FINAL TRANSCRIPT

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SIG - FY 2008/09 Signet Jewelers Ltd Earnings Conference Call

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PRESENTATION

Operator

Good day and welcome to the Signet Jewelers full year results Conference Call. Today's 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 Jewelers Limited - Group CEO*

Thank you operator and good morning and welcome to conference call for Signet's full year results for fiscal 2009. I'm Terry Burman, Group Chief Executive and with me is Walker Boyd, Group Finance Director.

I'd like to remind everyone that there's a slide presentation corresponding to our comments at www.signetjewelers.com.

Before I go through our operating performance, I'd like to ask Walker to give the safe harbor statement and to review the financial performance for the year.

Walker Boyd - *Signet Jewelers Limited - Group FD*

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 different materially.

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We urge you to read the risk and other factors and cautionary language in Signet Group plc's Annual Report and Accounts, furnished as an exhibit on Form 6K 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 March 25, 2009 available on the latest news section of the Company's website at www.signetjewelers.com.

The Group results for the year have been impacted by the unprecedented conditions on both sides of the Atlantic. The Group remained profitable, with an adjusted operating margin of 6.9% and income before tax of $200.9 million on an underlying basis.

However, income before tax was affected by two one-off items, faire value impairment of goodwill of $517 million, which I will discuss later and costs of $10.5 million associated with the change of domicile and primary listing. The GAAP loss before income tax was $326.5 million after the two non-recurring items.

The adjusted results we have reported today are in line with the estimates given in our Christmas trading statement in January. The underlying tax rate for the year was 33.5%, a little lower than last year.

Turning to cash flow and debt, largely as a result of the reduced investment in new space in the US, free cash flow improved to $51 million in fiscal '09 from $1.4 million in the prior year.

A fixed charge cover on the old definition was 1.47, confirming that we'd remained in compliance with the terms of the original borrowing agreements as at January 31, 2009.

Despite the very difficult trading environment and the adverse impact of exchange rate on net assets, including our pound sterling deposits, the Group balance sheet remains strong, with interest cover of 7.9 times and gearing, that is net debt to shareholder funds, of 29.2%.

Same store sales declined for the year, with the fourth quarter showing greater deterioration in both divisions. In the US, the fourth quarter reduction was 16.1%, contributing to the full year decline of the 9.7%. New store space added 3.4%, less than in recent years.

In the UK, same stores fell by -- sales fell by 3.3%, having been flat through the first three quarters. The movement of the average exchange rates from $2 to $1.75 to the GBP1 resulted in an adverse currency impact of 12%. Group sales at constant rates were down 5.7%.

As a result of the decline in same store sales, Group operating margin saw a deleveraging impact on expenses of 3.5%, despite continuing tight control of costs. In the US, the deleverage of 3.8% was partially offset by an increase in gross merchandise margin of 120 basis points, with a particularly strong fourth quarter up an underlying 240 basis points. New space had an adverse impact of 40 basis points.

In the UK, both gross merchandise margin and new space had negligible impact, with the reduction in operating margin of 260 basis points, entirely attributable to the deleverage of the cost base.

The Group operating margin of 6.9% remains strong in relation to the jewelry sector.

As anticipated, our receivable portfolio performance also reflected the economic environment, with net bad debt as a percentage of total sales rising to 4.9%. That is 9.2% of credit sales, meaningfully higher than the tight range of the last 10 years.

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The monthly collection rate fell to 13.1%, with the debt maturity remaining at around about eight months. Participation showed a small increase to 53.2%, as a result of an increase in applications, which was largely offset by a significant decline in approval rates of some 300 basis points. This reflected a weakening of the consumers' personal balance sheets. There were also a number of initiatives to tighten lending practices, whilst leaving the underlying strategy unchanged.

Obviously, future performance of the portfolio will continue to be largely driven by the underlying economic environment.

The provision of in-house credit remains a significant competitive advantage in terms of customer service and in the ability to manage the credit operation in the context of our total business.

Excuse me. With regard to cash flow, the reduction in net income was clearly adverse, but offset by tight control of working capital which, excluding the impact of new space, was cash positive. Working capital investment in new space also saw a significant reduction to $66.5 million during the year.

The benefit of these two factors was partially offset by the adverse impact on the Group's sterling deposits, sterling devaluation against the dollar from GBP1.97 at the beginning of the year to GBP1.45 at the close.

Historically, we have utilized the sterling deposits to reduce our borrowings through use of short-term swaps. At the close of fiscal '09, the level of swaps had been significantly reduced, as we took advantage of a court ruling in December 2008 to largely dividend up sterling balances to the parent company.

Capital expenditure, both in respect of new space and refits, saw a meaningful reduction totaling $113 against $139 million in fiscal 2008. As a result, net cash flow before investing activities, that is shareholder distributions, improved to $51 million from $1.4 million in the prior year.

As a result, net debt at the end of the year was some $470.7 million after shareholder distribution of $124 million during the year. There was also an adverse exchange translation impact of $23.5 million which, together with the swap movement, resulted in an exchange impact of approximately $70 million on net debt in line with the guidance we gave at the Christmas trading update.

The balance sheet, as I mentioned, remains strong with gearing of 29% at year end.

With regard to the goodwill impairment charge, it's important to remember that at the end of fiscal 2008, the Group prepared its accounts under IFRS, reflecting only $30 million of goodwill on the balance sheet. This related to the Marks & Morgan acquisition in 2000.

As a result of the re-listing to the New York Stock Exchange and the adoption of US GAAP, additional goodwill of some $486 million, relating to acquisitions made in 1990 or earlier was reflected.

As part of the required annual review of goodwill, particularly in the light of the decline in profitability in the fourth quarter and a more than proportionate decline in stock price, which resulted in a significant discount of market capitalization to tangible net asset value, the Board determined that the value of good will should be eliminated, with the consequent non-cash impairment charge of $516 million. This charge has no impact on the Group's borrowing agreements nor on net tangible assets, which remain in the region of $1.6 billion.

As the economic environment deteriorated in the fourth quarter, we initiated discussions with our two lending groups, with the objective of gaining relief on the fixed charge cover covenant, which was common to both facilities. The goal was to give us additional financial flexibility in the medium-term and to more appropriately structure our borrowings.

