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Conference Call Transcript

SIGY - 2008/09 Signet Group Christmas Trading Statement Conference Call

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PRESENTATION

Operator

Good day and welcome to the Signet Jewelers Christmas Trading Statement conference call. This conference is being recorded. At this time I would like to turn the conference over to Mr. Terry Burman. Please go ahead, sir.

Terry Burman - Signet Group - CEO

Welcome to everyone to the conference call on Signet's Christmas Trading Statements. I am Terry Burman, Group Chief Executive, and joining me from London is Walker Boyd, Group Finance Director. I will comment on the Group's performance and then we will be available for any questions that you may have.

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 risk and other factors and cautionary language in the Signet Group's plc's annual report and accounts furnished as an exhibit on Form 6-K to the SEC on May 1, 2008, 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 8, 2009, available on the latest news section of the Company's website, again, at www.signetjewelers.com.

I will start with an overview of the Group. Profits for fiscal 2009 are expected to be within the range of market forecast, despite the extremely challenging environment on both sides of the Atlantic. While Group same-store sales were very disappointing, being down 15.2% over the nine week holiday period, gross merchandise margin was substantially ahead and costs were very tightly controlled.

Income before income tax for 2008/09 is currently anticipated to be between \$180 million and \$195 million, after charging \$10.5 million of costs related to the change in domicile of the Company. We believe the Group's strategy of focusing on gross margin dollars rather than sales proved beneficial.

While inventory is a little higher than planned, by about \$20 million, this is an excellent performance given the sales figures, and reflects our very strong merchandising disciplines and robust systems.

The Group's anticipated cash outflow, which includes dividend payments, of about \$30 million before foreign exchange adjustments in 2008/09, is also within the range of expectations. The reported year-end net debt figure is forecast to be between \$470 million and \$490 million, and reflects an adverse foreign exchange movement of around \$75 million, arising principally from the impact of devaluation on sterling swaps relating to intercompany balances.

The balance sheet remains strong, and the Group is trading within the requirements of its borrowing agreements. However, the Group is currently in advanced negotiations with its lenders to amend the fixed charged covenant.

It is expected that an amendment will also make adjustments to the interest rate and fees paid, place restrictions on shareholder distributions, as well as reduce the size of facilities available to more appropriately reflect the Group's current and prospective requirements.

Net debt to shareholders equity, excluding goodwill, is anticipated to be around 29%.

The average exchange rate for the year is anticipated to be \$1.75 to the pound against \$2 to the pound last year. The Group's operating margin is expected to be between 6.5% and 7%, with a return on capital employed before charges for the move in domicile, and excluding goodwill of about 11%.

So now turning to the US, which has seen the toughest market conditions that I have ever experienced. This has required an outstanding commitment from our people. They are at the heart of our competitive advantage, and we do everything we can to support them and assist them to succeed by continuing to reinforce our competitive strengths despite the very challenging economic background.

This has meant providing our people a stable and supportive environment within which to work so that they are not confused about their goals. Helping them to further develop their selling skills and product knowledge to better serve a cautious and value conscious consumer. Making sure that the right merchandise is in the right stores at the right time. And that as well as the core selections, we increasingly provide differentiated ranges that makes us stand out from our competitors. And focusing marketing on our strongest brands, Kay and Jared, utilizing the most effective medium of national television advertising, and therefore optimizing our leading share of voice.

In the nine weeks to January 3, 2009 US same-store sales declined by 16.4% and total sales by 14%. While this performance, as I said earlier, was clearly disappointing, it reflected the wider economic environment. The step down seen by retailers since mid-September was followed by a further fall in early December. The upper end consumer was particularly weak in the fourth quarter, so Kay's same-store sales was more resilient than Jared's.

During the nine week period the average unit selling price in the mall stores decreased by 8% in marked contrast to the first three quarters when it rose by 7%. For Jared the decrease in the average unit selling price over the holiday period was 5%, which excluded the launch of a new charm bracelet range in some stores. The increase in the first nine months of the year was 5% on a similar basis.

