quarter average, we would have continued to gain market share. And I'm sorry, Ben, what was your second question?

Ben Spruntulis - *Citigroup - Analyst*

The second was just on the disruption last year from the liquidation sales, promotional activity in the US. Just to sort of -- any sense of the quantum of impact of that on your numbers.

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

That's very difficult to gauge. We felt that between -- with the clearance sales by Friedman's and Whitehall, Friedman's in the first half and Whitehall in the second half, I think we estimated that it was running about a 2%-ish impact on our like for likes, but that's very much a guesstimate.

Ben Spruntulis - *Citigroup - Analyst*

And what about some of the activity going on in the fourth quarter, particularly thinking about some of -- I know Zales was fairly active promotionally in the fourth quarter last year. Any sense of whether that was actually effective and took share away from you? Or whether it still had little impact over those critical few weeks?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

I think it's -- in terms of effective, their gross margins dropped over 500 basis points. And they have said, they said in their announcement today that they'll not be offering the same level of broad discounting this holiday season as they did in 2008. So I would assume that that means they didn't think it was effective. But it was -- I'm sure it wasn't effective on a profit basis for them. But it had to have taken some number of unit sales or diverted some number of unit sales away from us. And obviously we won't be competing against that this year, nor will we be competing against the Whitehall sales. Both, I think that -- I would say are positive and should benefit us in the fourth quarter this year.

Ben Spruntulis - *Citigroup - Analyst*

And just finally, just to remind us, your -- roughly your -- the percentage of overlapping stores between Kay's and Zale?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Of our --

Ben Spruntulis - *Citigroup - Analyst*

Of your Kay brand, how many roughly overlap, are fairly closely situated with Zale?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

That's 25% of our business is Jared, so that doesn't overlap. And of our mall brands, Kay, and our regional mall brands, about 65%-ish overlap, overlap Zale and Gordon's.

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Very helpful, thank you very much, Terry.

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

You're welcome.

Operator

Thank you. (Operator Instructions). We'll now move to our next question, which comes from Valerie Brown from AllianceBernstein. Please go ahead.

Valerie Brown - *AllianceBernstein - Analyst*

Hi, I just had a question about the impact of rising gold prices. If you could help me better understand what percentage of your cost of goods sold is gold, and how that varies between the US and the UK, that would be helpful.

And I was also unclear about the extent to which you are able to hedge and/or pass through those price increases to consumers.

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

Okay. In terms of some of the basic facts, I think firstly gold, fine gold as a percent of our cost of goods sold would be approximately 20% in both the UK and the US. Obviously, the US has a much higher diamond category participation than the UK but remember most diamond products have an element of fine gold in it. So it is about 20% in both countries. To put that in perspective, in the US about 50% of our cost of goods sold would be in the cost of polished diamonds. So diamonds in the US are proportionately much more important than gold.

In terms of our hedging positions, then yes, we do tend to take hedging positions. It's not 100% but typically meaningful percentages of up to 12 months forward. And that, together with a slow stock turn and an average cost basis for calculating cost of goods sold does have a lag effect in terms of the impact of rising gold costs. But nevertheless that certainly has been an impact or has had an adverse impact on our gross merchandise margins so far this year, although in terms of overall commodity costs, I would say in the US that has been broadly offset by the rise in -- sorry, the softness in diamond prices.

Clearly, the most recent increase in gold costs which has taken place in the last five to six weeks is -- to be frank, has very little impact in terms of this year's gross merchandise margin, because of the sell through, but clearly has potentially more implications for 2010/11 fiscal year. And where we will -- the position that we would take in terms of ability to pass that cost increase on to consumers is something that we would consider in the early part of the year when we look at the prospects for gold cost at that stage along with the prospects for diamond pricing. So at this stage we certainly have not passed through any of the increase in gold costs this year because of the broad offset on commodity prices. Our position on next year we'll take a view early in the new fiscal year.

Valerie Brown - *AllianceBernstein - Analyst*

And just one follow-up if I could on a different topic as it relates to your credit program. I was wondering if you had any changes or modifications to your underwriting protocols and if so what they have been. I know you have different cells that you shut down from time to time based on your assessment of risk.

