FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Signet Jewelers first-quarter results conference call. For your information today's call is being recorded. At this time I would like to turn the conference over to Mr. Tim Jackson. Please go ahead, sir.

Tim Jackson - *Signet Jewelers Limited - IR Director*

Good morning and welcome to the conference call. I am Tim Jackson, Investor Relations Director. With me are Mike Barnes, CEO, and Ron Ristau, CFO. The presentation deck we'll be talking to today is available from the webcast section of the Company's website, www.SignetJewelers.com. Before I hand over to Mike I will give the Safe Harbor statement.

During today's presentation we will in places discuss Signet's business outlook and certain forward-looking statements. Any statements that are not historical facts are subject to a number of risks and uncertainties and actual results may differ materially. We urge you to read the risk factors, cautionary language and other disclosures in the annual report on Form 10-K that was filed with the SEC on March 30, 2011. We also draw your attention to this slide.

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Thanks, Tim. We're very pleased with the great result in our first quarter which reflects the ongoing success of our business driven by our competitive advantages. Fourth-quarter total Signet same-store sales were up 10.2% led by the US with a 12.5% comp store sales increase and followed by the UK which comped up 0.2%.

Operating margin was up 13.4%, an increase of 310 basis points. This represents a record performance for the first quarter. Income before taxes were $117.8 million for a $43.7 million increase or 59%. Diluted earnings per share were $0.87, up $0.29 for a 50% increase. Free cash flow was $92.4 million.

Now I'll speak to the results in a little more detail starting with the US division performance. Total sales for the US were $738 million, up $75.5 million, an increase of 11.4%. Kay had an outstanding performance and increased same-store sales by 13.9%, up from the positive 4.2% growth achieved in the first quarter of fiscal 2011.

Jared again performed very well with comps up 11.8% following a 15.9% increase last year. Overall US same-store sales increased 12.5% compared to an increase of 7.3% last year. This great sales performance was driven by both returning customers and a continuing influx of new customers to our concepts.

Average selling price, excluding the charm bracelet category, was up 11.8% for Kay, 7.7% for Jared and 13.7% for the regional brands. This reflects both price increases and consumers trading up our pricing architecture, including the new higher priced point merchandise in the bridal category. Operating income was $126.2 million, up $37.8 million which was a 42.8% increase. The operating margin increased by 380 basis points to 17.1%.

Now turning to the merchandise initiatives that drove this performance. We believe that one cornerstone of our success continues to be the bridal category. In this category success is built on providing an outstanding customer experience and our established competitive strengths are well attuned to the bridal customer.

In addition, we've also benefited from two important and fairly new branded differentiated merchandise initiatives and the continued success of the Leo range. In the first quarter Neil Lane Bridal was a non-comp brand for us. And in the quarter we further increased the store count. Similarly, we also continued further store expansion for the Tolkowsky Diamond program. Both of these programs are still in development and present much future opportunity.

We're also testing how best to support this category with increased advertising and we're very encouraged by the results so far. A range of different media are being tested and I hope many of you may have had the opportunity to even see the new Kay/Neil Lane bridal ads on television already.

Now looking at more of our branded offerings, our branded, differentiated and exclusive merchandise sales continue to be strong, reflecting not only bridal products but also strong fashion ranges. In the fashion category we've benefited from the success of Charmed Memories which was only rolled out for the fourth quarter last year and is therefore largely a non-comp for the first three quarters of this year.

We also continue to see growth from our other branded differentiated ranges as well as from Pandora. These ranges reinforce the strength of Kay and Jared concepts and are helping to make them unique destinations for the jewelry customer. Open hearts by Jane Seymour, Charmed Memories, Le Vian and our other branded ranges provide our well-trained sales associates with powerful selling propositions.

Our ability to use national television advertising for a number of different merchandise ranges while at the same time continuing to build brand equity for Kay and Jared is a powerful competitive advantage. This is particularly so as quality advertising has a cumulative effect over time. And for most of our branded differentiated merchandise ranges, we are at an early stage in their development.

Now turning to the UK. We continue to operate well in a challenging economy and out-performed nonfood retail sales in the quarter. We believe that the UK division is a solid well-managed business with a great staff and significant potential. Total sales were $149.3 million, up $6.4 million in the quarter, an increase of 4.5% with same-store sales up 0.2%. However at constant exchange rates there was a 1.3% decline in sales.