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As has proven to be the case, we anticipated being in compliance with this covenant at the end of January 2009, but given the continuing economic uncertainty we saw a possibility of breaching the covenant at some stage in the future.

Also in this environment, our change in strategy with regard to space growth in the US, together with the decision to eliminate shareholder distributions, resulted in our total debt capacity of $900 million, which excluded the short-term $100 million conduit facility being larger than required.

We were, therefore, pleased to announce last week changes in our agreements, which resulted in a meaningful reduction in our fixed charge cover until January 2013, a reduction in facilities to $650 million, including a pay down at par of $100 million on the private placement borrowings, together with certain restrictions in capital spend and shareholder distributions. The non-recurring costs of $9.5 million of the amendment will be charged in our fiscal 2010 income statement.

We would anticipate that excluding the one-off fees, the net impact will be approximately 100 basis points increase in our effective borrowing rate, adding around $3 million to $5 million in interest costs in fiscal 2010.

As a result of the changes, we believe the Group has greater long-term security in its financing, given the four year relief on the fixed charge cover with the size and structure of facilities more closely matched to its future financing requirements.

I'll now hand you back to Terry, who will discuss the 2009 operating review.

Terry Burman - *Signet Jewelers Limited - Group CEO*

Thanks Walker. I've worked in the jewelry sector for about 30 years and 2008 was certainly unprecedented. Walker's covered the effect it had on our financial performance. However, we are the strongest operator in the middle mass market and the impact on our competitors has been even more severe.

I now review our fiscal 2009 US operating performance and for those of you following on the web, I'm starting on slide 13.

During the last year, three of the top 10 middle market businesses have liquidated or gone into Chapter 11 and Finlay, who own Bailey Banks & Biddle, announced in the last month a major restructuring program, whereby they will exit from 566 department stores and close about 40 of their 108 specialty jewelry stores.

We're also seeing closures from Helzberg and Fred Meyer, as well as Zales, who have recently announced a further restructuring and planned closure of 115 units, predominantly Zales and Gordon's locations over the next 18 months.

In marked contrast to Kay and Jared, no major brand has shown any significant increase in total sales or store numbers over the past six years.

Over holiday 2008, while we were disappointed by our results, we again significantly outperformed in terms of same store sales and gross merchandise margin. Our performance was driven by three primary factors.

First, we continue to support our store staff, by providing training, merchandise and marketing relevant to the markedly changed environment. For example, we trained staff to sell against aggressive promotional activity in going out of business sales.

In merchandise, we leveraged our size and buying power by developing innovative ranges to give customers compelling reasons to shop with us. Good examples were the exclusive ranges such as the Open Hearts collection designed by Jane Seymour, the Le Vian collection and the Leo diamond range. By planning ahead and providing targeted promotions to appeal to a more value oriented shopper and using our best in class systems and inventory management team to quickly respond to changing buying patterns.

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In addition, marketing was focused on the most productive brands and the most efficient media, with an industry-leading share of voice for Kay and Jared on national television. This is reinforced by consisting campaigns that are well received and remembered by the consumer.

In contrast to most in the sector, our gross merchandise margin was up 120 basis points over the year. The price of gold significantly increased during the three-year period to end fiscal 2008 and these increases had not been fully passed on to the consumer. Therefore, we implemented a carefully planned revised pricing architecture during Q1 of fiscal 2009.

Margins were also helped by more differentiated ranges and a shift away from merchandise that was heavily promoted by competitors. Planning well in advance and using our buying expertise and scale, we were able to minimize the adverse impact on margins from targeted promotional activity while offering greater value to the consumer.

We've been very focused on maximizing gross merchandise margin dollars. During the year, we accelerated our clearance processes, which also helped to provide merchandise for the value conscious consumer, while helping to keep our inventory current and at appropriate levels.

Turning to expenses, there are three main areas where we made savings. In store operations, we reduced staffing hours to reflect the sales environment and improved operating systems to drive efficiencies. In addition, we closed a number of jewelry repair shops, making the rest more productive.

At the home office, we lowered headcount by over 200 through attrition and we made cost savings where possible; for example, by shortening the length of the annual managers' meeting.

In marketing, we concentrated our spend on the highest ROI opportunities, which are national TV for Kay and Jared, and direct marketing programs for all of our brands, while making significant cuts in radio, which is a less efficient form of advertising than TV.

Turning to the UK, I'm on slide 18 now. The economic environment in the UK was very similar to that in the US. We continue to support store staff by maintaining our focus on the development and execution of training. In merchandising, the watch department was buoyant and we benefited from our strong relationships with key suppliers. And we also expanded our targeted promotions, with key volume lines as we probably had too little sale merchandise last year and foresaw that there was going to be heavy discounting over Christmas on the high street. By being proactive, we again minimized the adverse impact on margins.

In marketing, we used TV advertising for H. Samuel and expanded customer relationship marketing for Ernest Jones, which produced good results. We also continued to rollout the customer oriented open store format, with emphasis switching from H. Samuel, which is substantially complete, to the successful new Ernest Jones design.

UK gross merchandise margin was in line with fiscal 2008. While sterling commodity costs rose, they were more than offset by price increases. However, the strong watch performance and successive key volume lines had an adverse impact, as did the very controlled increase in our promotional stance. For example, in January we ran the sale for an extra week, which helped us to end the year with inventory in line with plan.

Turning now to our operating strategy for the current fiscal year, starting on slide 21; we entered the downturn as the industry leader and we aim to emerge with an improved competitive position, which includes a stronger balance sheet.

In operations, it's even more important than normal to leverage our competitive advantages, such as marketing and purchasing power, while remaining focused on maximizing gross merchandise margin dollars rather than sales.

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In these economic conditions, we are de-risking the business, including the elimination of space growth. We're using our experience to make significant expense savings and inventory reductions, without doing meaningful long-term harm to the Group.

We're focusing on cash generation by maximizing profit and reducing inventory. Capital expenditure will also be reduced in the short-term. We've had a constant -- I'm sorry, we've had a consistent store refurbishment program for many years. Therefore, we can delay many remodels into the sales environment stabilizers and we can calculate the ROIs with more confidence.

