FINAL TRANSCRIPT

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SIG - Signet Jewelers Ltd Christmas Trading Conference Call

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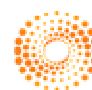

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PRESENTATION

Operator

Good day and welcome to the Signet Jewelers' holiday trading statement conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Mr. Terry Burman.

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Good morning and welcome to the conference call for Signet's holiday trading statement for fiscal 2010. I am Terry Burman, Chief Executive, and joining me from California at the ICR conference is Walker Boyd, our Finance Director. The presentation deck we will be talking to is available from the webcast section of the Company website, www.SignetJewelers.com.

Before I go through our operating performance Walker will give the Safe Harbor statement and review the expected financial results for fiscal 2010.

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 uncertainty and actual results may differ materially. We urge you to read the risk factors and cautionary language in Signet Jewelers' annual report on 20-F filed

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with the SEC on April 1, 2009, and other filings made by the Company 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 January 12, 2010, available on the latest news section of the Company's website.

The holiday trading period saw build on the good progress we made in the first nine months in executing the strategy we set out in March of last year. This was to enhance our position as the strongest middle-market specialty jeweler by focusing on profit and cash flow maximization to further strengthen our balance sheet and reduce business risk. For fiscal 2010 we anticipate that income before tax and earnings per share will be between $222.5 million and $232.5 million, and $1.76 and $1.84, respectively.

Cash flow has substantially increased. And net debt, which stood at $471 million at the start of fiscal 2010 is forecast to be below $50 million at the end of the current year.

We believe we have gained profitable share in a consolidating market, significantly increased our market leadership of the midmarket jewelry sector and strengthened our competitive advantages. We are well-placed to face the challenges of the new year and to take advantage of future increases in consumer spending.

Group same-store sales grew by 5.6% in the holiday period, but they are a little guidance to the year-to-date, with the holiday season seeing a major improvement in US performance. In the UK there was some impact from bad weather in the final week before Christmas. Performance was broadly in line with the third quarter, despite the benefit of softer comps. For the year-to-date US same-store sales are now flat, while the UK is down 2.2%. Total sales at constant exchange rates are marginally positive in both the US and UK.

The currency impact on reported sales was positive over the holiday season; however, the weakness of sterling against the dollar does mean for the year -- the report for the year reported sales will be down.

Let me now turn to progress towards our fiscal 2010 financial objectives. For the year US gross merchandise margin is expected to be about 30 basis points ahead of last year, with the UK down about 20 basis points, both at line with guidance. US expense savings, excluding inflation, bad debt and volume impact, amounted to just over $100 million, slightly ahead of target even after higher than originally planned marketing expenditure.

In the UK, while sterling costs are expected to be slightly up on last year a little higher than target, expense control remains strong with the increase largely attributable to store disposal costs.

Capital expenditure is expected to be about $49 million, comfortably below our target of $55 million. And we continue to apply our hurdle of a 20% IRR on a five-year DCS basis for investment.

We anticipate year-end inventory to between $160 million and $180 million less than last year against an objection of a reduction of $100 million. We have experienced no abnormal programs relating to merchandising shortages over the holiday season.

Net debt at January 30, 2010 is anticipated to be under $50 million, down by over $420 million from the comparable figure of $471 million at last year-end. Gearing, that is the ratio of net debt to shareholder funds excluding goodwill, is expected to be under 3% against 29.2% of last year-end.

The reduction in net debt is driven by firstly adjusted net income of about $265 million, a little ahead of fiscal 2009; second, tight management of working capital. Excluding the impact of new the US space, the anticipated cash flow -- anticipated cash inflow of over $215 million represents a change of about $240 million from last year. Third a very disciplined approach to

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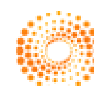

investment, both in terms of the existing business and with regard to new space. Investment in the existing business has been reduced by about $40 million, and that in new space by about $75 million.

Lastly, the elimination of distribution to shareholders, a cash saving of just under $124 million. I will now hand you back to Terry.

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Thank you, Walker. I will start with the US business on slide nine. US same-store sales grew by 7.6% in the holiday period. However, this improved performance is against a 16.4% decline last year, and the two-year run rate over the holiday season was below that of the year-to-date. Same-store sales for the year-to-date are unchanged.