Charm bracelets, fashion watches and the bridal category including gold rings continue to perform well. Average selling prices, excluding the charm bracelet category, increased by 9%. We continue to keep tight control of costs with the operating margin better by 90 basis points. The seasonal operating loss was $1.2 million better than prior year at $0.2 million for the quarter.

As we wrap up my first official quarter as Signet's CEO, I'd like to begin to set out our priorities. As I continue to look into the business and drill down more, I found there are more opportunities to explore on many different levels in both the US and the UK.

First, let me address the existing business which is in great shape and performing strongly. Therefore we'll continue to support the successful strategies that are continuing to drive these gains and profitable market share and, where appropriate, to accelerate the rate of investment in stores and other initiatives to improve our competitive position.

In particular we're looking at opportunities to invest in growth enabling technologies such as the Internet and customer assisted selling systems to better serve our customers, to improve our execution and to continue to drive strong sales.

For example, a while our websites already are highly competitive, we see the opportunity to create improved sites over the next few years, building on our existing strengths in customer relationship marketing, customer financing and customer service, to better provide a world-class customer experience. We also see the opportunity to further develop the use of virtual inventory.

Also this year we've increased the level of planned new store openings in the US from that in fiscal 2011. We are ready and willing to increase it substantially further when we can obtain real estate that meets our demanding operating standards. We'll continue to have constructive discussions with real estate developers and we will take advantage of investment opportunities as and when they become available.

Second, I believe the jewelry industry is seeing a structural change. We continue to see that branded merchandise is becoming increasingly important and that there is some move away from undifferentiated commodity alliance. While Signet has demonstrated over many years that it can very successfully compete in an environment of unbranded merchandise due to our superior execution, we're very well-placed to drive this important change.

By doing so it will increase the potential for profitable market share gains and create further opportunities to drive store productivity and operational leverage. We continue to view this as a consistent evolution of the overall business process.

Third, it's our intention to be opportunistic where there are possible investments that satisfy our demanding return hurdles and fit within our core competencies. These may be potential new opportunities in our supply chain, untapped markets or even new store formats. Most importantly though, regardless of what opportunities come our way we will thoroughly vet them in the best interest of our shareholders.

Before I hand the call over to Ron to review the numbers in more detail, please allow me this opportunity to give my thanks to each and every member of our valuable team that have contributed to the ongoing success.

Ron Ristau - *Signet Jewelers Limited - CFO*

Thanks, Mike. As Mike indicated, total sales for Signet increased 10.2% to $887.3 million compared to $805.4 million in the first quarter of last year. Total company comp store sales increased 10.2% versus up 5.8% in the comparable quarter. In the US sales increased to $738 million primarily reflecting comp store sales up 12.5% versus a 7.3% increase last year. The space impact in the US was adverse by 1.1%.

In the UK sales rose to $149.3 million reflecting a comp store sales increase of 0.2% compared with a decline of 0.2% last year. Reported UK sales were favorably impacted by currency fluctuations which more than balanced the 1.5% adverse impact of reduced space.

The performance in the UK improved substantially in the second half of the quarter due to the shift of Mother's Day and improved sales performance. For Signet as a whole the impact of a reduction in store space was balanced by the benefit of exchange rate movements.

Now looking at the reconciliation of the $43.7 million increase in income before taxes from $74.1 million to $117.8 million. Gross margin was $349.7 million, an improvement of $56.1 million. The gross margin rate was 39.4%, up by 290 basis points. The drivers of the improvement were -- gross merchandise margin which improved by 50 basis points with the US up 70 basis points and the UK down approximately 30.

We continue to successfully manage fluctuations and commodity costs as we have done for many years. Our net bad debt to total US sales ratio at 1.6% was 100 basis points better than last year and we realized leverage on our occupancy expenses. Our SG&A expense was at $263.8 million, up $25.3 million or 10.6% from last year. As a percentage of sales they were 29.7%, an increase of only 10 basis points.

The increase primarily reflected increased advertising expenditures, particularly in the US; higher staff costs, including performance-based bonus accruals; benefit cost increases; and the exchange impact on UK costs which were flat to pound sterling.

Other operating income was $32.8 million, up $5.1 million on last year primarily reflecting interest income on higher accounts receivable. This had a 30 basis points favorable impact on operating income margin. The first-quarter's operating income was $118.7 million, an improvement of $35.9 million or 43.4%. The operating margin was 13.4%, up from 10.3% last year in the first quarter, an increase of 310 basis points.

Net interest expense was $0.9 million, a decrease of $7.8 million, a fall of 100 basis points as a percentage of sales. This reflected the benefit of prepaying the private placement notes last year.