In the deteriorating marketplace, we quickly stressed our new store sales models and fewer investment proposals are now satisfying our return criteria. As a result, we will have a small reduction in space in fiscal 2010 as there will be fewer openings and more closures. In addition, the closures will release working capital.

Looking now at how we intend to drive US sales. We'll remain focused on -- we will remain focused on training to give store staff every advantage. In merchandising, we are continuing to add new exclusive programs and expanding our current ranges, such as the Jane Seymour collection that proved so successful over the holiday and Valentine's Day.

In advertising, we'll again drive our key brands by concentrating our leading share of voice and the most efficient medium, and that is network television. We've made an encouraging start to the New Year with same store sales down 2.7% in the first seven weeks, with Valentine's Day being stronger than the remainder of the period. Overall, Easter had an adverse impact of about 1%.

This encouraging start to the year has been achieved as a result of the quality of our people, our exclusive merchandise ranges and the effectiveness and level of our advertising. However, we caution that the outlook still remains very uncertain.

As we said earlier, we intend to continue our strategy of maximizing gross merchandise margin dollars, which includes maintaining our pricing discipline. Gold remains volatile, but the underlying pressure has recently been upward. It represents about 20% of our cost of goods sold and will put some pressure on costs.

However, there are opportunities in the diamond market, which do represent around 55% of our cost of goods sold. Our supply chain expertise and balance sheet strength allow us to capitalize on any softness in prices in the diamond market.

We can also use our scale and expertise to further expand our exclusive merchandise, which benefits gross margin. For the first seven weeks, we saw a meaningful increase in gross merchandise margin, reflecting the elimination of promotional pricing for the journey product during Valentine's 2008, the wraparound of price increases taken in the first quarter of last year and advantageous mix changes. In fiscal 2010, our target is to at least maintain gross merchandise margin.

On expenses, we anticipate low single-digit inflation and negligible impact from net space changes. Given the economic background, there is likely to be a further increase in net bad debt.

As we have become much more cautious in our sales expectations for fiscal 2010, we have looked at all aspects of the business, to identify the appropriate balance between cost cutting and sustaining the competitive strengths of the business.

As a result, before factoring in inflation and net bad debt, so that's before factoring in inflation and net bad debt, we are planning to reduce expenses by $100 million during fiscal 2010 and that's based on our current sales plan in the US. If we exceed that forecast, we will incur additional variable expenses, which will dilute the savings. So every $1 over our sales plan there's about a 15% additional variable cost attributed to that, which will dilute that $100 million worth of savings.

These are principally in three -- the cost cuts are principally in three areas. First, store related; here, the biggest savings are from flexing store hours subject to minimum staffing levels.

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At the home office, where we have eliminated about 350 positions, a 15% reduction in staff over 15 months; the majority has been through attrition, but it does include 114 terminations implemented at the end of January 2009.

And we are again reducing our advertising spend. This will be primarily Kay TV and Jared radio. However, we stress that we expect to at least maintain our leading share of voice.

We're also changing the vacation -- the policy for vacations, which gives a one-off non-cash benefit of $13 million in fiscal 2010 and thereafter savings of about $1 million a year. I believe that our scale, high store productivity and management experience allow us to effectively execute this cost saving program while not unduly cutting at muscle.

I further believe that competitors with weaker balance sheets and cash flow will be forced to make expense reductions that will have a much more severe impact on their business.

Turning to inventory; we ended fiscal 2009 with just over $1 billion of inventory, broadly in line with our plan. In fiscal 2010, the net change in space will have a neutral impact. This is in marked contrast to the last 10 years, when we have made significant investment associated with new stores.

In addition, we believe we can trim merchandise levels while maintaining our competitive advantage and selection. The first area of saving is in non-store inventory. Here, we will eliminate the balance of diamonds associated with the rough diamond sourcing initiative and also efficiency savings will come from the recent investment in the distribution center in Akron and the store performance software system.

In store, we will focus on gross margin return on investment and be led by the customer. The goal is to ensure that we have the right merchandise in the right place at the right time. Some slower moving SKUs will be eliminated and inventory will be refocused as appropriate.

In total, we are targeting an approximate $90 million reduction in the US. This will be achieved by controlling the open to buy rather than through additional clearance, as we do not have the wrong inventory, but rather want to realign our inventory to the lower sales levels.

Space growth is a major use of cash and adds operational risk to the business. For example, in fiscal 2008 we invested about $180 million in fixed and working capital to fund a 10% space growth. We always have a pool of stores that come to the end of their leases, which while profitable, do not justify a full refit. These stores are normally rolled over on short-term leases.

During fiscal 2009, we reacted swiftly to the changed environment by stressing our sales models when assessing store investment. Therefore, we're now much more likely to terminate such leases. The majority of closures are expected to be regional brands. The impact to sales is minimized as nearly all are in malls, where there is also a Kay which market to the customers at a closed unit.

In addition, far fewer new store proposals are now achieving our 20% internal rate of return investment hurdle and in any case, developers are bringing very few new projects forward. Therefore, we have a sharp increase in store closures and reduced store openings.

We expect this pattern to be accentuated in fiscal 2010, when there will be a small overall reduction in space. We anticipate that the position in fiscal 2011 will be similar, although we will continue to monitor the environment as this year progresses.

With fewer store openings, new store CapEx in fiscal 2010 is planned to be less than half of that of fiscal 2009 and a quarter of the fiscal 2008 level. As well as reducing investment in new stores, we are also deferring some refits.

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In addition, home office and infrastructure projects are being significantly reduced, proceeding only with those that have a rapid payback or are essential. The planned CapEx is below what we would regard as the level of maintenance CapEx, but it is appropriate, given the exceptional market conditions and our concentration on cash generation.

As you have seen, we have significantly changed the focus of our execution from growth to minimizing the adverse impact of the downturn on our business. In the current environment, we can gain advantage through competitors exiting the marketplace. In 2008, about 5% of firms closed. They probably represented about 1,800 stores.

We expect the accelerated rate of sector consolidation to continue in calendar 2009. We've already seen major restructurings announced. In addition to those I covered earlier, Fortunoff and Christian Bernard have been liquidated, Robbins Brothers, a jewelry competitor has gone into Chapter 11, and others are expected to follow.