Over the holiday season there was an improved performance by Kay, up 8.4%, a return to positive same-store sales growth by our regional brands of 2.3%, and by Jared at 8.6%. The improved performance by Jared was particularly marked.

Total sales for the US were little different from same-store sales. Reflecting changes in merchandise mix, the average transaction price for the holiday season was down again, in Kay by about 10%, by some 7% in the regional brands, and in Jared, excluding the Pandora range, by around 4%.

In the year-to-date the average transaction price was down in Kay by about 8%, by some 5% in the regional brands, and in Jared, excluding the Pandora range, by around 8%. During the nine weeks all formats saw an increase in the number of transactions.

During the holiday season gross merchandise margin decreased by about 40 basis points over the comparable period of last year. This reflected carefully planned and targeted promotions and increased participation of merchandise where our supply-chain advantages allowed us to provide additional value to the consumer.

Gross merchandise margin is expected to be up for fiscal 2010 by about 30 basis points, in line with the guidance given in March. We anticipate that the reported operating margin in the US division will be about 8.5% compared to 6.8% before goodwill impairment last year.

Actions by management throughout the year contributed to the strong sales performance over the holiday season. As usual, earlier in the year we focus on staff training so as to be able to offer superior customer service. We also had a highly motivated store staff. Store variable pay as a percentage of total store compensation, is expected to have materially increased for the year as a whole.

Our differentiated merchandise ranges, such as the Leo Diamond, LeVian, Open Hearts by Jane Seymour, and Love's Embrace performed well and are likely to account for around 20% of US sales in fiscal 2010.

Pandora, a charm bracelets and necklace collection, did well in Jared and benefited from national television advertising. The typical Pandora customer is in the Jared demographic, but has rarely shopped there before. As a result it increased traffic, and a significant number of new customers have been attracted.

We experienced few, if any, inventory shortages, and then only in our specially bought value lines. This reflected our robust merchandising systems and supply chain. The specially bought value lines performed very well and were the main focus of our increased promotional cadence over the holiday season.

Turning to marketing, national television advertising again proved to be highly effective, and we believe that we had a significantly increased share of voice, even though we only broadly maintained impression. The campaigns proved particularly successful in establishing and increasing consumer awareness of the differentiated ranges available at Kay and Jared. We again saw

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increased traffic to our e-commerce websites and continued to add features such as a build a ring facility to the Jared site. We saw strong double-digit online sales growth, but e-commerce remains only a small part of our sales in the US.

For the year, credit participation is anticipated to be up 10 basis points, though a little lower than last year over the holiday season helping cash flow. While approval rates are likely to have increased by 200 basis points for fiscal 2010, they are still below the level of two years ago.

The bad debt charge as a percentage of total sales for the year is anticipated to be about 5.7%, up about 80 basis points on last year. However, it is below the third-quarter year-to-date rate of 6%, reflecting the strong sales in the fourth quarter, and some initial signs of improvement in the net bad debt performance.

Bad debt performance continues to be driven by the wider economic environment, particularly changes in unemployment. The collection rate of about 12.9% is down on fiscal 2009, but began to increase in the fourth quarter, which again improved cash flow.

We remain strongly of the belief that maintaining our in-house credit operation is a significant 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 additional risks to sales and costs.

The implications for credit card income of new legislation continues to be reviewed and cannot be estimated with any degree of certainty. The adverse net impact on income before tax is still expected to exceed $10 million in fiscal 2011. I would stress that at this time this is a minimum figure.

Now I'll turn to the UK business, and I am starting on slide 13. UK same-store sales declined by 0.8 of 1% in the holiday period, with some limited adverse impact due to weather disruption in the final week before Christmas. As in the US, the performance is against a significant prior year decline, and the two-year run rate over the holiday season was below that of the year-to-date.

For the year-to-date same-store sales are down 2.2%. The H.Samuel performance is very much in line with that at the nine-month stage, while Ernest Jones maintained the better performance that began in the third quarter.

Total sales for the UK at constant exchange rates were little different from last year. Primarily reflecting price increases during the year the average transaction for the holiday season was up by about 8% in H.Samuel and about by about 15% in Ernest Jones. The Ernest Jones figure excludes the impact of charm bracelet ranges, which have been very successful. In the year-to-date the average transaction price was up in H.Samuel by about 8% and in Ernest Jones by about 12%, again excluding the charm category.