We therefore believe that the deterioration in performance in the fourth quarter reflected a trading down by consumers within the jewelry sector due to the wider economic environment, rather than consumers turning away from jewelry purchases. The wider retail sector was highly promotional and this put increased pressure on the jewelry category.

While there was more pricing discipline within the jewelry market due to the much lower inventory risk, it was still mixed. Some retailers discounted heavily, others ran bankruptcy or heavy clearance sales, and the remainder maintained pricing. This was the case for both specialty and general merchandise jewelers.

While our promotional cadence was higher, gross merchandise margin was up by about 250 basis points on the comparable period in fiscal 2008 due to price increases and mix changes. As a result, full year gross margin -- gross merchandise margin is likely to be some 150 basis points ahead of last year and above previous expectations.

Due to strong merchandising systems and very disciplined management, year-end inventory is expected to be only about \$25 million higher than planned in the United States. Inventory is very clean as it was thoroughly tested earlier in fiscal 2009. So the necessary realignments to anticipated sales levels will be achieved by reducing the open to buy in the first quarter rather than through discounting.

The exclusive Jane Seymour range was very successful, and the LeVian collection performed strongly in both the mall brands and Jared. The Leo brand outperformed, and the bridal category held up better than our average.

The ratio of gross marketing spend to sales will be marginally down on last year, but not by as much as we had originally planned due to the sales performance in the fourth quarter. The Kay e-commerce website saw strong sales growth, but it is still small in the context of the division as a whole. Jared's e-commerce website, which was launched in August 2008, is building volume.

In the 48 weeks to January 3, 2009, US same-store sales decreased by 9.5%, with total sales down 5.9%. While costs have been tightly controlled, expense deleverage occurred and operating margin is anticipated to be about 7%.

Credit sales participation for the year is likely to be up a little on fiscal 2008. The net bad debt charge as a percentage of total sales for the year is forecast to be about 4.8%, which is in line with the nine months to November 1, 2008. Over the holiday period credit participation was little changed, and the approval rate decreased by 420 basis points.

At the fiscal year end we expect to have some 1,400 stores, a net new store space increase of about 4% from last year. The increase is comprised of 17 Jareds, 43 Kay stores, and three regionals, offset by 61 mall brand closures, the majority of which are regional stores. These numbers exclude 14 stores that were rebranded from a regional logo to Kay. It is anticipated that in fiscal 2010 our store space will be little changed.

Turning now to the UK business. The trading environment stepped down in mid-October and became more challenging during the Christmas period. Same-store sales decreased by 10.9%, with total sales down by 9.7% at constant exchange rates.

In a retail marketplace that was highly promotional, key volume lines that offered great value to the consumer were important sales generators. Our purchasing scale and expertise meant that we were able to earn a healthy margin on these products. Overall the gross merchandising margin in the holiday period is expected to be about 110 basis points below last year's level, reflecting discounting and mix changes. As planned, gross merchandise margin for the year is anticipated to be broadly similar to fiscal 2008's level.

In H.Samuel same-store sales were down 9.2%, and the average selling price was up 3% compared to last Christmas. This is in contrast to the first nine months of the year when the H.Samuel average selling price was up 13%.

As in the US, the consumer appears to have traded down over the holiday period rather than shifted away from jewelry purchases. While most product categories were down, watch sales were marginally ahead, with classic watch brands such as Citizen and Rotary performing well. Gold and diamond participation were both down.

Ernest Jones same-store sales were down 13.2% and the average selling price was up by 5% compared to last Christmas. The average selling price increase again being a much smaller rise than in the first nine months of the year when it was up 15%.

Merchandise participation was little changed compared to last year. Prestige watches performed better than average and key volume lines performed well in the diamond category.

E-commerce in both H.Samuel and Ernest Jones saw significant growth, but remains a small part of the business. For the year-to-date the UK jewelry division same-store sales decreased by 3.5%, with total sales down by 4.2% at constant exchange rates. On a same-store basis, H.Samuel sales were up 2.8% and Ernest Jones by 4.2%.