We believe that many of the survivors will be seriously weakened by the actions that they will be forced to take and in this environment, our competitive advantages and financial strength will allow us to emerge from the downturn in a stronger position relative to the market. We believe we have already started to see some of the benefit from this.

I'll now comment on our UK business, starting on slide 29. As in the US, we'll maintain a focus on store staff training. In merchandising, we plan to again increase the number of exclusive key volume lines offered. We're also looking to further strengthen our relationships with key watch vendors, where we believe our balance sheet strength and training are important advantages. This is particularly important as watches account for about 30% of our sales.

Customer relationship marketing will be expanded, with savings being made from a more targeted use of television for H. Samuel.

In the first seven weeks, same store sales decreased by 3.8%, with H. Samuel down by 0.8% and Ernest Jones off by 7.1%, with little impact from the timing of Easter. The H. Samuel performance was particularly pleasing. As in the US, while we have had an encouraging start to the year, the outlook remains very uncertain.

There's greater pressure on the gross merchandise margin in the UK than in the US, reflecting the weakness of sterling, and particularly the cost of gold merchandise bought in sterling will be impacted negatively. Due to hedging, the exchange movements will be more of an issue for fiscal 2011. In addition, key volume lines, while beneficial to sales, are a small negative to margin percentage.

To offset these factors, we have increased prices and are working closely with suppliers to take advantage of market opportunities by using our scale and expertise.

Year to date gross merchandise margin has been up slightly, although it is anticipated to be somewhat lower for the year as a whole. As in the US, our focus is on maximizing gross merchandise margin pounds.

There is less scope to reduce expenses in the UK as we have had higher fixed -- as we have a higher fixed cost base and a major exercise had already been undertaken in 2006. Nevertheless, action has been taken.

Inflationary pressures have been higher in the UK than in the US, for example, property taxes and minimum wage increases. There will also be a significant increase in pension expenses as the deficit under US GAAP is amortized through the profit and loss account.

In January 2009, we began a consultation period at the UK head office, which resulted in elimination of 150 central positions at the start of fiscal 2010, although due to attrition, the actual reduction in headcount will be about 100 people. Store staff hours are being flexed where possible, again subject to minimum staffing levels.

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Although the current marketing expense to sales ratio is much lower than in the US, a further shift to customer relationship marketing and away from television will produce some savings. After inflation and the factors noted above, we expect the UK cost base to be little changed in fiscal 2010.

CapEx is planned to be half the fiscal 2009 level at about GBP11 million. The program to convert the H. Samuel estate is substantially complete and the new format requires less frequent refurbishment extending the refit cycle. Ernest Jones conversion program will be reduced in fiscal 2010 and will be focused on the most productive stores.

In summary, our objective is for the Group to be strongly cash flow positive in fiscal 2010, even though the macro environment is likely to mean that pressure on sales will produce lower net income. Working capital is expected to be decreased, largely due to a targeted inventory reduction of about $100 million, partially offset by lower accounts payable and deferred revenue liabilities.

Receivables are expected to be flat as lower sales are likely to be balanced by a slower collection rate. Decreasing capital expenditure by about half to some $55 million will also benefit cash generation.

Given that there will be no dividends paid in fiscal 2010 we are, therefore, targeting a net debt reduction of between $175 million to $225 million. As a result, we expect the balance sheet to be strengthened significantly in the coming year.

A robust balance sheet is an important competitive advantage with staff, suppliers and landlords at a time when some of the larger US specialty jewelry retailers have already gone bankrupt and others are under significant financial pressure.

In the current marketplace, sustainable competitive advantage, such as this, become even more important. It is, therefore, a good opportunity to gain profitable market share by focusing on driving store productivity, as we believe we have done in the first seven weeks of the fiscal year. It also means that we'll be well positioned for when the consumer eventually recovers.

And now operator, we'd be pleased to take any questions that anyone has.

QUESTIONS AND ANSWERS

Operator

Thank you sir. Ladies and gentlemen, the question and answer session will be conducted electronically. (Operator Instructions). We will take our first question today from Bill Armstrong from CL King and Associates, please go ahead.

Bill Armstrong - *CL King & Associates - Analyst*

Good morning, I have a couple of questions on the fourth quarter, I guess probably directed to Walker. First the gross margin, as reported, was down about 500 basis points on a consolidated basis. Now in the US the merchandise margin was, I think you said was up about 240. So I'm just wondering how the overall margin was down so much given that you had strong merchandise margins in the US?

Walker Boyd - *Signet Jewelers Limited - Group FD*

I think Bill -- excuse me, Bill, it's the -- it's just a very graphic illustration of the deleverage from an expense perspective. When our comps are down as much as they were by the 16% in the US in the fourth quarter, then that deleverage that we saw for the year as a whole in the US, which would have accounted for, as I mentioned in the presentation, about 380 basis points, it clearly

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-- when you have the comps as down by the 16% then even with very tight expense control then we are going to see significant deleverage.

Bill Armstrong - *CL King & Associates - Analyst*

And the principal fixed cost component, as you report it now a cost of sales is it store rent? Is that correct?

Walker Boyd - *Signet Jewelers Limited - Group FD*

Sorry, could you repeat that question again?

Bill Armstrong - *CL King & Associates - Analyst*

Yes, the principal fixed cost component within cost of sales as you're now reporting, that's store rent right?

Walker Boyd - *Signet Jewelers Limited - Group FD*

Yes, that would be the occupancy costs of the stores, yes.

Bill Armstrong - *CL King & Associates - Analyst*

Right. Can you tell us what the dollar amount of the occupancy component was?

Walker Boyd - *Signet Jewelers Limited - Group FD*

On a -- well, I think that we'd prefer to talk on a Group basis, the total rental costs excluding common area charges and property, total rental costs of the Group for the year as a whole are about $300 million -- just over $300 million.

Bill Armstrong - *CL King & Associates - Analyst*

Okay. Okay, a second question is on SG&A and that was down $80 million year over year, which was a much bigger decrease than I was expecting anyway. I was just wondering how you -- I know you've obviously gotten some expense reductions, but that was a very large increase -- or a decrease I should say. How did you -- where were the main areas of reduction?