As anticipated, gross merchandise margin was down around 80 basis points during the holiday season, as the impact of the weakness in the pound sterling exchange rate had a meaningful adverse impact.

For fiscal 2010 as a whole the UK gross merchandise margin is expected to be down by about 20 basis points, in line with the guidance given in November. The reported operating margin in the UK division is expected to be about 7.5% compared to an operating margin before goodwill impairment of 8.8% last year.

We strengthened our competitive position in fiscal 2010, while many other specialty jewelers were 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 had success with the charm bracelet and diamond categories in H.Samuel, while in Ernest Jones charms also performed well, as did prestige watches.

In marketing we leveraged our scale, with H.Samuel being the only specialty retail jeweler utilizing national TV advertising. Both H.Samuel and Ernest Jones increased the use of -- their use of customer relationship marketing.

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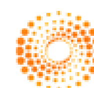

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We improved our e-commerce sites during the year, and H.Samuel and Ernest Jones are the two most visited specialty jewelry sites in the UK according to data from Hitwise. Although they have reported good double-digit sales increase, e-commerce accounts for less than 3% -- just less than 3% of UK sales.

Turning to the outlook for fiscal 2011. While the economic environment has shown some improvement, it remains challenging. This is particularly so in the UK due to the uncertainty caused by factors such as the upcoming general election and tax increases. Therefore, our operating strategy for fiscal 2011 will be largely unchanged. We will continue to focus on reinforcing our competitive advantages, keep tight control of gross merchandise margin, costs and inventory. However, we do not believe it appropriate to have another major cost reduction program in the US, and the scope to further reduce inventory will be limited, although the first quarter should see some benefit from store closures planned for January.

A disciplined approach to investment will be continued. While we anticipate that net cash generation will remain strong, it is expected to be substantially lower than in fiscal 2010 because of limited scope for a further reduction in working capital.

In summary, we believe that we have a record of consistently gaining profitable marketshare 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. We have maintained a tight control of the business, appropriately realigned expenses, reduced inventory, and strengthened our balance sheet. And we have improved our ability to respond rapidly to any change in consumer behavior ahead of our competitors.

Supported by our 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-placed for the challenges of fiscal 2011 and for recovery, whenever it comes.

Now, operator, we would be pleased to take any questions that are put to us.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Rod Whitehead, Deutsche Bank.

Rod Whitehead - *Deutsche Bank - Analyst*

Congratulations on a great set of numbers. Just a question on the US performance, Terry. What percentage of trade now is accounted for by exclusive product? And when you look ahead to next year, assuming that was a key success you had over Christmas, will you need to move those ranges onto something else or would you just be able to extend the existing ranges? What is your thinking then?

Finally, related to all that is the inventory levels in the US, are they a little bit below where you would ideally like them to be, given the stronger sales figures, and do we need to bear that in mind for next year?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Sure, thanks. In terms of differentiated merchandise, as I said in the script that for the year-to-date it is probably about 20%. Now we can all -- it depends on how you define differentiated merchandise ranges. We have -- we are talking about full ranges -- full range programs. We are not talking about in our fashion merchandise where we have many, many exclusive designs. So we are talking about these programs like Love's Embrace, LeVian, Jane Seymour, etc.

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For the year it accounted for about 20% of our sales. Because these ranges are primarily in the fashion category as opposed to the bridal category, and the fashion category is stronger -- a bigger percentage of our sales during holiday, these ranges would be higher more towards the 30% range of sales for the holiday season, but for the year as a whole about 20%.

That includes having the Love's Embrace, which is a very good success for us this holiday season, only for the holiday season because it was in test for the rest of the year. So as far as the coming year, what we are going to do with these differentiated ranges is they're working very well with us, and we tend to continue -- they will continue to expand them. We will continue to expand the breadth. We've got styles in test over the holiday season, like in Jane Seymour. We will evaluate the Love's Embrace, all of the styles. We will expand where we think it is appropriate. We will contract those styles that were not successful.

So we will operate those ranges just as we would any other segment of our merchandise. But I do think that there is scope within the existing ranges to increase as a percentage of our total sales.

In the coming year we have several programs that we are -- that are in development that we are going to be testing in the spring. And depending on the success of those programs, consumers are always our leader. We will follow the consumer response to them. And those that are successful will roll out, and we will make differentiated ranges as big a portion of our inventory and our sales as our consumers provide demand for us.

