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SIG - Signet Jewelers Ltd HolidayTrading Statement & Expectations for Fiscal 2011 Conference Call

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PRESENTATION

Operator

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

Terry Burman - *Signet Jewelers Ltd. - CEO*

Thank you, operator. Good morning and welcome to the conference call for Signet's holiday season statement for fiscal 2011. I am Terry Burman, Chief Executive, and joining me from California are Ron Ristau, CFO, and Mike Barnes, CEO-designate.

The presentation deck we will be talking to is available from the webcast section of the Company's website, www.SignetJewelers.com.

Before I go through our operating performance, Ron will give the Safe Harbor statement and review the expected financial results for fiscal 2011.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

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 10-K filed with the SEC on March 30, 2010, which can be found on the Company's 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 this information to the most directly comparable CapEx financial measures, please refer to the appendix of this presentation and to the Company's release dated January 11, 2011 available on the latest news section of Signet's website.

Now for our sales performance. For the holiday period, total Company sales were up by 6%. Comparable store sales rose by 8.1% versus an increase of 5.4% in the prior year with an adverse impact from space of 1.2% and from exchange translation of 0.9%. Terry will discuss the divisional sales performance in a few minutes.

For the year to date, total Company sales were up by 4.8% and comparable store sales rose by 6.6% versus a decline of 0.6% in the prior year with an adverse impact from space of 1.1% and exchange translation of 0.7%.

Now turning to our income expectations for fiscal 2011. We expect income before income taxes for fiscal 2011 to be between $287.5 million and $302.5 million, which will give diluted earnings per share of $2.20 plus $2.32, up 20% to 27% on fiscal 2010. This includes a $47.5 million nonrecurring make whole payment due to the pre-payment in full of our private placement notes and an expense of $6 million to $7 million related to the appointment of a new chief executive officer whose contract includes compensation for amounts forgone from his prior employment.

Excluding only the nonrecurring make whole payment, income before income taxes is expected to be between $335 million and $350 million, giving diluted earnings per share of $2.54 to $2.66, up 39% to 40% on fiscal 2010. This performance is very encouraging.

Free cash flow is anticipated to be $275 million to $300 million before the make whole payment. The expected outcome compared to our original target was driven primarily by operating results and working capital performance. As a note, over the past two years, our cumulative free cash flow has been over $750 million.

Our gross margin this year is expected to be between 35.8% and 36.3% for fiscal 2011, primarily due to an increase in gross merchandise margin, a lower US net bad debt to sales ratio, and leverage on store occupancy costs.

SG&A expense as a percentage of sales will be slightly higher than last year largely due to the nonrecurring benefit in fiscal 2010 of $13.4 million due to a change in vacation policy entitlement, and this year management transition costs of about $9 million, an increase in variable compensation due to the strong performance, and an increase in fourth-quarter advertising spend. Excluding these factors and exchange impact, the underlying SG&A cost base was very tightly controlled.

Our other operating income is anticipated to be down slightly primarily due to the adverse impact of amendments to the Truth in Lending Act. This effect was offset by interest income on higher receivable balances. Overall, the operating margin is estimated to have increased between 240 and 290 basis points to 10.5% to 11%.

The major item in interest is the $47.5 million make whole payment due to the prepayment of the private placement notes at the end of November. As a result of this prepayment, we will be saving $101.7 million in future interest costs.

Other interest costs in fiscal 2011 are expected to be about $25 million. Note that in fiscal 2012, net interest expense is expected to be between $6 million and $7 million, assuming no change in interest rates or the capital structure. And importantly, please note that the full year tax rate for fiscal 2011 is estimated to be about 34%, reflecting the geographic mix of profits.

I will now turn it back to Terry.

Terry Burman - *Signet Jewelers Ltd. - CEO*

Thanks, Ron. I will start with the US business. US same-store sales grew by 11.7% in the holiday period against a 7.5% increase last year. There was another good performance by Kay, up 10.6% against an 8.2% increase last holiday season. Jared's same-store sales were up by 18.7% against an increase of 8.9% in the comparable period, continuing its year-to-date strength.

Our regional brands were up 1.4% against a 1.4% increase last holiday season. This is significantly below Kay and Jared and demonstrates the competitive strength of national television advertising.

Same-store sales for the 48 weeks rose by 8.9% against a decline of 0.1% in the comparable period in fiscal 2010. Kay was up 6.8% against an increase of 4.5% last years -- in last year's 48-week period. Jared was up 16% against a fall of 6.9% in fiscal 2010. The regional brands were up about 2% compared to a decline of 5% in the comparable period.