Walker Boyd - *Signet Jewelers Limited - Group FD*

I think (inaudible). Excuse me, when you're looking on the published numbers you have to be very careful, because that does get affected by exchange translation, because our UK expenses clearly last year we were translating at an average of $1.97. This year we're translating at $1.75. And therefore, it is -- when you look at the published numbers you need to take account that a significant part of that reduction is actually exchange translation.

Bill Armstrong - *CL King & Associates - Analyst*

Okay so that's -- would you say that was probably the biggest factor there?

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Walker Boyd - *Signet Jewelers Limited - Group FD*

In terms if we look at the -- if we were looking at underlying expenses excluding exchange then in the US it would have been fairly constant. In the UK, again for purposes, they would have been materially the same number.

So in terms of the actual reduction, yes, I would say the biggest significant decrease in fiscal '09 was actually the exchange translation effect of the UK and the very wide variation we have from, as I say, the average last year of $1.97 to the GBP1 to this year $1.75.

Bill Armstrong - *CL King & Associates - Analyst*

I see and then my final question, Valentine's Day looks like it was reasonably strong relative to other recent trends and competitors. Were there any special efforts that you put out to get customers into the store, whether it was promotions or other efforts?

Terry Burman - *Signet Jewelers Limited - Group CEO*

The -- Bill, this is Terry. The -- as we said in the presentation, we've just continued on promoting our competitive strengths. All last year we continued to train our people and that's one of our biggest competitive advantages.

We -- our advertising was very robust, especially around some of our exclusive ranges like the Jane Seymour range, the Le Vian range and the Leo diamond. All of those programs were helpful to building sales and driving customers into our store, because the exclusive ranges differentiate us and customers can only come to our stores for those benefits.

I think we also saw some benefit from the reduction in capacity. I think we already started to -- have already started to see some of that benefit with Whitehall having been liquidated and we're not competing against them this year. Friedman's is liquidated, not competing against them this year.

And as I said in my presentation that the -- our competitors are being weakened. We're all cutting expenses and we're all having to make changes to our business, but our stronger balance sheet and our absolute level of productivity and profitability allow us to make less severe cuts that are less of a negative impact on our business than they are for some of our competitors.

Bill Armstrong - *CL King & Associates - Analyst*

Thank you very much.

Terry Burman - *Signet Jewelers Limited - Group CEO*

Thank you.

Operator

Thank you. We'll now move to our next question today from John Brecker from Longacre, please go ahead.

John Brecker - *Longacre - Analyst*

Yes, hi, good morning, can you give us a better understanding of liquidity after your new bank agreement?

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Walker Boyd - *Signet Jewelers Limited - Group FD*

Yes, I think in terms of the reduction that we negotiated with the two lending groups as I said in my presentation, our total facilities under the old agreements were just about worth $900 million in total. That was made up of $520 million on the revolver and $380 million in respect of the private placement facility.

On top of that, as I mentioned, we did also have a $100 million short-term conduit facility that we had never -- we have never actually utilized. Clearly, the requirement of -- these facilities were taken out when there was a requirement to fund the anticipated space growth in the US continuing at about 10% per annum and also on the assumption that we would continue with shareholder distribution.

Clearly with this strategy that Terry has outlined today, the elimination of space growth certainly in the next couple of years and similarly the elimination of the shareholder distribution says that these -- that debt capacity is going to be meaningfully reduced.

So when we entered into negotiations with our two lending groups, we wanted to end up with both a structure in terms of the components of the two facilities and a total size that was more in line with our revised strategy. And therefore, we agreed with our two lending groups that a total capacity of about $650 million was appropriate, certainly with sufficient headroom to cover the anticipated peak.

And at the same time, given that our core borrowings will reduce, we were also pleased to be able to have an early pay down of $100 million of the $380 million private placement facility.

I think that the other thing to note is that not only will the elimination of space growth reduce the year on year net debt number, it also reduces the peak that we face towards the end of November each year, because as you are increasing space growth in the States, clearly in prior years we were having to fund the inventory for the new stores as well as the capital expenditure before opening the stores.

And therefore, over the last several years we have seen the peak i.e. the differential between the core debt and the peak at the end of November increasing. That clearly will begin to go in the opposite direction going forward and, therefore, we believe we have more than adequate headroom within that total facility of $650 million.

John Brecker - *Longacre - Analyst*

Thank you. Could -- in the same vein, obviously you say that you're going to be opening less stores, have you gone back to your landlords and, like many of your competitors and renegotiated lease terms? It seems like that's an opportunity for additional savings for your company.

Terry Burman - *Signet Jewelers Limited - Group CEO*

We certainly -- any leases that are end of term we are, we're renegotiating those and negotiating heavily on those. There is not much scope for changing lease terms with term left on them. There's no reason for the landlord to -- who are also -- landlords are also having their own problems. But there's really no reason for landlords to renegotiate leases with term on them with a retailer that has a strong balance sheet and plenty of liquidity. So we have no leverage where leases have term on them.

There are opportunities where leases may have a shorter term left on them, a year or two and we're willing to extend out for a few years. We've seen a few of those circumstances, but not many.

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John Brecker - *Longacre - Analyst*

And finally you speak about, or you spoke about bad debt expense. Can you give us a better understanding of where you project or where you expect it to go to in 2010?

Walker Boyd - *Signet Jewelers Limited - Group FD*

I think that is a difficult call, because clearly the factors that influence the performance of our credit portfolio are the same factors that influence the sales level, they're very much driven by a consumer's personal balance sheet. I think, as we said in the call, that we would anticipate a higher level of bad debt during the current year, because the economic outlook for consumers remains very uncertain.

Having said that, clearly we have certain initiatives in place which, notwithstanding the fact that we believe our lending strategy should remain unchanged, we have a number of strategies looking at the performance of individual scorecards, looking at different groups of customers with common characteristics. Where we see significant adverse trends in terms of bad debt then there we will close down these particular attributes and that is certainly one factor that would lead to our approval rates last year, having declined by 300 basis points, which is a very significant movement.

But clearly in terms of risk, we will continue to evaluate each group of customer based on the risk reward of the likelihood of bad debt against the gross margin contribution that we earn from that and we will adjust our approval rates accordingly.