Although a very tight control of costs has been maintained, the UK divisional operating income is forecast to be below last year's level at constant exchange rates. However, the business continues to achieve a healthy operating margin of about 9%, a good return on capital and strong cash flow. Management has controlled inventory very well, and the year-end position is expected to be a little better than planned.

At the fiscal 2009 year-end we expect to have 351 H.Samuel stores and 206 Ernest Jones. 46 stores were relocated or refurbished, and a further 27 are planned for next year.

Fiscal 2009 has been very challenging, and the immediate outlook is little different. Therefore, in the forthcoming fiscal year both of the Group's divisions will continue to seek to optimize sales by implementing further product initiatives, improve customer service and best in class marketing that leverages our leading share of voice.

However, against a background of extremely difficult trading conditions, the prime focus of management will be on reducing debt by maximizing gross merchandise margin dollars, achieving meaningful expense reductions, executing inventory efficiencies, and reducing capital expenditure.

Working capital will also be improved as a result of the small reduction in US space, with some 17 store openings, including nine Jared, offset by about 60 closures as leases expire.

In light of economic prospects and financial market conditions, as well as the focus on debt reduction, the Board has concluded that it is not currently appropriate to pay dividends. The Group anticipates that net debt will be meaningfully reduced during 2009/10 fiscal year as a result of the actions we have outlined.

Against the background of a continuing difficult economic environment, the Group's strong balance sheet, superior operating metrics, and sector leading execution remain critical competitive advantages.

Now, operator, we would like to open the call to any questions that any of the callers may have.

QUESTION AND ANSWER

Operator

(Operator Instructions). Daniel O'Keefe, Artisan Partners.

Daniel O'Keefe - Artisan Partners - Analyst

Congratulations on managing through a very, very difficult environment. I just wanted to see if you could talk a little bit more about the net debt number that you put out there. I think you said \$470 million to \$490 million for the year-end. And you said something about an exchange rate impact. Could you just analyze, maybe give the components of the change from last year, because that is a pretty meaningful increase year-over-year?

Terry Burman - Signet Group - CEO

Walker, you want to go through that please?

Walker Boyd - Signet Group - Group Finance Director

There are a couple of areas where exchange rates impact us, but the main one is that because of the way the Group's cash flows operate, we do hold sterling deposits, which we typically swap into dollars to reduce our dollar borrowing requirement. These are offset by intercompany balances, so there are no profit and loss exchange implications.

But clearly the value of these sterling deposits to offset against dollars have decreased significantly during the year. So at the beginning of year when the exchange rate was \$2 to the pound, sorry -- \$2 to the pound, at the year-end we are projecting it will be around about \$1.5. And therefore in terms of our dollar borrowings the number goes up because of that exchange loss. Although, as I say, because we have matched in terms of intercompany balances there are no P&L effects.

So of the increase in the net debt of somewhere roundabout \$100 million, about \$70 million of that arises on exchange differences, the principal one of which is the value of the swaps into dollars.

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In terms of the underlying cash flows, as Terry said on the conference script, that if you look at the underlying cash flow before exchange differences, we will have an outflow of about \$30 million, which is within the range of the zero to minus \$40 million that we had been talking about during the current year.

Daniel O'Keefe - Artisan Partners - Analyst

It just seems odd, given the mixture of profits between the US, which is dominant in the mixture, and the UK, which is in the minority, that there would be such a large amount of cash held in sterling to affect it to that degree.

Walker Boyd - Signet Group - Group Finance Director

Remember, what we have said for a number of years, particularly when the US has been increasing space growth, that effectively although the US business is clearly bigger than the UK, the cash flows of the UK business are actually stronger, because with little or no space growth and not carrying a receivables balance, then we have said for a number of years that the UK cash flows in sterling terms were very strong.

Daniel O'Keefe - Artisan Partners - Analyst

Got you. Okay. And then --

Walker Boyd - Signet Group - Group Finance Director

So it is not just our space. It is obviously not the cash flow of this current year. It is the fact that we have had these swaps at the beginning of the year of approximately same amount. It is just they are less -- worth less in dollar terms at the end of year than they were at the beginning of the year. So it is not the cash flows of this year that is driving that.