Reflecting the ongoing rationalization of the regional stores, base change was a small negative giving total sales increase of 10.4% in the nine-week period and 8% in the 48 weeks. The average selling price excluding the charm bracelet category for the holiday season was up 11.3%; in Kay by 8.8%; in the regional brands by 9.9%; and in Jared by over 10%.

In the year-to-date, the average selling price was up in Kay by 7.1%; by 4.5% in the regional brands; and in Jared by 6.9%. Gross merchandise margin is expected to be up for fiscal 2011 by 130 to 150 basis points, primarily reflecting the benefit of lower diamond prices, less discounting, and selective price increases more than offsetting the higher cost of gold.

We anticipate that the reported operating margin in the US division will be 12% to 12.5% compared to 8.8% last year due to the higher gross merchandise margin, lower net bad debt, and sales leverage of the cost base.

We have remained focused on staff training throughout fiscal 2011 so as to be able to offer superior customer service. Our highly motivated store staff did a great job in store variable pay as a percentage of total store compensation expected to be higher for the year as a whole than in fiscal 2010.

A differentiated merchandise ranges, some of which were supported by national television advertising were again strong performers. These include established ranges such as the Leo Diamond, Le Vian, Open Hearts by Jane Seymour, and Love's Embrace, and new products like Charmed Memories and Color Obsession. Neil Lane Bridal and the Perfected by Tolkowsky Diamond, continued to test well.

For fiscal 2011 as a whole, differentiated merchandise participation of US sales expected to increase by about 300 basis points, with bridal participation also increasing.

Pandora continued to outperform in Jared and again benefited from national television advertising, a robust merchandising systems and supply chain meant we experienced few if any inventory shortages, the increased national television advertising impressions for both Kay and Jared with our highly recognized campaigns which again were effective. We will be carefully examining the results for our consumer research when finding next year's marketing spend.

Our in-house customer finance program was again a competitive advantage particularly due to the generally more constrained availability of consumer credit. For the year, credit participation is anticipated to be up 10 to 30 basis points while approval rates are likely to have decreased by 130 to 150 basis points for fiscal 2011.

Net bad debt charge as a percentage of total US sales for the year is anticipated to be between 4.1% and 4.3% compared to 5.6% last year. The performance reflects strong sales growth in the fourth quarter, better macroeconomic environment that is resulting in the general improvement in credit results, and continued focus on execution.

Monthly collection rate is expected to be about 12.7%, up about 20 basis points on fiscal 2010. The adverse net impact on income before tax from the amendments in the Truth in Lending Act still expected to be about $15 million.

Turning now to the UK business. UK same-store sales declined by 4.2% in the holiday period, an adverse impact due to exceptional weather disruption compared to a decline of 0.8% in the comparable period last year. For the year-to-date, same-store sales are down 1.7%. Last year the decline was 2.2%.

Year-to-date total sales for the UK at constant exchange rates were down 3.3% from last year. The average selling price excluding the impact of the charm bracelet category for the holiday season was up by 4.5% in H.Samuel, and 8.1% in Ernest Jones, primarily reflecting price increases during the year. The year-to-date, the average transaction price was up in H.Samuel by 8% and in Ernest Jones by 9.4%, again both excluding the charm category.

As anticipated for fiscal 2011 as a whole, UK gross margin is expected to be down by about 10 to 30 basis points. Reported operating margin in the UK division is expected to be 7.5% to 8% compared to 7.7% last year.

We continue to focus on enhancing our competitive advantages in fiscal 2011. We have improved our customer service and the product knowledge of our sales associates with training remaining a priority throughout the year.

Over the Christmas period, we continued to have success with the charm bracelet category and gold rings. We also believe that the in-store presentation of merchandise was better. Marketing, we increased television advertising for H.Samuel, increased customer relationship marketing for both brands, and refreshed the websites more frequently.

The coldest December on record across the UK negatively impacted sales. However, divisional management actions to control merchandise margins and expenses proved effective.

While we are focused on the performance during the holiday season and the expected results for fiscal 2011, we believe it is also important to step back and take a longer-term view. We have a record of gaining profitable market share over many years. I believe that this is a result of sustainable competitive advantages.

These include the quality of our sales people; excellence in customer service; and a great in-store experience, as well as our very experienced additional management teams; our ability to leverage our supply chain leadership; the development and growth of differentiated merchandise; high customer awareness driven by our ability to advertise in national television; the size of our budget; and quality of our advertising campaigns. And in the US, our in-house customer financing capability.