But the objective obviously is more sales and more profits, not more differentiated ranges. Differentiated ranges are just a tactic for accomplishing increased sales and profits. A tactic that is working quite successfully for us, but it is just a tactic.

I would emphasize that the marketing -- the coordination of our marketing and our display teams and our store staffs in terms of the training that we give them about these ranges, all of that coordination leads to strong performance of our categories. So the advantage that we have in making these differentiated ranges successful, that marketing -- our marketing power is a strong advantage in that respect.

Your final question about inventory, we will probably -- we are a little below where our inventory, where we would like it to be right now. Probably pick that up in January as we replenish fast-selling styles for Valentine's Day. So I would call it broadly -- by the end of year I would predict it would be broadly where we would want to be.

Operator

Bill Armstrong, CL King and Associates.

Bill Armstrong - *CL King and Associates - Analyst*

Great holiday results. In the US, especially this was clearly above your competitors and certainly about my expectations. Now I think you said ad impressions were roughly flat, so was the -- did the big comp increase due to these differentiated ranges or was it more broad-based throughout the store?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

I'm sorry, in your question you said what was basically flat?

Bill Armstrong - *CL King and Associates - Analyst*

Your ad impressions, I thought you said that. Is that correct?

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Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Sorry, ad impressions. I think our -- what led to this -- I think our ad impressions, while they were basically flat, our campaigns continue to gain strength. This is -- I just get that personal feeling as I listen to people, because we haven't done our post holiday surveys yet -- consumer surveys yet. So I think our placement of the advertising was refined and our advertising staff did a great job on getting us on the right programs at time where the consumers in our demographic were seeing our ads.

The differentiated merchandise certainly helped. We did more Jane Seymour this year than we did last year. We have Love's Embrace as an entirely new program, and we gained strength in some of our other differentiated programs. Our value ranges were very successful with the consumers.

I think we had the benefit of -- I think we had the benefit of industry consolidation and not having to compete against going out of business sales from last year -- like we did last year, and also some huge unsustainable discounting within our sector and then from the broader retail industry.

Then as always we maintained -- our people are really our strength -- huge strength. Nothing happens unless someone makes a sale in this Company. Our store staffs, where we maintained our training and they maintained their motivation, our operations people were really on our game -- on their game this year. And they showed their strength, which as our store staffs call it, the last two feet of the supply chain. So all of those things led to our strong gains this year.

Bill Armstrong - *CL King and Associates - Analyst*

How about on the Jared side, that was perhaps the biggest surprise for me anyway. The higher-end consumer obviously has been lagging and you had very strong results here. What can you call out there?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

I think we -- the Pandora range definitely helped increase traffic. We did have an increase in advertising impressions in Jared, a small increase, but an increase. I do believe that the merchandising to some lower price points was helpful, and that consumer responded to some value offerings that we had.

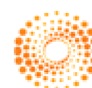
Then, finally, I just think that consumer recovered -- who had pulled back so strongly seemed to have recovered a bit. I haven't seen Tiffany's numbers today, but looking at -- I'm trying to think of the numbers I saw last week. I think Nordstrom, Saks, Neiman -- while we are not at the highest end of that sector, they seem to be certainly getting some traction at the Jared customer demographic level. So I think that was helpful also.

Bill Armstrong - *CL King and Associates - Analyst*

Okay, very good. Thank you.

Operator

Valerie Brown, AllianceBernstein.



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Valerie Brown - *AllianceBernstein - Analyst*

I have two questions. The first relates to the store closures. I was hoping you could give us a bit more detail on the store closures by geography as well as by format.

Then secondly, if you could speak to the impact of gold prices on your margins and anything that you are able to do to mitigate that effect.

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Sure. In terms of store closures, there will be fewer than we were anticipating, it looks like about 60. They would be all in the mall divisions, and primarily in the regional brands. As you can see from the breakout of sales, the regional brands are underperforming Kay, and have been doing so consistently over the last 5 to 10 years. So not surprising that our lower productivity doors, which are primarily in the regional brand format, are more concentrated in the regionals.

In terms of geography, nothing off the top of my head that I can think of that would show greater store closures in one region or another. But if you want to check with Tim off line, he can check on that detail and tell you if there is any -- and give you anything that -- any unusual trends there.