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Yes, as we've said there consistently throughout the year, we haven't changed any of our overall basic lending policies or strategies. We do look at the different cells and the performance. And clearly in this environment there tends to be more tightening of these than loosening. But we strongly believe it's appropriate to look at that at that level rather than use the blunt instrument of changing our overall lending strategies, because that would mean cutting off credit to otherwise profitable customers.

Valerie Brown - *AllianceBernstein - Analyst*

And would you expect that if you do see the changes in the regulatory environment that might restrict your ability to charge higher interest rates or to charge various fees that you would then tighten credit, so to speak, so that you're not losing money?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Potentially, obviously, if as we look at, as you suggest, we look at the relative profitability against exposure to bad debt on different cells of groups of customers. Then if these profits on these cells are adversely impacted by the new legislation then potentially, yes, it could have that impact that certain cells might previously have been profitable, could become unprofitable. But I would think that's likely to be much at the margin rather than having a major impact on our approval rate.

Valerie Brown - *AllianceBernstein - Analyst*

Thank you.

Operator

Thank you. We now move to our next question today, which comes from Rod Whitehead from Deutsche Bank. Please go ahead.

Rod Whitehead - *Deutsche Bank - Analyst*

Afternoon, Terry and Walker and Tim. Couple of questions, if I may. Firstly, on diamond prices. Earlier this year you indicated that you didn't think you would see much of a benefit to margin from diamond prices being lower and any benefit would be next year. You are now seeing a benefit. Is that because diamond prices have moved more or just that you have captured the benefit earlier than you thought?

And secondly, you mentioned that Love's Embrace has been very encouraging in the test. How many products does that range cover, and what is the average transaction value of the range compared to Kay's ATV and Jared's ATV?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

In terms of diamond prices, Rod, I know that we said that much of the benefit would be next year, but as obviously as we get later into the year and the purchases work their way into the average -- into our average cost, some benefit starts to accrue as soon as we start bringing -- as soon as we bring in the merchandise, and then it grows as our purchases grow during the year and the percentage of inventory bought at the lower cost grows. So some of that benefit is being realized this year on a percentage basis. It'll be even -- it should be even bigger next year. Diamond prices continue to be under the level that we saw them in prior year. So we're still getting that benefit of lower purchasing prices. However, they are somewhat starting to firm up a bit.

In terms of Love's Embrace, the assortment is about a 30-piece assortment. And I don't know the average transaction value. I would think it runs reasonably close to the Kay average transaction value and below that of Jared. But I'm not sure exactly. If you like, offline, we can get back to you on that.

Rod Whitehead - *Deutsche Bank - Analyst*

Great, thank you. That's great.

Operator

Thank you. (Operator Instructions). We now move to our next question today which comes from John Baillie from Societe Generale. Please go ahead.

John Baillie - *Societe Generale - Analyst*

Morning, afternoon, everyone. Just a question on the average transaction levels. Are we -- should we expect the Q4 and going forward to be similar to the Q3 experience, namely minus 3%, minus 8% in the US and plus 10% or more in the UK? Is there anything that should change that looking forward?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

As we said, we've increased our promotional cadence. And I'm going to exclude Pandora from Jared right now, because we rolled out Pandora to the Jared brand. So that'll lower average transaction values in Jared, but as I said, bring in a new customer. But excluding Pandora, we have increased our promotional cadence both in the US and in the UK for the fourth quarter. That could somewhat impact average transaction values. But this is going to be very much up to the consumer. So we're going to have to wait -- we're going to have to wait and see.

We did mention in our conference call script that we are starting the anniversary drop down in ATVs. So that is slowing up a bit. But again, John, this is going to be up to the consumer to tell us. The benefit that we have with our great systems and our supply chain flexibility is if we get a run on a certain product, or product range, we can replenish ourselves and stay in business with the merchandise the consumer's looking for.

John Baillie - *Societe Generale - Analyst*

All right. I was just wondering, while I've got you online, is there much regional difference at the moment in the US at this stage?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Not from recent trends, no. The most current trends are there's not really any meaningful difference from the year to date.