In addition, we have industry-leading information systems and proven operational management. These are underpinned by our balance sheet strength and financial flexibility. Therefore we believe that we are well-positioned for fiscal 2012 particularly when many competitors continue to face significant operational and financial pressures.

Mike and Ron will be talking more about our strategy in fiscal 2012 when they present at the ICR XChange Conference tomorrow, which will be webcast and available for replay on our website.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Matt McClintock, Barclays Capital.

Matt McClintock - *Barclays Capital - Analyst*

Good morning, everyone, or good afternoon in some places. Terry, perhaps I missed this or Ron, perhaps I missed this. Did you actually quantify how much the poor weather impacted the UK business during the month or during the quarter in terms of a comp?

Terry Burman - *Signet Jewelers Ltd. - CEO*

We did not quantify it yet, but it is approximately $8 million to $10 million.

Matt McClintock - *Barclays Capital - Analyst*

$8 million to $10 million, okay. And then perhaps can you maybe describe the competitive environment in the UK this holiday season, what exactly were you seeing across the industry? And then perhaps frame maybe your performance in terms of what you saw in the overall industry?

Terry Burman - *Signet Jewelers Ltd. - CEO*

Well, we have -- there's no big competitors that publicly announce in the UK. So anything, any information that we have is anecdotal. We really didn't see anything unusual. I think everybody was -- the weather was a huge factor and as you may or may not know, it hit early and hard and all over the country in the early part of December and then just as everybody was digging out and the snow seemed to be melting, then we got hit with another blast.

It was very disruptive to all retailer sales and jeweler sales. But there was no unusual pricing activity that we saw. Nothing extraordinary that we saw except the poor weather. I will say that since Christmas as the weather has improved, we have seen an improving performance from the UK business.

Matt McClintock - *Barclays Capital - Analyst*

Great, thank you very much.

Operator

Rick Patel, Merrill Lynch.

Rick Patel - *BofA Merrill Lynch - Analyst*

Good morning, everyone. Congrats on a nice holiday. Your pretax income expectations imply a higher EPS than what you are guiding to. Are you expecting a higher tax rate in the fourth quarter? If not, how should we think about the difference between pretax income and EPS?

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Ron Ristau - *Signet Jewelers Ltd. - CFO*

Well, we are expecting that the -- in the fourth quarter because of the penetration of the US business, that tax rates will go up for the year. The tax rate you should be using is approximately 34% and that is driven primarily by the mix of profits of course into the US division.

Rick Patel - *BofA Merrill Lynch - Analyst*

Okay, that's helpful. And you've made some great progress in fiscal 2011 and price increases clearly helped. Can you give us any initial thoughts on price increases in fiscal 2012? Should we anticipate seeing another one either in the first quarter, the first half of this year?

Terry Burman - *Signet Jewelers Ltd. - CEO*

Rick, it's really too early to define that. We have to look at our mix of merchandise, which has changed from over this year with a heavier bridal mix, which carries higher gross merchandise margins. We have to look at the cost of gold. We have to look at our buying rate in terms of the cost of diamonds, which are firming up somewhat but we are still getting some pricing advantages out of them.

We're going to have to look at all of those factors, study them, and determine that which is in the best interest of the Company. We will be providing some guidance in the year-end trading statement at the end of March and expenses, gross margins, etc. But we are really in the analysis period right now to determine our strategies.

Certainly no price increases will be done -- will be taken. If we were to take any, none would be taken before the Valentines.

Rick Patel - *BofA Merrill Lynch - Analyst*

All right, great. Thank you very much.

Operator

Anthony Lebiedzinski, Sidoti & Company.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Good morning, a couple of questions. Can you just review again what the percentage of differentiated merchandising was during the holiday selling period?

Terry Burman - *Signet Jewelers Ltd. - CEO*

I don't have the figure for the holiday selling period. I gave it for the year-to-date. It's going to be about 22%, up about 300 basis points. If you want some color, I could give you some color around that.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Sure.

Terry Burman - *Signet Jewelers Ltd. - CEO*

For the full year. As I said, some of the new programs like Neil Lane and -- that are in test, Neil Lane and the Tolkowsky diamond are doing well. That's great because it gives us entree to the bridal category, which grew last year. And it grew to just over -- it looks like it will be just over 50% or right around or just over 50% of our sales mix.