In terms of gold prices and pricing in general, we need to -- now that the smoke has cleared from the holiday season, we need to look at our anticipated buying costs for the year ahead, considering today's gold prices and today's diamond prices.

Through the last year most or much of the gold price increase has been medicated by the diamond -- by the lower diamond prices in '09 versus '08. We need to get a sense of the diamond market and see exactly -- and we do have a sense of it, but we need to see exactly where that is going to land, or anticipate where it is going to land.

Also, we will be analyzing all of our merchandise ranges. There are some ranges that are heavily dependent on gold, for instance, the gold chain category or the -- any category that is primarily gold, and the colored stone category.

If we're going to have price increases to mitigate the gold price increase, they would likely -- they would be more likely to come from those categories than the categories that have a heavier diamond component. We will be studying this through the Valentine season, and we will probably give more -- and we will be able to give you more direction on our pricing policy for the rest of the year when we do our year-end announcement, and after Valentine's Day.

Operator

David Jeary, Investec.

David Jeary - *Investec - Analyst*

Apologies, I've got four questions here, if I may. One following on from Rod's question, I wondered if you could give us any insight into your thought on exclusives differentiated in the UK, and maybe where that stands now relative to the US?

Secondly, whether you've got any feel at this stage given you are almost at the year-end of the quantum of marketshare gains you have made in the US and UK in the course of this year? Related to the US, specifically, have you any feel for how many store closures at specialist jewelers there were across the US jewelry market in 2009 versus your expectations?

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Lastly, I just wondered to what, if any, extent in the back of your mind your thoughts are with regard to a second national mall chain, whether that is still something that you would start in the fullness of time? Thanks, Terry. Sorry about the number of questions.

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

I think I've got them all. In terms of exclusives in the UK, we have some. Obviously, we don't have the range of marketing power -- or the level of marketing power that we do in the US to help those ranges.

We are testing Love's Embrace. The UK also engineered a lot of value lines and had exclusives there. But the level of exclusives in the UK is probably about 40% to 50% of the level of exclusives that it is in the US. Obviously based on our success, we are trying to develop some additional ranges in the UK, but again, one of the difficulties is we don't have as much marketing power as we do in the US.

In terms of marketshare gains, anything that I say is anecdotal and is just my impression of the market, because we don't have any -- we don't have any data at this point. In the US, I believe from what I have heard anecdotally and seen announced, that we will gain marketshare. I wouldn't put a number around it at this point, because it is just -- it is just too uncertain -- it is just too uncertain. I don't have any data, so I don't want to start putting numbers on it and trying to be any more exact. I would rather stay directional.

In terms of the number of store closures, we have been giving a range of 750 to 1,500 at this point in time. That is not store closures, but that is the number of reduction -- net reduction in doors. We would stick with that range. Probably some place more to the midpoint, I would guess, that is my feeling, as opposed to the top end of the range. And that will take a few months to sort out.

David Jeary - *Investec - Analyst*

(multiple speakers) follow through, Terry, on that in 2010?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Do I have an estimate for 2010?

David Jeary - *Investec - Analyst*

Do you think you'll see more in 2010 based on what has happened over the [repeat] trading period, for example?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

No, my feeling is that the -- my feeling is that our category was in the flattish range. So I think people -- I think retail jewelers have -- this is only my sense of this, David. I am an educated guesser. I may be more in touch with the marketplace than most, but I am just educated guessing here.

I'm telling you my feeling is that the overall market would probably be in the flattish range. I think cost and inventories have been adjusted enough that I don't think it will put any more extraordinary pressure than there has been over the last year or so. However, that is a lot of pressure on many operators who are operating on thin profit margins to begin with before the current economic environment.

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So I do believe that we will have more than typical over the last decade, typical 400 to 500 net store closures in the coming year. But just how many, I don't -- it is impossible for me to tell at this point.

In the UK the data is -- but I do think that there will be more rapid consolidation than normal. In the UK data is really not available, so anything I tell you is based upon personal observation, as I walk around the shopping areas in the UK, the High Streets and the malls -- also that which I'm told by our UK management team.

But I would say that the consolidation as a percentage of the total industry is less in UK than it is in the US. The UK specialty retailers who dominate the jewelry industry just seem to have been better capitalized and working on more solid margins than -- operating margins than the US industry as a whole.

Your last question was -- I wrote second something.