And of course our income before tax was $117.8 million, an increase of $43.7 million or 59%; as a percentage of sales that was 13.3%, an improvement of 410 basis points based upon excellent execution in all aspects of our business. The tax rate increased to 36%, up 390 basis points reflecting the geographic mix of profits and favorable tax settlements in the comparable period last year.

Looking at our receivables performance, this graph shows the first-quarter net bad debt to sales ratio and the collection rate over the past 10 years. Note that during the period we did achieve results in line with our historic range in the first quarter. Historically that range is 1.5% to 2.1%; we improved our ratio 100 basis points from 2.6% to 1.6% reflecting higher sales and an improvement in the underlying performance of the receivables portfolio. A very strong performance.

In the first quarter free cash flow was $92.4 million. Free cash flow remains strong and, while below that of the first quarter of fiscal 2011, it primarily reflected a build in inventory to support sales growth and commodity cost increases.

Inventory increased 8.8% and 6.5% of this increase was a result of increased commodity costs and related actions we took as a business and 2.3% to support new programs offset by further efficiencies in inventory management. Our receivables moved in line with US sales and net cash used for investing activities was $12.9 million, up from $6.3 million last year reflecting the planned increase of capital expenditure.

We ended the quarter with cash of $394.1 million, down from $447.1 million a year ago, which primarily reflects the prepayment of the $280 million of private placement notes last year offsetting the cash generated last year.

In the first quarter we made excellent progress against all of our financial objectives for fiscal 2012. In addition, earlier this week we entered into a $400 million senior secured multi-currency five-year revolving credit facility agreement that will be used for working capital requirements and general corporate purposes. The new credit agreement provides improved credit terms, lower fees and applicable interest-rate margins and puts in place an enhanced financial structure through 2016.

The new facility replaced an existing $300 million facility entered into in June 2008 which was due to expire in June 2013. Unamortized fees relating to the prior facility of $1.3 million will be written off in the second quarter. This new facility reflects the strength of our operations, cash flow and balance sheet and we appreciate the support of our bank group.

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Thank you, Ron. I'll now open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Ike Boruchow, JPMorgan.

Ike Boruchow - *Morgan Keegan - Analyst*

Hey, guys, good morning, thanks for taking my call. Congratulations on a great quarter. Ron, you had touched on the bad debt expense and how that trended in the quarter and we've obviously been seeing a steady improvement there. Could you comment on the potential to get back to your historic -- I think it's about 120 -- you're about 120 basis points away from your historic bad debt to sales. The potential to get back there in the next 12 to 18 months and how you think about that?

And then I guess, Mike, on the exclusive products that you were talking about earlier in the call. Can you talk about where those products are as a percent of the mix today and where you'd like to take that and what kind of margins you see on those products versus the rest of the business?

Ron Ristau - *Signet Jewelers Limited - CFO*

Okay, first let me address your receivables question. We have seen consistent improvement in our receivables and this year in the first quarter we did go back to the range of historic performance which was historically 1.5% to 2.1% for the first quarter. So we're down at 1.6% which is within that range.

We don't really speculate on whether or not we will achieve this in the future at historical rates or not. All we can tell you is that the trends have been very favorable and we've said in the past that we see no reason that we couldn't get back to those historic rates. How rapidly that occurs and whether it would happen this year or within 18 months I wouldn't speculate. But the trends look very, very favorable to us.

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

And, Ike, on your other question about the branded differentiated exclusive merchandise, it continues to be a very strong growth part of our business and we continue to see momentum in that business through the first quarter after a very strong performance last year.

As I mentioned, Neil Lane is a non-comp business for the first quarter and we're starting to roll that out pretty strongly. Tolkowsky had great test results recently and we're seeing more rollout in that area as well. And all of the other brands or most of the other brands are all performing very nicely for us and we see continued momentum. We don't really have a breakout just for the first quarter on the percentage of that business.

Ike Boruchow - *Morgan Keegan - Analyst*

Great. Good luck, guys.

Operator

Bill Armstrong, C.L. King & Associates.

Bill Armstrong - *C.L. King - Analyst*

Good morning, Mike and Ron. It looks like same-store sales accelerated in the second half of the quarter both in the US and the UK. Were there any particular promotional or advertising activities that might have driven that? Or are you just seeing maybe just generally stronger demand overall from consumers?

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Well, we saw a combination of things, Bill. Thank you for your question. Same-store sales did accelerate in the second half of the quarter, as we saw. There were a lot of things that drove that.