Many of the established programs held their own or more than held their own. The Jane Seymour, the Leo, Love's Embrace, and Le Vian did very well, contributed to the comp store sales increase, while the new programs like Charmed Memories, the charm program in the mall brands, did very well.

So we look forward to continuing to innovate with new merchandise programs and hopefully we will be in a position to -- it looks very positive, let me say this, about the initiatives for the bridal category like Neil Lane and Tolkowsky. And that will be great because the bridal category is growing and if we can get in there with some differentiated merchandise that those two programs provide, we are very optimistic about the results we can get out of them.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Okay, that's helpful. Also could you comment on what you expect to be using your free cash flow for especially in light of your recent prepayment of debt and the renegotiation of your credit agreements?

Terry Burman - *Signet Jewelers Ltd. - CEO*

Right. Well, we will be increasing capital investment in the business. There are some deferred remodels that we deferred during the recession and with the better performance of stores, you can look forward to an increase in CapEx. There will likely be some proportionate to sales but increases in the -- proportionate to anticipated sales somewhat, but increases in the US inventory, especially with the new bridal initiatives.

And a high priority for the Board is to consider shareholder distributions and now that we've finished Christmas and we have -- in the process of finishing the year-end and tallying the results, the Board will be meeting several times between now and the end of the year. And as I said, the consideration of shareholder distributions is a high priority for the Board.

Anthony Lebiedzinski - *Sidoti & Co. - Analyst*

Thank you.

Operator

David Wu, Telsey Advisory Group.

David Wu - *Telsey Advisory Group - Analyst*

Congrats on a solid holiday season. I just have three questions. First, can you talk about how your promotional levels trended this holiday versus last year? It appeared to have been fairly in line.

Just secondly, can you provide any color on your marketing plans for Valentine's Day, whether you're planning to test or launch any new products?

And just lastly, as we look at 2011, what is your outlook for industry consolidation in the US, especially just given that the independents seem to have bounced back a bit during the holiday season? Are you still expecting to see a lower level of store closures in the US specialty jewelry sector this year versus last but still above that historical rate of around 400 closures per year? Thank you.

Terry Burman - *Signet Jewelers Ltd. - CEO*

Okay, David, a lot of questions there. Let's see, the promotional levels. Our promotional levers were reasonably in line with prior year's. We did a little more special purchase or special items for -- that were bought or made up for promotions, but not a significant difference in our promotional activity.

As you can see, our gross merchandise margins increased over last year and that was partly due to sales mix issues.

In terms of Valentine's Day, our advertising impressions will be up over Valentine's Day over the previous Valentine's Day. We have no new -- well, we don't have any new merchandise programs to launch that you haven't already heard of. Charmed Memories has not anniversaried yet, so that's a non-comp, in all stores. Same for Color Obsessions.

We will be continuing to roll out the test of the Neil Lane range and the Tolkowsky range. We will be looking to expand those in stores. I'm not sure how much will be done by Valentine's Day, but we will be looking to expand those. But the stores that it's in, that those programs are in and in test are a non-comp for -- against last year.

As far as industry consolidation, from everything we've seen on a macro basis, the industry seems to have [stayed price] in Christmas calendar 2009 and been reasonably healthy and had some growth in Christmas -- I'm sorry through calendar year 2010. Also from everything we've seen macro statistics and anecdotally, Christmas 2010 seems to have been very positive for the jewelry category.

And so I would not expect much different than normal -- and this is just from a personal expectation looking at it. I would not expect a much greater rate of closings than is typical for the industry on a pre-recession basis.

David Wu - *Telsey Advisory Group - Analyst*

Excellent, thank you.

Operator

Rod Whitehead, Deutsche Bank.

Rod Whitehead - *Deutsche Bank - Analyst*

Congratulations on an excellent Christmas. Terry, since I imagine this may be your last call, it's just a fantastic way to go out. Well done for serving the Company so well through the downturn.

But I do have some questions, what ever. Firstly, could you quantify the dollar increase in advertising you did earlier in the year? Can't find my notes, give guidance on how much it might increased by and what was it actually increased by?

Secondly, the US gross margin must've been up about 200 basis points in this quarter. And just having been up only 90 basis points year to date, I'm wondering whether one should expect that to carry through into next year or I'm sure you'll come up with some reason why it shouldn't.

Finally just on the regional stores, they've always not had the advertising benefit but the GAAP effect between their performance and Kay's has widened markedly. So I'm just wondering whether you have identified any particular reasons for that and the implications going forward. Thanks.