David Jeary - *Investec - Analyst*

The second national mall chain, do you still have a strategic goal in that direction?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

The experiment -- there is a test that we did about three, four years ago -- three and four years ago -- did not prove successful. It was just too painful rolling out an unnamed brand-name without the power to advertise it into new markets. So we stopped that initiative because of the lack of power of marketing. Actually it is because of the returns that we were getting; we weren't achieving our returns.

So building up -- building from bottom up a second national mall brand does not seem feasible, and it seems especially not feasible in this economic environment. So at this point in time we don't have any designs of continuing that initiative.

Operator

Jeff Stein, Soleil Securities.

Jeff Stein - *Soleil Securities - Analyst*

I just want to try to make sure I understand your strategy going into and coming out of the holiday selling season. It sounds like a year ago at this time your decision was to maintain selling prices and you captured a higher margin this year, it was somewhat lower. I am wondering was any of the margin degradation that you saw over holiday in response to competitive issues that you saw develop during the season, or was it a strategy that you had going in and you stuck to and it was just to try to capture more of the value business?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Right. So going into the holidays -- let's remember, last year we gained 250 basis points over the holiday season in our gross margin. Last year, and I am talking about Christmas calendar 2008, it would have been foolish of us to take ranges that were right and the consumers are responding to and start discounting those against going out of business sales and huge discounting from some competitors within our sector. And from -- like the soft goods industry, who got very surprised and had to clear their stocks. I think we also have to remember with our merchandise that we don't have to clear our shelves of our stock from holiday merchandise in order to make way for the new spring offerings. We don't have any seasonality to our business. So that was the strategy at that time.

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As we looked at the marketplace for this Christmas, this Christmas calendar 2009, it was clear to us the consumer was going to respond to -- demand value offerings. We also felt that we would not be facing the going out of business sales that we saw the year before. We also felt that we wouldn't be facing the huge amount of discounting because soft goods -- clothing retailers, fashion retailers were not going to be surprised -- we didn't believe would be surprised and have huge stocks to clear like they did the prior year, so we wouldn't be competing against that.

So we decided, as we have been saying all year, that we were going to increase our promotional cadence during the holiday season -- that it was appropriate to do so, because we weren't competing against unrealistic discounting and unsustainable discounting from end market and out of market competitors.

So we developed value ranges. We put more advertising behind our promotional events and the consumers responded as we felt that they would. They responded in a greater -- at a very healthy rate and a robust rate to our competitive offerings, our value ranges, and to our promotional events.

We believe that the -- so that was our thinking -- that was our thinking for Christmas 2009. We didn't do anything unusual. We did what we do. We responded where the -- where we felt the consumer was going. We placed our offerings where we felt the consumer was going. And as they demanded merchandise from us in certain ranges, we did everything we could to utilize our supply chain to replenish those ranges and satisfy consumer demand. So we were as planned. We did everything as planned, and we followed the consumer. So does that explain what we did over the holiday season?

Jeff Stein - *Soleil Securities - Analyst*

Right. I was just wondering if there were any midcourse corrections and responses over the selling period that may have caused either upside or downside to that original plan from a promotional stance.

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

We are dealing in small factions here and subtleties. As I said, the consumers responded very well to our value ranges and to our promotional events. So maybe a little larger hit to gross margins than we had anticipated, but you are talking about 10 to 20 basis points. You're not talking about anything else.

The only midcourse correction we made was responding to consumer demand where we were short on merchandise, as we would always do. So we didn't get more promotional or less promotional, we just -- the mix was a little greater towards the promotional items than we anticipated.

Jeff Stein - *Soleil Securities - Analyst*

Right. Based on the learnings that you're taking away from holiday, how do you feel about how the consumer is going to respond as we move into calendar 2010? Are you going to stay the course and continue to promote more in that value range?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Well, Jeff, we do a lot of proprietary research and do a lot of thinking within our organization about the consumer and how they are going to behave. We have a lot of tests out there. But I think you can understand that we don't really want to share that with the world at large. And since we are not the only two people on this call right now, we would rather keep our strategy close and to ourselves and explain it when we get closer to the seasons -- and through the seasons.