John Brecker - *Longacre - Analyst*

I --

Terry Burman - *Signet Jewelers Limited - Group CEO*

I would just add -- I'm sorry, go ahead.

John Brecker - *Longacre - Analyst*

No, please.

Terry Burman - *Signet Jewelers Limited - Group CEO*

I would just add to that that we continue to believe that having our own receivables book and doing our own authorizing and collecting is a competitive advantage, and it's even more so in this kind of market.

We're reading almost every day, about third party credit providers, banks and other organizations that provide credit to consumers, cutting back on consumer credit lines or eliminating the ability of consumers to buy on credit. Those third party organizations or companies are managing their credit policies based on their corporate interest.

We can manage our credit book based on the objectives of our specific Company, and based on how the consumers are behaving towards us. So while the bad debt line is going up, we believe that our competitors have a greater risk on their sales line than we do on our bad debt line.

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John Brecker - *Longacre - Analyst*

Thank you.

Operator

Thank you, we now move to our next question today which is from Rod Whitehead from Deutsche Bank, please go ahead.

Rod Whitehead - *Deutsche Bank - Analyst*

Hi there Terry and Walker congratulations on finding a safe way through and coming up with numbers rather better than people expected.

Two or three questions, some simple ones in terms of the actual costs of the layoffs that you've had to do in the UK and the US, what did that cost amount to? And has that already been taken in last year's numbers?

Secondly, how big is the UK pension deficit? And what's the additional charge relating to that?

And third, a bit more of a philosopher question in terms of you're clearly intending to cut advertising by whatever, 15%, 20% perhaps this year in the US. When you look at the experience of Ernest Jones over the Christmas period where clearly there was an enormous cut in their advertising budget, removing TV and their like for likes were significantly lower than H. Samuels. What -- how are you thinking about the trade off? And how much you might lose out next Christmas by reducing advertising for Kay's and Jared?

Terry Burman - *Signet Jewelers Limited - Group CEO*

Right, I'll take the advertising question first and then Walker will discuss the pension costs and the costs of the layoffs.

Clearly, advertising has been a meaningful competitive advantage for us and helped us outperform the marketplace and we've got strong campaigns backing up our leading brands. And that's one of the advantages that we have as a bigger retailer and having the leading brands.

Advertising is one of the more difficult decisions that we had to make, but we -- our methodology was to first look at the least productive -- in terms of ROI, least productive spend that we had on an ROI basis and eliminate that type of -- that advertising. I'd remind you that in the end we're still going to have the leading share of voice. We think that our leading share of voice will probably expand and we've got campaigns that resonate very well to the consumers. There's clearly a risk here.

I think that the Ernest Jones cutback on TV that you referred to, Rod, I don't think we can lay that at the doorstep of the advertising cuts. Some of that advertising was replaced with customer relationship marketing and print advertising. And I think we have to look at that segment of the population, that upper income -- upper middle income market that is so -- seems to be so challenged in both the US and UK. So I wouldn't attribute all of that to the cutback in advertising and the differential I don't think was that much greater than it was in the first nine months of the year.

So one of the things that I will tell you that we're doing right now, is now starting with this budget, we are looking at every way we can in terms of initiatives with vendors, trying to drive down further our cost of advertising and the inflation rate or deflation rate in advertising is going to have a significant impact on our weights over this Christmas.

So we're looking at everything we can do to mitigate the drop in advertising including, if we should get a lead, we may chose to reinvest some of our profits over plan assuming we can achieve some profits over plan -- continue to achieve profitability

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over plan. We may continue -- we may decide to reinvest some of that money in some additional Christmas advertising and further mitigate the impact on the business.

So now Walker will address the other two questions you had.

Walker Boyd - *Signet Jewelers Limited - Group FD*

Yes, in respect of the home office layoffs the costs of these were provided in the fiscal '09 results, because both divisions had made the decision to make the changes before the fiscal year end. Therefore, it was appropriate to provide them in fiscal '09.

In terms of the level of cost, clearly there were not material, otherwise we would have [called] them out. In direction terms I would say, in each division, in the low single digit million dollar cost; so, as I said, not material.

As far as the UK pension deficit is concerned, the deficit reflected on the balance sheet at the end of January 2009 is just over $12 million. As we said in the discussion under US GAAP that deficit, unlike IFRS, gets amortized over a period of time through the P&L account. The estimated increased cost during the current year will be somewhere in the GBP3 million range.

Rod Whitehead - *Deutsche Bank - Analyst*

Sorry, GBP3 million was that?

Walker Boyd - *Signet Jewelers Limited - Group FD*

Yes, yes.

Rod Whitehead - *Deutsche Bank - Analyst*

Okay, thank you very much.

Walker Boyd - *Signet Jewelers Limited - Group FD*

As an incremental cost.

Rod Whitehead - *Deutsche Bank - Analyst*

Right, thank you very much.

Operator

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

John Baillie - *Societe Generale - Analyst*

Good morning gentlemen. A couple of questions, on the -- in the US on current trading sales update have you got any feel for your role of outperformance against the peers and what actually the market's done in the last couple of months?

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Secondly, and can you actually give the split between the mall and the Jared store performance in that period?

And thirdly, the income from receiverables; how much of that moved year on year?

Terry Burman - *Signet Jewelers Limited - Group CEO*

Sure. Let's see. In terms of competitors, there's not much information, but there is a little information. Tiffany announced yesterday, and they said that their worldwide sales were down 20% for the first seven weeks of the year. It's the same period as us. That's the same level that their worldwide sales were down in the fourth quarter.

Now, they didn't break down US versus the rest of the world, but just -- if it's consistent with the fourth quarter, they were down in US sales 29% in the fourth quarter, with a 20% worldwide decline. So, if it's consistent, that's a measure versus the marketplace.

We've got anecdotal vendor information. We believe that the marketplace seems to be operating at a better level than the fourth quarter. The middle marketplace seems to be operating at a better level than the fourth quarter. The feedback we're getting is high single digit decreases on a same store sales basis. So we believe that, from that scant information that we have heard, we believe that we are continuing to outperform the marketplace.

John Baillie - *Societe Generale - Analyst*

But it does seem that the gap between the market and yourselves has -- would appear to be widening markedly. Is that the right interpretation?