Terry Burman - *Signet Jewelers Ltd. - CEO*

Sure. Rod, I will answer the question about the regionals and then I will turn it over to -- I will make a comment also and then I will turn it over to Ron to answer the advertising question and the US gross margin questions.

First of all, thank you for your comments. It has been my pleasure to lead this Company over the years and we've got a great management team and I just look forward to the Company carrying on and continuing to set a high standard and new records and hopefully set new records in the industry and continue to take market share and continue to grow.

I think it's well-positioned to do so with a good management team, a lot of experience in -- a lot of initiatives in the pipeline. It's been my pleasure to lead the Company and to make it through the downturn and also through some more robust times. It's certainly gratifying to go out with very good results. But thank you for your comments.

In terms of the regional brands, you know, this is -- momentum has a lot to do with the kind of results that we get. And the advertising that we do increases the momentum that we have in the business and builds on itself. It's not just a one year over one year comparison. The benefits of advertising, the benefits of these national advertising campaigns combined with the new merchandise programs, the differentiated merchandise is just accelerating the rate of growth in the brands that are advertising on television.

We see that for instance in new differentiated merchandise that we roll out that performs better in Kay and Jared than it does in the regionals, and the reason for it we believe is because of the backup that they have in the advertising.

So I think it would be wrong just look on a year-over-year basis. It's a cumulative effect of greater brand name recognition that continues to get heightened and the combination of the differentiated brands being advertised is creating the increased strength at Kay and Jared.

Now I'm going to turn it over to -- I'm going to pass it to Ron to answer the advertising and gross margin questions.

Ron Ristau - *Signet Jewelers Ltd. - CFO*

The advertising spend, Rod, is up approximately $9 million this year. That was primarily in the fourth quarter, as we had indicated. When we talk about the US gross margin, you are correct in the fourth quarter, it would be in the range of gross prejudice margin of up a little better than 200 basis points leading to the year at an increase of 130 to 150 basis points.

Our goal of course is to maintain or grow our gross merchandise margin. This year we were favorably impacted by product mix. We are impacted by the price increases that we put through and then how commodity prices particularly diamonds were able to offset some of the increases that we experienced in gold.

When we look forward in our gross margin, our goal was to maintain it or grow it, and as Terry indicated, we will take whatever action we need to to maintain and grow the gross margin as we go forward. It was just a good job during the fourth quarter and I would expect that some of that would continue into the year of 2011 but probably not at the same rate.

We have to see how all the various commodity prices and the decisions that Terry alluded to earlier shake out when we decide how to do our pricing. But so far a good news story on US gross margins for sure.

Rod Whitehead - *Deutsche Bank - Analyst*

Thank you very much and presumably the product mix, is that bridal being stronger than watches or is it --?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Yes, it is. The differentiated products have slightly higher merchandise margins, as we've said in the past. So as the differentiated products grow, the bridal category is certainly a category that I believe also has slightly higher margins. So those two categories and the growth in those categories do help, no question about it, when we think about our merchandise margins.

Rod Whitehead - *Deutsche Bank - Analyst*

Thanks a lot.

Operator

Jeff Stein, Soleil Securities.

Jeff Stein - *Soleil Securities - Analyst*

Good morning, Terry. I was wondering if you could talk a little bit about Charmed Memories category. It sounds to me like most of your private label categories held their penetration as a percent to sales. But Charmed Memories seems to have been kind of the new kid on the block that probably accounted -- it would seem to me accounted for most of the growth in penetration. I'm just wondering am I looking at this correctly?

Can you talk about or can you just isolate for us what percent of sales Charmed Memories may have accounted for in each of your brands? And then I have a follow-up.

Terry Burman - *Signet Jewelers Ltd. - CEO*

As you know, we have Charmed Memories only in the mall brands.

Jeff Stein - *Soleil Securities - Analyst*

Pandora at Jared and Charmed Memories at Kay?

Terry Burman - *Signet Jewelers Ltd. - CEO*

Right, we don't disclose that level of detail for competitive reasons. But Charmed Memories, which was a non-comp this year, certainly helped increase our penetration of differentiated merchandise versus the prior year and contributed to that, strongly contributed to that increase.

Jeff Stein - *Soleil Securities - Analyst*

Okay. And as you look ahead, it seems now the jewelry industry seems to be changing a bit. Folks like yourself seem to have reengineered some of the products to maintain price for customers given the inflation that we've seen in commodity prices.