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Jeff Stein - *Soleil Securities - Analyst*

One last question quickly, Terry. Given the fact that it is pretty clear that the regional strategy didn't pan out, I would presume that you're going to continue to contract the regional brands. And wondering just in general what kind of -- what the rate of recapture is when you close one of those stores, how many -- what percentage of those sales are you able to recapture through your Kay and/or Jared doors?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Right. You know, we had discontinued the regional strategy at least two years ago. I can't remember the timing exactly. So that is not new news. The stores that we close we evaluate the regional brands by return on investment the same way we do any other store. We don't want to paint all these stores with the same brush. There are some very productive regional branded -- regionally branded stores where their names are well established in their marketplace. However, the greater balance of closures is going to be in the regionals because they do underperform, primarily because of lack of the national advertising.

In terms of the recapture rate, we do have strong programs in place to market to those consumers, and we do get our unfair share of the amount of volume that is given up -- that gets transferred over to the Kay stores. It is very much a store by store issue. It depends on how much other competition there is in the specific location. But we get more than our fair share of what we call transfer sales from the store closures.

Operator

John Baillie, Societe Generale.

John Baillie - *Societe Generale - Analyst*

Just a question really on the UK and the ASPs, maybe looking at the performance of the business. Given to the 10%, 15% increase for ASPs for some obvious reasons, I do feel that is sustainable that the consumer will accept that, especially when you had flat like-for-likes in over peak. And whether there is a need, given the performance of the US, which responded well to ASPs coming down, that this may be reviewed, where (inaudible) [going to go] in the UK in 2010?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

It is something we are going to look at closely. It is certainly appropriate to point it out. There is a difference in the UK, however, when a couple (technical difficulty). First of all, in Ernest Jones, when prestige watch brands perform well that does raise -- that does tend to raise our ASPs. Also, we've got a shift in mix to more jewelry in the UK, which we are emphasizing, especially in H.Samuel. And that does tend to drive ASPs up as we continue to deemphasize the non-jewelry ranges. But your basic premise is correct, we do need to look at our ASPs.

John Baillie - *Societe Generale - Analyst*

Can I just ask on that, just on terms of the UK costs, which I think that they did actually rise a reasonable amount in Q4. Is that -- am I correct on that assumption?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Yes, Walker, do you want to take that?

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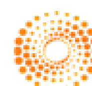

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Walker Boyd - *Signet Jewelers Ltd - Finance Director*

I think in non-sterling terms -- I think we had been saying for the year as a whole that we would expect the UK costs to be broadly flat for the year as a whole, and I think that applies by and large to Q4. As I said, expenses in Q4 in the UK, a little bit higher than we had expected, because we did take some extra costs for disposal of stores, and which are clearly one-off in terms of the disposal of these stores.

So, no, I think overall, and indeed for Q4, if you exclude these disposal costs, in sterling terms expenses broadly flat year-on-year, which is roughly where we had expected it to be.

John Baillie - *Societe Generale - Analyst*

Can you break out that for the store disposal cost in the figure?

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

It is just over 1 million -- in Q4 just over GBP1 million.

John Baillie - *Societe Generale - Analyst*

And that is included into the 7.5% margin guidance?

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

Yes, because these are normal -- these are normal, whereas portfolio decisions that we are making in terms of the stores, so it is treated as a normal SG&A item.

Operator

Ben Spruntulis, Citigroup.

Ben Spruntulis - *Citigroup - Analyst*

Just one question for me. I was just looking -- this impressive net debt performance, does this change your thoughts and view on what the interest charge is likely to be in the year ahead? And also with regards to working capital, should we therefore now expect working capital outflow as we look to fiscal '11?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

I was wondering when someone was going to notice the reduction in net debt, or comment about it. We are still getting our arms around the healthy cash flow that we have and strategy of the business -- which can impact the strategy of the business. But what I would say about it is financial flexibility is a good thing, and cash flow is a good thing, especially in the current environment.

In terms of the interest charge -- in terms of the working capital, as we said, we've got limited scope for continuing to reduce inventory at this time. I think we have to remember that our sales in both markets were flattish and we are -- for the year-to-date,

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certainly flat in the US and down just slightly in the UK, so it would be inappropriate to go on another inventory reduction program and working capital reduction program. In terms of interest rates, Walker, would you comment on that?

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

Just before I go into that, one other comment on working capital going forward. Obviously, as well as inventory, a big driver of that is what happens on receivables, which are driven, A., obviously by what happens to US sales in the forthcoming year, and also as we have seen in Q4, is a pattern in terms of participation of credit, and indeed the monthly collection rate. So I think the position, when you look at working capital as a whole going out into the new year, as we said, there is limited scope, so I think working capital is going to be plus or minus fairly close to flat.