Daniel O'Keefe - Artisan Partners - Analyst

Great. Could you talk a little bit about -- you mentioned you are in advanced negotiations with your creditors. When will we hear more about where these negotiations are leading?

Terry Burman - Signet Group - CEO

These are complicated negotiations with two constituents, both our bank group and our private placement noteholder group. And we need to carry them on with both groups and then reconcile between them. We are making good progress. We are feeling positive about the outcome. They recognize -- our debtholders recognize the basic strength of the Group, and recognize that we still earn a healthy, can earn healthy cash flows, depending on shareholder distributions and CapEx, which we have already commented on.

They have been very supportive. We will announce something as soon as we have everything tied up. But there is -- we don't want to start putting timeframes on it at this time.

Daniel O'Keefe - Artisan Partners - Analyst

My last question just has to do with the credit receivables balance. Can you comment on where you expect that to end the year versus last year?

Walker Boyd - Signet Group - Group Finance Director

In terms of absolute dollar -- in dollar terms?

Daniel O'Keefe - Artisan Partners - Analyst

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Yes, correct.

Walker Boyd - Signet Group - Group Finance Director

I think in -- clearly we've got two things going in opposite directions. Clearly on a lower level of sales you tend to have a lower receivable. That is slightly offset because you have get higher participation. It is counted in terms of tens of basis points. And also clearly we've got some reduction in terms of our monthly collection rate. Net net I would expect our receivables number at the end of the year probably to be somewhere between \$40 million and \$50 million less than prior year.

Operator

Bill Armstrong, CL King & Associates.

Bill Armstrong - CL King & Associates - Analyst

Just maybe another clarification on one of the first questions. The sterling swaps, aren't they effectively a hedge against foreign currency fluctuations? And if that is the case, then shouldn't that be neutralized, the cash flow impact?

Walker Boyd - Signet Group - Group Finance Director

No, they are not a hedge against our foreign currency transactions. What they are is, as I say, we carry sterling deposits, which in terms of the overall structure of the Group assets are offset by intercompany liabilities. And therefore that is why from a profit and loss point of view they are neutral. But when you look at our dollar borrowings requirements, the number of sterling pounds we have translate into fewer dollars to offset our dollar borrowing requirements. So they are neutral from a net asset perspective, but they're not neutral from a net debt perspective.

Bill Armstrong - CL King & Associates - Analyst

I see.

Walker Boyd - Signet Group - Group Finance Director

So just while I'm on -- when I responded to Dan O'Keefe in the last question I looked at the wrong number. The trade receivables actually will be \$30 million higher than last year. Dan, are you still there? Oh you wouldn't be able (inaudible).

Just for clarification, the trade receivables at the end of this year will actually be about \$30 million higher than last year. Sorry, go ahead.

Bill Armstrong - CL King & Associates - Analyst

The fixed charge covenant, I believe it is 1.4 times now is the required coverage. What do you think you may increase that to?

Walker Boyd - Signet Group - Group Finance Director

The required coverage clearly we would be seeking to reduce it rather than increase the actual -- the cover. I think, given as Terry said, if anything, we're making good progress with the negotiations. But I think it would be inappropriate to start talking about individual component pieces of these discussions.

Bill Armstrong - CL King & Associates - Analyst

Okay. That's all I had. Thank you.

Terry Burman - Signet Group - CEO

I think, obviously, if we're going to enter into these kind of amendments with our lenders, we all want to establish a covenant level at which we can go on about our business of operating the Company without -- in terms of looking forward into the future without jeopardy, to the extent that we can forecast the future. The lending groups have the same objective, as we do.

Operator

[James Eng], CPE Partners.

James Eng - CPE Partners - Analyst

I just wanted to echo my congratulations on a very difficult environment that you guys made money and are projecting to lower your financial balance sheet risk for 2010. Just a couple of questions. Going back to the net receivables, why are we increasing our investment in net receivables? Does that mean we expect growth for 2010?