And it seems like we are kind of -- the concept is kind of morphing into a combination of fine jewelry and kind of higher-end costume jewelry. Do you think that the customer will continue to have an appetite for the charm bracelet category? Or in other words, do you think that category has staying power because it certainly seems to have contributed largely to your comp increase this year.

Terry Burman - *Signet Jewelers Ltd. - CEO*

That's a good question. I think all through the industry alternative metals are becoming more popular. We are seeing meaningful increase in silver mounted products. We're seeing increases in -- certainly in the charm bracelet category, which is -- has been very healthy over the last several years.

By the way, just to clarify, Pandora is not part of our differentiated merchandise. We don't count that as a percentage of our differentiated -- we don't count that in our differentiated merchandise. I just want to clarify that for you because it's too widespread a program. Charmed Memories, however, is included in our differentiated merchandise.

You know, I don't -- silver mounted product is not really what I would call costume jewelry. I think what you are seeing however is a move in the industry towards more fashionable jewelry and the alternative metals are very consistent, the development of alternative metals are very consistent with that higher fashion component of jewelry.

So it used to be somebody would buy -- when I first got in the industry, people would buy a piece of jewelry and they would wear that same piece of jewelry over and over year after year after year. And it had a long, long life time and people would -- like I say, people would wear much of that jewelry every day.

Some jewelry like bridal merchandise still carries that characteristic, as does some fashion jewelry. But there is -- has become in the industry a fashion component where people change colors. They want some differentiation. They change the kind of jewelry that they are wearing with different types of clothing.

So if they are going out to a cocktail event, they would have more dressy kind of jewelry and if they are going to work in business, they would have a different kind of jewelry, sometimes different colors to go with -- because yellow and gold -- I'm sorry, yellow gold and white gold -- yellow and white are both colors now that people change back and forth and coordinate their wardrobes with their clothing.

So I think the jewelry industry, the change that you are seeing is a change to more fashion as opposed to a change to more costume and the alternative metals is feeding right into that, feeding right into that and consistent with the change and helping it.

I think it's a great thing for the jewelry industry because customers buy -- then buy a wider variety of jewelry because they want more fashionable jewelry. So that's how I would interpret the change that you are talking about.

Jeff Stein - *Soleil Securities - Analyst*

Okay, great. I appreciate it. Again, thanks for your service to the Company. You will certainly be missed.

Terry Burman - *Signet Jewelers Ltd. - CEO*

Thank you, Jeff.

Operator

David Jeary, Investec.

David Jeary - *Investec - Analyst*

Good morning, Terry. Happy new year and let me also reiterate congratulations on the performance end of an era, a very nice way to sign off.

Can I ask a couple of questions please, if I may? One on US and what the implications are now for potentially going more on the front for store openings, given the like for like trajectory and presumably better IRR equations coming through on new stores now? Or whether you still see an impediment there because of the real estate industry?

Within the UK, I have a couple of questions, if I may. One, if you could add a bit of flavor on category performance and possibly where you think you performed on market share in the holiday period?

Lastly on Ernest Jones, having mirrored the outperformance of Jared given its relative position for most of this year, we appear to have seen a bit of a reversal to that in Q4. I wondered what your read was of why that is so, please?

Terry Burman - *Signet Jewelers Ltd. - CEO*

Are you asking why (technical difficulty) are you saying that Jared's performance slowed down in the holiday period?

David Jeary - *Investec - Analyst*

No, I was saying that Ernest Jones having been the higher position to UK, it was year-to-date until Q4 had been outperforming H.Samuel, just as Jared had been outperforming the mall stores in the US. Whereas in Q4, the Ernest Jones performance was actually behind that of H.Samuel.

Terry Burman - *Signet Jewelers Ltd. - CEO*

I see, okay. You are talking about Ernest Jones versus H.Samuel. Sorry.

In terms of new stores, taking your questions, the first one, new stores in the UK, we've targeted opening 25 stores. We are ready, willing, and able to open stores and are encouraged by the absolute level of sales we are getting in our stores that encourages us that we can make our returns for opening stores. However, there is a drag on our ability to open new stores, which is (technical difficulty)

I'm getting interference here. Can you mute your line because I think there's some interference coming through on the call.

David Jeary - *Investec - Analyst*

Sure, is that better, Terry?

Terry Burman - *Signet Jewelers Ltd. - CEO*

There's just some background noise coming through. Anyway, in terms of new stores in the US, the drag is still in property development. There's not new shopping centers currently being built. And so there's not a lot of new space and with retail being somewhat healthier over the last year or two, there's not a lot of good vacant space coming available. However, we are starting to increase our openings as you can see by the 25 target. Or we hope to. And if locations come available that meet our return criteria, we won't hesitate to open new stores.