As far as our interest charge is concerned, as you are aware, in our borrowing agreements we will be making an offer to the noteholders in terms of paying down debt, in terms of that. Clearly what happens to our interest charge is going to be driven very much by that level of acceptance. As Terry said, flexibility is a good thing, so we may end up with more cash on balance sheet than would be ideal, but in these still very uncertain times we see that as a positive.

So clearly we would expect some reduction in our interest charge in the forthcoming year. But to what extent that reduction will be a function of the acceptance level and the offer of paydown.

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

One other thing I would emphasize then is the business has very healthy cash flows. They were exceptional this year because of the working capital reductions. But even without those working capital reductions, we would expect for fiscal 2011 to continue with some very healthy and robust cash flows in the business.

Ben Spruntulis - *Citigroup - Analyst*

Just on the potential payback to your private placement noteholders, what could be the timing and terms, i.e., how much could you payback and when would that be?

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

Under the terms of the agreement we will be making an offer early in the new fiscal year. As a level of that offer we make there is a minimum level that is set in the agreements. We are committed to make offers greater than that minimum. Whether we do or not, we need to establish that early. We will wait until the smoke clears over Christmas, and we have a look of requirements of the business into the new year before we determine exactly how much we are going to offer. But the offer would be typically made in the early part of the new fiscal year.

Ben Spruntulis - *Citigroup - Analyst*

In terms of (inaudible) is this 20%, 30% of your reduction in net debt or could we even see maybe a higher (multiple speakers)?

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

Well, the minimum offer we are required to make is 60% of the cash flow of the previous fiscal year. That then is split pro rata between the undrawn RCS facility and the drawn private placement facility. Remember, the private placement holders are under no obligation to accept that offer, which is clearly the biggest variable in the equation.

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Operator

Andrew Hughes, UBS.

Andrew Hughes - *UBS - Analyst*

It is Andy Hughes from UBS. Just one follow-up on the interest charges to help us model that. What going forward do you think the difference between your average position is and your year-end position in terms of cash or debt, whichever way you look at it over the year?

Just as a follow-up, on the truth in lending you gave us some guidance there. I think you said minimum $10 million. Have you got a figure for what the worst-case could be there?

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

Walker?

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

As far as the net debt and the average net debt as position is concerned, to be honest, in terms of the shape of our net debt throughout the year, given that we have virtually eliminated -- well, we have eliminated net space growth, the movement in net debt during the first nine months of the year is pretty minimal. So in terms of the average going through for the first nine months of the year it pretty much stays fairly close to the year-end. There are some interim month variations, but for your purposes it is pretty flat.

You then have something of a rise in October/November, but again less than we historically would have had, because when we were opening space at 10% per annum in the US, we clearly were investing the inventory and the fixed capital in the stores just at that key peak time. So one of the outcomes of reducing space growth, or in net terms eliminating it, is the compression of that net debt curve. So I would say broadly flat through the first nine months and some more limited increase in October/November. And then clearly the net -- if there is to be a more limited net reduction on the year that would occur in the month of December. So what was -- I forget what your second question was.

Andrew Hughes - *UBS - Analyst*

That was the truth in lending, even as a -- there may be a best-case, have you got a worst-case impact from that?

Walker Boyd - *Signet Jewelers Ltd - Finance Director*

I think it is difficult to put a worst-case on it. I think based on what we know, as we have said in the statement and as we did indeed say at the end of the third quarter, we said a minimum of $10 million. Worst-case, very difficult to quantify. I think we just need to stick with that minimum $10 million at the moment.

Andrew Hughes - *UBS - Analyst*

Would you be surprised if it was double, or is that very unlikely?

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Walker Boyd - *Signet Jewelers Ltd - Finance Director*

For your purposes that would be a reasonable -- of modeling -- that would be a reasonable supposition.

Operator

For your information, Mr. Burman, we have no further questions at this time.

Terry Burman - *Signet Jewelers Ltd - Chief Executive*

All right, operator, thank you very much. And I would like to thank all of you for your anticipation in the call today and for all of your questions. We will be appearing at the ICR conference on Wednesday morning with a presentation. And we look forward to speaking to you at the year-end results. Thank you again for your participation. Bye.

Operator

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

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