Terry Burman - *Signet Jewelers Limited - Group CEO*

Well, we're doing assumption on -- yes, if that's -- if the anecdotal information we have, and the little Tiffany information is -- that assumption is correct, yes, it would seem that gap is widening. I think we'll find out at the end of the first quarter.

In terms of Jared versus mall, as in the fourth quarter of last year, Jared is underperforming the mall operations. Again, we believe that that consumer has had a more severe pullback than we have seen from the middle market customer starting in September.

And Q4 information that supports that, the Tiffany numbers, the Meyer numbers, where they were down in the -- which would be Jared competitor. They were down about 30% in the fourth quarter. The Finlay specialty store numbers, they were down about 30% in the fourth quarter, and then the Shane numbers, where they filed -- that they showed when they filed in their bankruptcy that's another Jared competitor, who is down in the 30% range in the fourth quarter. So Jared outperformed all those competitors that I just cited, but is underperforming our mall division.

John Baillie - *Societe Generale - Analyst*

So, is Kay's actually achieving positive like for likes?

Terry Burman - *Signet Jewelers Limited - Group CEO*

Well, we don't break that down and we -- except at the end of the -- actually, we don't break it down. But I think if you look at the first quarter where we're -- I'm sorry, the first seven weeks, where we're negative 1.7%, and Jared's underperforming, I guess that would be a reasonable assumption.

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John Baillie - *Societe Generale - Analyst*

Okay, I might make it then.

Terry Burman - *Signet Jewelers Limited - Group CEO*

In terms of -- Walker will handle the AR income question.

Walker Boyd - *Signet Jewelers Limited - Group FD*

Yes, in terms of the additional income from the accounts receivable, in terms of the total income, in terms of interest receivable, that went up by somewhere around about $6 million on the year in total. There would have been some additional -- small amounts of some additional late fees, etc., but the movement there would not be material.

So, in terms of the offset against the bad debt provision there would have been some small offset against the increased costs of the bad debt, somewhere in the region of $6 million to $7 million.

John Baillie - *Societe Generale - Analyst*

Great. Thank you very much.

Operator

Thank you. We'll now move to our next question today, from Jeff Stein from Soleil Securities. Please go ahead.

Jeff Stein - *Soleil Securities - Analyst*

Sure. Just a quick follow-up on the last one; should we assume, then, that the impact of the credit portfolio on SG&A, it sounds like it was about dollar neutral for the year? Is that correct?

Walker Boyd - *Signet Jewelers Limited - Group FD*

No, the increase in the bad debts would have been, in terms of dollar terms, would have been significantly higher than that. The net bad debt charge would have gone up somewhere in the region of $30 million.

Jeff Stein - *Soleil Securities - Analyst*

I see, okay; very good. And what I'm -- looking at the --

Walker Boyd - *Signet Jewelers Limited - Group FD*

That $30 million being offset by the $6 million or $7 million additional income that I mentioned in the last question.

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Jeff Stein - *Soleil Securities - Analyst*

Okay, so about in the mid-20s, then [between] year on year?

Walker Boyd - *Signet Jewelers Limited - Group FD*

Yes.

Jeff Stein - *Soleil Securities - Analyst*

Okay. And looking at your regional brand strategy, you went from 304, and it looks like you're going to end this year with under 250. Does that reflect the fact that these are just your most unprofitable locations, or is there also a strategic element here, where you're just going to focus more on the national brands, where you can really leverage your market expense? Therefore, should we -- and if that's the case, should we expect to see the store closures in the future continue to be focused in that group?

Terry Burman - *Signet Jewelers Limited - Group CEO*

Jeff, I think it reflects our devotion to our -- our devotion and our discipline, to stick to our 20% internal rate of return criteria for investing in stores. I think that the fact that the regionals are less productive and less profitable than the Kay brand is a result of not having the national media. But for whatever the reason -- as you know, for whatever the reason, we are going to react to -- our investment follows our returns.

Jeff Stein - *Soleil Securities - Analyst*

Got it.

Terry Burman - *Signet Jewelers Limited - Group CEO*

And it will always do that, and that's our intention. But as you know, a few years ago, we were trying to expand the regionals into a second national brand. We pulled back on that strategy when, after testing it, we saw that the juice wasn't going to be worth the squeeze. It just was too hard a haul to open these regional brands in new markets without any advertising.

You see advertising is a powerful vehicle. So, first, devotion to 20% IRR and discipline, sticking to that 20% IRR; secondly, recognizing the strategic imperative of how strong the national advertising is, and what a benefit it is to the national brands. So, reducing the regionals is likely to continue and it is primarily an outcome of not having the national advertising support.

Jeff Stein - *Soleil Securities - Analyst*

Terry, when you convert -- when you close one of those locations, and you closed 50 last year, I presume you have a strategy to hold on to those customers and move them over to another store in your mall, probably Kay. And I'm wondering what percent of those sales you are successful capturing on average?

Terry Burman - *Signet Jewelers Limited - Group CEO*

Right. I want to say, we do have a strategy when we close. First of all, there's a real estate strategy. Sometimes the regional might have the better location, and we close the Kay store and rebrand the regional into the Kay. But we'll always retain the best real estate.

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Secondly, we do have a marketing strategy. There is an entire campaign that we have that focuses on what we call transfer sales; retaining those customers from the closed store by the surviving store. And there is a whole campaign that we have that's devoted to recapturing those customers.

In terms of how many we recapture, I just don't want to give you an exact number, but it's a meaningful percentage.

Jeff Stein - *Soleil Securities - Analyst*

Okay, and a final question --

Terry Burman - *Signet Jewelers Limited - Group CEO*

Remember, many of those have an account with us, and so we have a strong ability to market to them.

Jeff Stein - *Soleil Securities - Analyst*

Got it. Okay, great. And, final question, can you -- and I don't know if I missed this number, Terry. Can you talk about what the marketing expenditure plan is for this year, relative to 2009?

Terry Burman - *Signet Jewelers Limited - Group CEO*

Well, in 2009, we spent over 185 million gross, before co-op recoveries on advertising. It -- as a percentage of sales, our advertising to sales ratio, again, was higher than that which we would normally plan, because of the -- you have to commit to the advertising before you actually realize your sales.