In terms of the UK and our category performance and in terms of market share, it's very hard to tell. We just don't have any official information in the UK jewelry industry. And anything we get is anecdotal. My impression is that we held our own against the rest of the retail industry, but that's the best estimate I can give you is that's just our -- that's just our impression.

And the EJ versus HS, candidly we haven't fully analyzed that yet in terms of the performance against HS, it might have been the increase in TV advertising might have helped HS a bit versus EJ. And that advertising being a little more promotional and more of a call to action might have slightly given the edge to HS versus EJ.

I don't know that there is anything that happened that would be the beginning of a trend. There's nothing that I see that would necessarily indicate the beginning of a trend, but the only thing I can think of is the advertising, the TV advertising for HS.

David Jeary - *Investec - Analyst*

So many thanks indeed.

Operator

Valerie Brown, AllianceBernstein.

Valerie Brown - *AllianceBernstein - Analyst*

Congratulations as well, I'll add mine to the others. I just have a question related to I guess competition, specifically with Zales. I know that many of the Zales stores are oftentimes directly across the mall or in the same general vicinity as many of your Kay stores. So I was wondering if you had seen any additional store closures or what their promotional cadence had been during the holiday season? And just your general sense for what's happening with that very important competitor to your business in the US.

Terry Burman - *Signet Jewelers Ltd. - CEO*

Zales, we didn't see any unusual promotional activity and we haven't seen any indication of any increased number of store closures. I think they announced on their last conference call that they didn't expect to have an unusual number of store closures for their current fiscal year. We certainly haven't seen any of that activity.

They are an important competitor but I would remind you that close to half of our US sales are done off-mall, where we are not directly competing with a Zales store. Together, the total jewelry industry, both of us have only about 10% of the total -- actually less than 10% of the total jewelry industry. So there's plenty of room for both of us to thrive in this industry. It's not a duopoly like many other retail formats -- even of the specialty industry.

Together we have about -- together we have about 15% of the total specialty industry. As I said, they are an important competitor, but they are not our only competitor. But in direct answer to your question, no unusual activity from them.

Valerie Brown - *AllianceBernstein - Analyst*

Okay, and then just one follow-up on a separate topic and that is your credit -- proprietary credit card program. I know in the past (technical difficulty) that you use to determine eligibility. I was wondering if there had been any significant changes or modifications during the holiday season?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

No, there's been none.

Valerie Brown - *AllianceBernstein - Analyst*

Thank you, thanks again.

Operator

Jennifer Davis, Lazard Capital Markets.

Jennifer Davis - *Lazard Capital Markets - Analyst*

Thanks and let me add my congratulations. Most of my questions have been answered, but I have a quick one and, Terry, I don't know if you're going to want to answer it. But could you talk a little more about Charmed Memories? Can you tell me first of all, I saw in a lot of the stores around Christmas time I saw a lot of empty slots. So do you think that you sold out of product and maybe lost some sales or that people just picked out different charms?

And then also could you talk about did most people buy multiple items like a bracelet and several charms or were transactions just maybe one charm? Thanks.

Terry Burman - *Signet Jewelers Ltd. - CEO*

The Charmed Memories performed very well and getting that product exactly right especially at a busy, busy time like Christmas and new program and sales frankly above our expectations in total led to some product outages in some of the charms right at the end. That's even with our -- we have great systems and a great planning department and ability to replenish overnight.

So even with all of that, yes, on an immature program, we have less defined sales. We had some outages of some of the charms. I don't think it was a meaningful loss of business, but we will learn from that and do even better over Valentine's Day and in the coming years.

Most of the charms, Charmed Memories purchases are multiple items. There are a bracelet and some charms or multiple charms to add onto existing bracelets. So they are usually multiple sales, Jennifer.

Jennifer Davis - *Lazard Capital Markets - Analyst*

All right, thanks a lot and good luck for Valentine's Day.

Operator

Bill Armstrong, CL King & Associates.

Bill Armstrong - *CL King & Co. - Analyst*

Good morning. Most of my questions have been answered, too, but a couple of follow-ups. On Charmed Memories, are the purchases predominantly by gift givers or is there a significant component of self-purchasing with that category as well?