John Baillie - *Societe Generale - Analyst*

Thank you.

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

You're welcome.

Operator

Thank you. We now move to our next question, which comes from Margot Murtaugh from Snyder Capital. Please go ahead.

Margot Murtaugh - *Snyder Capital - Analyst*

Thank you very much. I was just wondering about the credit division and wondered if you were going to be making changes to your approval rate to keep bad debt at a reasonable level. Or how do you manage the level of bad debt? Do you target a certain percentage? Can you give us some insight into that? And also whether -- insight into the profitability or lack thereof of the credit operation?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

The -- we don't manage to a bad debt percentage. We manage to make profitable sales meeting our underwriting standards and so we measure the gross profit that we're making in the business against -- less expenses. And then we establish a tolerable bad debt level. And based on various attribute groups, or cells, as we call them, of credit customers, when those -- when that attribute group has a loss rate of credit sales that is above our tolerance for profitability then we would manage down the authorization rate to that attribute. Or we would cut off granting credit to it. So it's very much targeted as opposed to a broad policy. So that's how we develop, that's how we execute our underwriting standards.

Margot Murtaugh - *Snyder Capital - Analyst*

Okay. And any comments on the profitability of the credit division now, whether it's losing money, or how much it's losing?

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

I think --

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Again, we don't really look at our credit division as a profit centre or a loss center. We look at our credit division certainly when we analyze it because we have big capital to it. We analyze it based on is it profitable to keep it. But without -- we strongly believe, and it's been proven to us over many measurements that we get incremental sales by executing credit ourselves. If you ignore the incremental sales and just look at credit, if you just look at credit, the revenues we bring in from credit minus the expenses to run it, the bad debts and the cost of money, up until about two years ago we've been saying that it was -- credit was a broadly breakeven proposition for us, ignoring the benefit of the incremental sales. Obviously with bad debts up at a higher rate that -- we're operating at a small loss in the credit division. But we still strongly believe that it's more than offset by the sales leverage that we get.

Margot Murtaugh - *Snyder Capital - Analyst*

Okay. So you don't -- have any [comment] whether you think it'll stay in this 6% -- is it 6% now? The 6% range for the rest of the year? Or I guess you wouldn't want to answer that exactly, probably.

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Exactly. We don't want to answer that.

Margot Murtaugh - *Snyder Capital - Analyst*

Okay. Okay, thanks. Thanks for that.

Operator

Thank you. We now move to our next question today which comes from Jeff Stein from Soleil Securities. Please go ahead.

Jeff Stein - *Soleil Securities - Analyst*

Okay. Walker, a question regarding net debt. You say that at the end of the third quarter your net debt reduction was $310m, yet you're only looking for $310m to $350m for the year and fourth quarter is a big cash flow quarter. So what am I missing here? Are you just being conservative? Or are there working capital factors that are going to depress fourth quarter cash flow?

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

No, I think it basically relates, as I mentioned, that the net debt reduction, the change in net debt reduction that we saw at the end of Q3 was somewhat overstating the underlying position because we were getting some favorable timing differences on intake for inventory for the holiday season. So particularly as we build up with certain new product ranges, then some of that is going to -- more of that proportionately -- more of that is going to come in in the fourth quarter this year than normal. So as we said in the discussion, the position at Q3 was somewhat flattered by the benefit of these timing positions. So no, we believe a range of $300m to $350m is a reasonable estimate, based on our internal forecasts.

Jeff Stein - *Soleil Securities - Analyst*

Okay, great. And two other quick questions for you and Terry. As you see commodity prices trending right now, and based upon your hedging positions, would you say that heading into 2010 you'll continue to see lower diamond prices for next year pretty much offsetting the higher gold prices? Or is there going to be a change in your cost of goods year-on-year that would -- that you see right now that would require price increases, might require price increases?

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

I don't think --

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

I don't think anybody's in a position to answer that question right now, Jeff. Where is gold going? And I think is a hotly debated topic right now. The -- but we would believe certainly based on the momentum that gold has that it will -- and the recent price, it will probably continue to put pressure on our gross margins.