Walker Boyd - Signet Group - Group Finance Director

Sorry, the number I gave -- and I think Dan asked, was with a movement from last fiscal year to the end of the current fiscal year.

James Eng - CPE Partners - Analyst

Okay, okay. So you're not talking about 2010?

Walker Boyd - Signet Group - Group Finance Director

No, clearly where 2010 will go will clearly depend on the comp store sales, and we obviously haven't made any comments on that.

James Eng - CPE Partners - Analyst

Big picture question here. Historically, this year notwithstanding, we usually had a high -- 15% to 20% ROE on our equity or return on capital. When and if we ever get out of this economic crisis, is there any structural reason why we can't achieve those type of statistics again?

Terry Burman - Signet Group - CEO

We believe that the reduction in return on capital employed is a function of the overall -- a function of the reduction in overall sales, which is a result of the unprecedented environment in which we are operating. We don't believe that there is any reason structurally why we can't return to the 15% to 20%, as you said, or even above 20%, return on capital employed, numbers that -- or results that we had been achieving.

The biggest driver of that, however, is just -- obviously it is profits, and the biggest driver of profits are sales. So clearly we need the environment to start helping us as opposed to harming us as it is doing for all retailers at the moment.

One thing I would point out that by reducing net space growth that does take a little pressure off the operating margin, and it takes a little pressure off of the capital employed. So it should help us when things do recover to get back to those types of returns in over 20% range that we hit for so many years in a row.

James Eng - CPE Partners - Analyst

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I see what you are saying. Even then, shouldn't Jared should be maturing -- your store base in Jared should be maturing and thus your ROE should even be better by that, correct?

Terry Burman - Signet Group - CEO

Yes. We don't think --

James Eng - CPE Partners - Analyst

Last question, and I don't know if you can answer it. (multiple speakers).

Terry Burman - Signet Group - CEO

We don't think there is a fundamental problem in the business with being able to earn a return. We think it is a fundamental problem in the wider economic environment right now, which we're not immune to. We can outperform, as we have in this marketplace, but we're just not immune to the wider economic circumstances.

James Eng - CPE Partners - Analyst

We understand that. Then, again, I think you have done an outstanding job. You're picking up market share and you made money. That is quite an achievement, and we will take the economy risk, as everyone else will.

Last question. I don't know if you can answer this or not. You kind of alluded that the net debt will be a lot lower. What debt level on a net debt basis would you be comfortable with? And you can tell me what the number is and what timeframe, if you want, or how you define it.

Terry Burman - Signet Group - CEO

The environment is so uncertain, and the outlook is so uncertain at this point in time, that the net debt level that we would be comfortable with is lower to much lower at this point in time.

Again, as I said earlier, the companies that are going to be positioned the strongest and be best able to seize the opportunity when the market turns around, when the consumer environment turns around, are going to be those with the best ability to perform on the operating level, with the best operating metrics, and with the strongest balance sheets. And we intend to be leaders in all three of those categories.

James Eng - CPE Partners - Analyst

Great. I appreciate it. Congratulations once again.

Operator

Rod Whitehead, Deutsche Bank.

Rod Whitehead - Deutsche Bank - Analyst

A few questions, if I may. Could you just give us a bit more color on the sales trends November versus December, Zales referred to December being dramatically worse than November?

Secondly, are you still seeing your income from credit balances rise as people take longer to pay?

Thirdly, can you remind us of the kind of margin you're paying over LIBOR on your core borrowings? And presumably the outcome of these negotiations is you'll be paying a higher margin. I am just wondering why you are choosing to renegotiate now, given that your debt in a year's time is going to be between -- lower and significantly lower?

Finally, you had given us an idea of the debtor level versus last year. What are the stocks going to be looking like versus last year? You said \$25 million ahead of plan, but in dollar terms what it will be year-on-year?

Terry Burman - Signet Group - CEO

Let's see, color on sales November to December. We announced in -- if you remember our third quarter announcement, which was the week of Thanksgiving, where we said that we were running about negative 11%, and had been in the US. And had been doing so in the US since the middle of September.