Terry Burman - *Signet Jewelers Ltd. - CEO*

There's a significant component of self purchasing there. I believe -- we don't keep those statistics because we are not asking the customers the reasons for buying. My observation would be during most of the year there is a greater proportion of self purchasing going on with Charmed Memories than there is in most of our other categories. But during Christmas, like with the rest of our merchandise, that shifts dramatically to primarily gift giving.

Bill Armstrong - *CL King & Co. - Analyst*

Got it. Okay. The 25 new stores that you are targeting, could you break out Jared versus mall-based stores?

Terry Burman - *Signet Jewelers Ltd. - CEO*

Ron, correct me if I'm wrong. It's 10 Jared and 15 mall brands. Is that correct?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

I thought it was like five. Five Jared and 20 mall was more the number I remember, Terry.

Terry Burman - *Signet Jewelers Ltd. - CEO*

Sorry. As you can see, these plans are just being put to bed right now. But we will be in the 5 to 10 range on Jared.

Bill Armstrong - *CL King & Co. - Analyst*

Got it. Okay. And you mentioned that there's not a lot of new space or good vacant space. So these numbers, these are sites that you've actually identified?

Terry Burman - *Signet Jewelers Ltd. - CEO*

Some are. We have some of these. I'm sorry, Tim can get back to you exactly where we are on this. My memory just from my last update fails me. But I think we have about 10 to 15 of these sites, someplace in that range already approved deals done or deals agreed, and about half of the sites are still to be -- still need the transactions completed.

Bill Armstrong - *CL King & Co. - Analyst*

Okay,. Finally, you mentioned alternative metals becoming more popular. You mentioned silver. What other metals (technical difficulty) popularity?

Terry Burman - *Signet Jewelers Ltd. - CEO*

Wedding bands, you see tungsten and tungsten carbide wedding bands. You see in some of the fashion jewelry, steel. So those are the kind of metals that are starting to make their -- take some share in the industry.

Bill Armstrong - *CL King & Co. - Analyst*

Okay, great. Thanks, Terry. Congratulations on a great job at Signet and enjoy your retirement.

Terry Burman - *Signet Jewelers Ltd. - CEO*

Thank you.

Operator

John Baillie, Societe Generale.

John Baillie - *SG Securities - Analyst*

Good morning, gentlemen, and Terry, if I can just echo everybody else's comments on your retirement and wish you well.

Most questions are answered but just can you comment a little bit about thoughts maybe about how you develop maybe the regional business and I know it's looking back a while, let's talk about developing a second national chain. Given the gap between the regional stores performance and Kay's? I have a feeling that it would be worse investing to create a second mall chain across the country?

Terry Burman - *Signet Jewelers Ltd. - CEO*

Right, we thought about five years ago, we thought we might be able to build a second national brand organically by opening stores. It's too slow a process, especially when -- and difficult to meet your returns when you go into a new area with an unknown name and it's not supported by national advertising because we haven't had our -- we don't have the mass to advertise across that brand.

So after attempting to do that and seeing that we weren't meeting our returns, we abandoned that effort to create a second national mall brand. We still believe internally that we have the ability to run a second national mall brand, but the problem is it needs to be jump started by an acquisition of a name that we -- of a name and a number of stores that we could advertise nationally so that we'd start off with the mass and be able to support a second national mall brand.

So there is -- it's a tough hurdle to hurdle to get into inverting all of our regionals into a second national mall brand. And like I said, it could only be done in my opinion by jump starting it with an acquisition.

John Baillie - *SG Securities - Analyst*

Thank you very much and all the best.

Operator

David Lynch, Investec Asset Management.

David Lynch - *Investec Asset Management - Analyst*

Hi chaps. Could you please quantify for me the one-off costs of the management transition charge to this year's numbers please?

Ron Ristau - *Signet Jewelers Ltd. - CFO*

Yes, the number is approximately $9 million in total including the make whole costs that we've spoken about and the duplicate costs as we transition from our UK office to the US corporate headquarters. So it totals approximately $9 million.

David Lynch - *Investec Asset Management - Analyst*

Okay, that's all. Thanks very much. Terry, good luck.

Operator

As we have no further questions in the queue at this time, I would like to turn the call back over to (technical difficulty) for closing remarks.

Terry Burman - *Signet Jewelers Ltd. - CEO*

Thank you, operator, and thank all of you for taking part in this call and all of your questions. Our next scheduled call is on March 30 when management will review our fourth-quarter results. I also remind you that Signet are presenting at the ICR XChange Conference tomorrow and this will be webcast on www.SignetJewelers.com and will be available for subsequent replay.

Again, thank you all for participating and goodbye.

Operator

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