In terms of diamond prices, I think that's going to -- as I said earlier, diamond prices are down, our purchasing rate all year has been down to or lower than the purchasing rate that we had for the prior year. But we do see a little firming up in the marketplace.

The prices next year will be very dependent on how Christmas is in the US, which sells about 45% of the world's diamonds. So if that -- if demand starts coming through because jewelry -- diamond sales are robust in the fourth quarter, that will obviously act to further firm up prices.

Jeff Stein - *Soleil Securities - Analyst*

Well, that would be good --

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

If it -- if diamond prices -- if diamond sales are slack in the fourth quarter, obviously that will pressure prices lower.

Jeff Stein - *Soleil Securities - Analyst*

And I understand that heading into fourth quarter, Terry, that you did not see a pickup that perhaps you had hoped for as you began to anniversary weaker numbers. And I'm just curious what your thoughts were on that. Were you a little bit surprised, as you began to anniversary double digit declines in October, that the year-on-year rate of increase didn't begin to pick up?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

You're talking US now.

Jeff Stein - *Soleil Securities - Analyst*

US, correct.

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

I think that we, like all other retailers out there, were watching our sales on a two-year basis to see what would happen if the -- at the end of the third quarter. And as we said, our sales in the US were consistent, reasonably consistent throughout the quarter, even though we did have a step down in the prior year at the end of the third quarter last year. So certainly we would have hoped -- we're always hoping for better. But it didn't materialize. That doesn't mean it won't materialize in the fourth quarter. And we won't have the benefit of the soft comp effect. But you're quite right, at the end of the third quarter we didn't see much of a benefit from the third quarter run rate. I would point out that the third quarter was better than the second quarter sequentially. So we'll just have to see.

I don't necessarily think you can draw conclusions that the soft comp theory won't help us in the fourth quarter. But there's a lot of other counterbalancing factors besides the obviously to our benefit, soft comp comparisons on a three-year basis, I'm sorry, on a two-year basis in the fourth quarter are to our benefit. The reduction in discounting in the retail sector in general and the jewelry sector in particular should work to our benefit. But against that, unemployment rates are higher, hours worked are lower. Wage -- savings rates are higher. Consumer confidence is still relatively low. So there are counterbalancing factors. So I don't think we can rely only on the soft comp theory because all other factors are not equal.

Jeff Stein - *Soleil Securities - Analyst*

Okay. That makes sense. And a real quick one. Pandora. I'm just curious, because it seems like throughout -- across all your businesses, you're trying to become more and more exclusive. Yet Pandora really is not. And I'm just wondering, is this a short-term Band-Aid approach to try to generate some incremental volume at Jared? Or does this brand -- do you believe this brand has staying power, particularly as Pandora opens up more of its own locations?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

We think that -- Pandora is opening up locations primarily in the malls, and we think for the off-mall, for our off-mall concept, Jared, that the Jared demographic is appropriate for Pandora. That seems to be the demographic that they're selling to, according to their internal statistics. And it is -- and consumers are responding to it. So we're not looking for short-term Band-Aids. We're looking for jewelry offerings that are attractive to our customers and to which our customers respond.

We've had a lot of success with differentiated product. But that doesn't mean that we're only going to merchandise differentiated product. Our job is to merchandise the jewelry that our customers are going to respond to by coming into our stores and purchasing. And if that's differentiated merchandise or merchandise that other competitors have, we'll go where our customers direct us.

So differentiated merchandise is a tactic. It's a tactic that we have developed that is working. We intend to continue to do more of it. But to the extent that generic programs work, we'll do more of them also.

Jeff Stein - *Soleil Securities - Analyst*

Got it. Thank you.

Operator

Thank you. As we have no further questions, I'd now like to turn the call back over to you, Mr. Burman, for any additional or closing remarks.

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Thank you, Operator, and I want to thank all of you for participating in the call. Our next announcement will be our Christmas trading statement, which is on January 12. And I want to wish all of you in the US happy Thanksgiving, and everyone everywhere a wonderful holiday season. Thank you for participating.

Operator

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