That trends continued, as I said earlier in my comments, until the first -- until early in December when there was a further step down. So clearly December was weaker than November. And that further step down obviously was in the period where we do the greatest portion of our Christmas season sales, that last few weeks before Christmas.

In the UK, again, at the third quarter we mentioned that -- I think it was mid-October -- we had a step down in sales from our year-to-date trend at that time. However, the performance in the November/December period, which was clearly lower than the trend through the first three quarters, was consistent -- was pretty consistent in the UK throughout November and December.

In terms of income on AR, yes, it is continuing to increase. It is -- in terms of an offset, Walker, you want to comment on it in terms of an offset against bad debt losses?

Walker Boyd - Signet Group - Group Finance Director

I think what we have said that during the course of this year we have seen that offset moderating. I would say in the fourth quarter that it did moderate further. When we look at the year as a whole, yes, it is somewhat of an offset, but not as much as it was in the early part of the year.

Terry Burman - Signet Group - CEO

In terms of why are we renegotiating lenders now, it is because we're feeling pressure -- well, we said that we anticipate clearing the fixed charge covenant for this year. The outlook is uncertain, and we're concerned about the fixed charge covenant for next year. So that is -- it is clearly putting pressure on us, and we need to make sure that the Company is positioned to clear that covenant.

The margin over LIBOR right now, Walker, is it 125 basis points?

Walker Boyd - Signet Group - Group Finance Director

Yes, you need to remember that there are two components to our borrowings -- the private placement, which is a fixed borrowing. The current coupon rate is at 6%, and that is clearly fixed.

In terms of our revolver, which is the lesser part of our borrowings, apart from the peak periods of October/November, we have been paying at the moment 120 basis points. There is a possibility that that rate would go up under the current agreement, depending on levels of net debt to EBITDA. But at the moment we're paying 120 basis points above LIBOR on the revolver piece.

Rod Whitehead - Deutsche Bank - Analyst

Thanks a lot. It's very helpful.

Terry Burman - Signet Group - CEO

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In terms of your question about inventory levels, I can assure you that they will be lower. As when sales were going up, we didn't increase our inventories in line with the sales increase, we don't necessarily intend to decrease our inventories in line with the sales decrease. But I can assure you that they will be meaningfully lower and help provide additional cash flow in both the US and the UK.

We would hope to clarify some of these things for you. You can appreciate that we're just rebudgeting and reformulating our plans, being early in the year, and our budgets for the coming year. So we hope to provide further specificity on these issues at the year end announcement. But, as I said, directionally they will be meaningfully lower.

Rod Whitehead - Deutsche Bank - Analyst

You mean they will be lower January '09 on January '08?

Walker Boyd - Signet Group - Group Finance Director

I was going to say that. I think in terms of the fiscal year that is about to end, then the inventory will be somewhere in dollar terms, again at constant exchange rates, looking at somewhere in the region of about \$15 million to \$20 million higher than last year. Because remember, we still have added considerable space in the US during the course of this year. So Terry's comments were prospective for 9/10, but '08/'09 we will be, as I say, about \$15 million probably higher than last year.

Operator

[Cash Hedginton], (inaudible).

Cash Hedginton Analyst

My question is to what extent were the sales in the recent results reported on your credit program? And what have you assumed for charge-offs/NPLs in your calculation of the fundamentals?

Terry Burman - Signet Group - CEO

Walker

Walker Boyd - Signet Group - Group Finance Director

As Terry said, I think participation over the holiday season in the US was very much in line with last year, albeit with our approval rates showing a reduction of about 420 basis points. So clearly we had a higher proportion of applicants, but because of the reduction in terms of the approval rates, the participation was basically exactly the same as the prior year. For the year as a whole it will show a slight increase as we had been reporting in the early part of the year.

As far as our assumptions on charge-offs, as you are aware, most of you are aware, we charge-off debts when they have got 90 days pass due on a recency basis. In terms of our assumptions for the current year, we clearly now are within four weeks of the final running of our weekly cycle. So the debt assumption -- the bad debt assumptions we're taking are based on our current experience in terms of these roll rates through to 90 days pass due on a recency basis.