For competitive reasons I don't -- it's a meaningful reduction. I don't want to say how much that reduction is, but it will be a meaningful reduction that we're trying to mitigate, as I said earlier, by maintaining the highest ROI spend and by doing some cost-saving measures and some partnerships, where we can, to raise some additional co-op dollars and mitigate the reduction. But I don't want to say exactly how much that reduction will be.

Jeff Stein - *Soleil Securities - Analyst*

Got it. Thank you very much.

Terry Burman - *Signet Jewelers Limited - Group CEO*

Welcome.

Operator

Thank you. We'll now move to our next question today from Chia Kuo from Telsey Advisory Group. Please go ahead.

Chia Kuo - *Telsey Advisory Group - Analyst*

Hi, good morning. You mentioned that the $100 million in savings you're expecting to realize in the US is based on your current sales plan. And clearly, there's sensitivity around that number, given the variable component of your cost. Can you maybe give

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us a rough idea of where you're planning sales to be in the US, so we have a better idea of how to plan expenses based on our own sales assumption?

And then, just with diamond pricing, I just wanted to get more color on the magnitude of the climbs you've seen so far, and whether we could see potential upside to reversed merchandise margin projections, if they're to fall further? Thanks.

Terry Burman - *Signet Jewelers Limited - Group CEO*

Sure. Well, we don't -- especially in this uncertain environment we're not going to give a sales projection. But we would just encourage all analysts, as you are building your models, that as you -- you can't just put in the $100 million of expense savings, and then start moving the sales line without some impact on that $100 million of expense savings, because of about 15% variable cost.

We mention that because we want -- in the sake of appropriate disclosure and accuracy, and helping you to develop your models. It's too uncertain an environment, as I said, to start giving sales projections at this point. We're just going to have to leave you to do your own forecasting on sales.

In terms of diamond pricing, we are seeing some meaningful reductions in diamond cost. The -- we don't know how sustainable these diamond price reductions are going to be. If you look at De Beers last three sites, we're about a little over $300 million. The comparable sites the prior year were about $1.7 billion. So we do believe that with that level of reduction in supply, that the diamond market will find equilibrium. We just don't know what the period of time that it will take to do that.

I don't want to say -- again, for competitive reasons, I don't want to say how much our reduction's been, but I will say in terms of the diamond market that the bigger reductions in diamond prices have come in larger better quality merchandise, as opposed to the under three carat, middle market qualities that we use, but they have been -- the reductions have been meaningful.

I would remind you that, while diamonds are a bigger percentage of our cost of goods sold, they take a -- because of the slower turn, they take longer to work their way into our average cost of goods sold. So we believe that, if diamond prices stayed where they are today, and gold prices stayed where they are today, that we'd have this year more pressure from increased gold prices than we would have benefit from lower diamond prices. That might reverse next year, as the inventory term -- turn factor starts to normalize.

Is that all clear?

Chia Kuo - *Telsey Advisory Group - Analyst*

Yes, it was. Thank you.

Operator

Thank you. We'll now move to our next question today, from David Jeary from Investec. Please go ahead.

David Jeary - *Investec - Analyst*

Hello Terry; hello Walker. I just want to follow up, as well, on the cost savings, if I may. You've clearly stated that those cost savings are pre-inflation and pre-bad debt movement. I just wondered if you could give a bit more color on both of those elements. And whether, for example, assuming a similar bad debt increase to that you just specified, around about mid $20 million, was a sound starting place, or whether you could advise of any other things to take into consideration?

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And the second one, small follow-up on Ernest Jones. Given the reduction in CapEx, does that mean that the reformats that you were speaking so highly of when you started rolling out have become less successful, or just less viable, given the overall depression in the jewelry market?

Terry Burman - *Signet Jewelers Limited - Group CEO*

I'll take the Ernest Jones question first, and then Walker will address the cost issues. In terms of sales differential from our unremodeled Ernest Jones stores, the stores are continuing to outperform. We're continuing to get a strong benefit from the remodels, and we're committed to the new Ernest Jones format. It's a great format. The branding is very strong. And with Ernest Jones, with its heavy premium brand watch ranges, we think it's ideal for it.

The problem that we're running into, and this happens in both the US and the UK, in a declining sales and profit environment, with a company that is very disciplined and, as I said earlier, devoted to maintaining our 20% IRR criteria for new investment is it's very hard to figure out which stores deserve an investment in order to achieve the ROI.

And so we're delaying some of these projects, except for the highest performing stores that are most obvious that they're going to -- even in a declining environment that they're going to deserve that investment. So the reduction in capital expenditure on existing stores really reflects our discipline in sticking to our 20% IRR and trying to get some sort of normalized environment, so we can better target that investment.

David Jeary - *Investec - Analyst*

Thanks, Terry.

Walker Boyd - *Signet Jewelers Limited - Group FD*

Yes, as far as the expansion is concerned, I think Terry mentioned in his discussion, in respect of the US expenses, we would expect inflation in the sort of low single-digit, 2% bracket. Total expenses in the US, taking account of those that are included in SG&A, and also in the margin that is reported on 20F, total expenses would be starting off at about $1.1 billion. So, from an inflation point of view, you can make the calculation from that.

And bad debt is a very different call. We have seen the bad debt percent to sales rise from 3.4% of total sales last year to 4.9%, which effectively was a $30 million cost.

As we said earlier, the factors that determine the performance of the portfolio are the same macroenvironment factors that affect sales. And I think just as the first seven weeks is difficult to predict from that, what's going happen the rest of the year as far as the consumer end sales are concerned, then I think I have to draw the same conclusion on bad debt.

As the economic environment continues to decline, as we mentioned, we would expect some further increase in net bad debt. The extent of that, I think, it really is too early to call, certainly based on our experience of the first seven weeks.

David Jeary - *Investec - Analyst*

Okay. Thanks, Walker.

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Operator

Thank you. At this time, we have no further questions, so I'd like to turn the call back over to Mr. Terry Burman for any additional closing remarks.

Terry Burman - *Signet Jewelers Limited - Group CEO*

Well, we thank you all for participating; very much appreciate your questions, and we look forward to speaking to you after our first quarter announcement in June. Good bye.

Operator

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

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