Operator

John Baillie, Societe Generale.

John Baillie - Societe Generale - Analyst

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Happy New Year. Just a question on the gross margin. Could you give a bit more detail on gross margin being up 250 basis points, how much it was from price and -- of the drivers? And maybe looking forward, how much of that is sustainable, and what is your feel for the gross margin in the US going through 2009?

Terry Burman - Signet Group - CEO

I would remind you -- in terms of gross margin, I just remind you that we had that -- that we were competing -- not competing against, comparing against the Journey and Circle pricing of last year, which was clearly a negative to gross margin, and we did have that pressure taken off of our comparable period in the US. So you need to take both markets separately, because the strategy was slightly different in both markets.

As we looked at the Christmas season, we had to make a decision about just how promotional we were going to be. We knew that this was going to an increase -- that the aggressiveness in terms of promoting through all sectors of retail, including the jewelry sector, were going to be more promotional this year. In addition, consumer surveys were very clear that a greater number of consumers were going to make their buying decisions based on price value, and therefore we decided to promote somewhat heavier in both the US and the UK.

However, our basic experience and knowledge in the industry tells us that this is a very inelastic category. You can see just how inelastic it is, and I think you'll see just how inelastic it is when some of our competitors start announce -- and other retailers -- start announcing their results, as opposed to just sales results, some of their operating profit results.

We made the decision to become more promotional and use some of our anticipated margin improvement from our price increases to utilize some of that, spend some of it, if you will, to be more promotional. But at the same time recognizing this being an inelastic category that it would be foolish to overpromote and take fewer customers who are spending less per item, drive down the price at which we're selling merchandise and earn a lower margin on it.

So the balance that we struck in the US, again, was to use some of our -- or spend some of our anticipated gross margin improvement from the price increases on some extra promoting, but to keep our balance such that we could learn a higher margin, and just use very targeted promotions.

In the UK, a little different because our balance, if anything, we felt was a little under promotional. And between the mix changes, the not being against the comparable Journey pricing drag, if you will, on prior years margins, we decided that we would give up a little margin in order to increase our promotional mix. From everything we see and hear anecdotally through the industry I think we made the right decision. The targeted promotional items were very successful. So I'm trying to give you a flavor for our thinking, so it is a long-winded answer. But this is the kind of thinking that we have used.

In terms of going forward, which you asked, in the US we believe that calendar 2009 is going to continue to be a promotional environment. We do have the benefit of wraparound of the price increases that we took last year, or the current year. At the current time we're not feeling much gold price increase. There may be a little opportunity for some opportunistic buying on diamonds, but we would call those out as the issues that we're going to have to deal with on cash margin.

We will -- as I said in my comments, we're going to do everything we can to drive cash margin. We obviously focus heavily on sales in everything we do. But we're using -- a lot of our creative energy is focused on driving cash margin for the coming year. While I don't want to give you a projection about what is going to be, I think the factors I just outlined are the factors we're going to be dealing with.

In the UK -- by the way, and we don't anticipate any price increases in -- retail price increases in the US. In the UK we are dealing with gold price pressure because of the decline of the pound versus the dollar. So we are contemplating some price increases there.

We are also looking at our promotional mix, considering that, although we felt that that was mostly right for the 2008 calendar year as a whole. So we will be working hard to -- we would think we would be working hard to maintain gross margin in the UK for the year ahead. Does that answer your question?

John Baillie - Societe Generale - Analyst

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Yes. That is very useful. Just think of the competitive landscape in the US, with a lot of the closures now just coming through from competition, whether -- I think people like Whitehall are nearly closed now, do you see a bit of that negative pressure easing as you enter first quarter or is it there more to come?

Terry Burman - Signet Group - CEO

Right now what we have seen is one small chain, about 15 stores, went bankrupt already. Whitehall is not finished with their closures. Our intelligence tells us, our surveys tell us they probably got about some place in the range of 150, 200 stores out there still operating in a going out of business mode, and we're not sure how long that is going to last.

Our major competitor, which was heavily discounting last year on clearing merchandise, we're not sure what their stance will be for the coming year. They were very aggressive in terms of promoting over the Christmas period. So -- and we believe that there is a tremendous amount of pressure on independents who may be -- who we believe will probably increase the number of business failures, and therefore going out of business sales. So it may not be as visible to you in terms of major chains, but I think in terms of independents, I think we're going to feel some pressure from going out of business sales.

Having said that, we're going to -- once again, we're going to run our business for the best interests of our business to maximize our cash margin. We will promote to the level that we need to promote to maximize cash margin for our business. And reacting -- it is pretty difficult to react to going out of business sales. Pretty much you just have to stand there, withstand them, and then wait until they are over.

Operator

Jing Quah, Dresdner Kleinwort.

Jing Quah - Dresdner Kleinwort - Analyst

Jing Quah from Dresner. I just have one question. It is about the industry as a whole. In the US, can you just spare a bit of thought about what you think about the US industry and how much contraction has come out, and how much more would the capacity come out?

Terry Burman - Signet Group - CEO

Right. I'm thinking. I'm thinking, well, we don't know anything to the contrary, so we will stick with our -- we will stick with that which we have said earlier in the year. We think it will be probably be about 1,500 to 2,000 store net reduction for the current year.

In terms of the year ahead, it clearly depends on what kind of environment we're going to be facing. There is going to be a -- I think, just my personal opinion is there will be a net reduction in capacity greater than the average over the last decade, which is about 400 stores a year. So my personal opinion is that it will be greater than that, but exactly what it is going to be is very much going to depend on the external environment.

Operator

David Jeary, Investec.

David Jeary - Investec - Analyst

Just a couple of quick questions, if I may please. One, could you actually be a bit more precise on what percent of the US sales over the Christmas period were (inaudible)? I know traditionally it is roundabout the 50 percentage mark, but if you have that a bit more color on that, or specifics on that, that would be helpful.

Secondly, giving your comments on the reduction of US stores on lease expires, etc., could you remind me of what cash implications there are potentially on lease expires in relation to things like stock and receivables, etc.?

Terry Burman - Signet Group - CEO

Walker?

Walker Boyd - Signet Group - Group Finance Director

In terms of the credit participation, for the year as a whole we're probably going to be somewhere in terms of roundabout in the north of 53%, maybe slightly above that, 53.1%, 53.2%, something like that. So that is what is there, but 50, 60 basis points higher than last year.

Over the holiday season it would typically be slightly below that, because the mix does change. The credit participation is higher during the course of the year, particularly in respect of a higher proportion of bridal business. So the credit participation over Christmas, which as I said -- or over the holiday season -- which as I said, was almost exactly the same as last year, is just a little under 50%, because typically you do have some seasonal movements.

In terms of the cash implications of closures, because these are predominately almost exclusively as leases expire there are virtually no reverse premium payments. Clearly we would anticipate a release of the inventory as we close these stores. A significant number of the stores that we're closing in fiscal '08 and '09 are closing during the month of January, so the release of inventory back into the underlying inventory, and therefore a reduction clearly therefore will not have the benefit of that by the time we get to 31 January, because it takes some time to get back in. But there is -- within a period of several weeks a release of the inventory.

At as far as the receivables is concerned, and again it will depend on to what extent do we have other stores within the mall. If we do, then we would be typically transferring the mailing list and the receivable number across the remaining store. Absent that, then clearly we would just collect out the receivables.

In terms of reduction of working capital, clearly little or, in fact, slightly reduced space growth during '09/'10, whether it be because of more closures or fewer openings, does clearly give us a benefit in terms of working capital.

Operator

As we have no further questions, I would like to turn the call back over to your host for any additional or closing remarks.

Terry Burman - Signet Group - CEO

Thank you, operator. We would like to thank all of you for your participation in this call. Our next trading announcement will be the fourth quarter sales, which is scheduled for February 5. We would now like to close by wishing all of you a Happy New Year. And thank you once again for participating. Goodbye.

Operator

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

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