In the US we had some increased advertising opportunities. We saw that we would have the opportunity, based on where we were headed, to increase our advertising and really continue to drive that competitive advantage as hard as we could. And I think that helped our same-store sales a lot. The merchandise mix certainly was very powerful in there and it was a pretty good quarter for the jewelry industry in general. So all those things combined to help with that.

In the UK we were pretty excited to see the acceleration in the second half of the quarter. Now as we recall from our last call, there was a shift in Mother's Day in the UK. And when we spoke last time I think we were down around 4% and we had mentioned that we thought about 2% of that was probably that shift. And so in the back half of the quarter we did see that shift come back to us and then plus some.

So very good performance considering the environment that they're in right now and overall a great same-store sales performance for the combined companies.

Bill Armstrong - *C.L. King - Analyst*

Got it. Thanks for that color. And on the gross margin side, precious metal costs and diamond prices continue to rise. Do you foresee any further price increases at retail in your stores this spring or later this year?

Ron Ristau - *Signet Jewelers Limited - CFO*

Well, as you know, we do price to offset commodity costs and we are not changing that policy. We would not get into when or how we would time any price increases. Suffice it to say that we are -- have a stated goal of maintaining or improving our gross merchandise margin and we intend to stick with that.

Bill Armstrong - *C.L. King - Analyst*

Okay, great. Thank you.

Operator

Jennifer Davis, Lazard.

Jennifer Davis - *Lazard - Analyst*

Hi, guys, congratulations on a great quarter. A couple of questions. First, how many stores is Neil Lane and Tolkowsky in now?

Ron Ristau - *Signet Jewelers Limited - CFO*

We won't get into the specifics of it. It's not rolled out to the entire chain, it's continuing to roll, it's got a ways to go. The number roughly is in the 35% to 40% range.

Jennifer Davis - *Lazard - Analyst*

Okay. And can you comment on what percent of sales bridal was in the first quarter?

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

We don't break that our on a quarterly (multiple speakers) --

Jennifer Davis - *Lazard - Analyst*

Quarterly.

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

-- basis. But it continues to be a very strong percent of our sales and we see continuing momentum in that. As we said, for the full year last year it accounted for over 50% of our sales.

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Jennifer Davis - *Lazard - Analyst*

Right. And you do see that increasing?

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

We see the continuing momentum within the bridal category.

Jennifer Davis - *Lazard - Analyst*

Okay, great. And then on merchandise margins you said that the increase was due in part to price increases. Was that the carryover price increases that you took last year or did you take any in the first quarter this year?

Ron Ristau - *Signet Jewelers Limited - CFO*

It's primarily the carryover impact from last year.

Jennifer Davis - *Lazard - Analyst*

Okay, great. Thanks and good luck.

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Thank you.

Operator

Matt McClintock, Barclays Capital.

Matt McClintock - *Barclays Capital - Analyst*

Yes, hi, good morning, everyone. So my first question actually is, Ron, you just mentioned on the first question that the 1.6% bad debt expense for the quarter was towards the low end of the historic range. I know that you hit 1.5% in the first quarter of 2006. I was wondering if you could maybe talk about the seasonality of that range, how we should think about the normalized bad debt expense in the second quarter, third quarter, fourth quarter. Should we look at 2006 as a good base case?

Ron Ristau - *Signet Jewelers Limited - CFO*

Well, I couldn't direct you to any particular year. What I would say is that the performance is encouraging, that it was in the historical range and that I think it bodes well for our trends going forward. We try to stay away from specific goals in the bad debt because it is very difficult to predict. But I would say to you that on an annual basis if our range is 2.8% to 3.5% and we hit within the first quarter historical range at the low end that bodes well for the trend. So we'll see how it all ends up.

Matt McClintock - *Barclays Capital - Analyst*

Okay, thanks. And then one more question. Is there any reason why we should think about gross margin gains that you had during the quarter perhaps moderating throughout the rest of the year?

Ron Ristau - *Signet Jewelers Limited - CFO*

I think that's always an interesting question. We do use an average inventory costing methodology, so as the cost of commodities increase we will see some of that continue to increase throughout the year. But our stated goal is to offset that to the extent possible with price increases. So while the first quarter can be a little better than later in the year, it's difficult to draw any conclusion.

I would say to you that it's certainly something to think about and that there's no guarantee that it will be at exactly the same rate as you go through the year. And you have to just think about applying it through in your models and so on, that might not be exactly the right thing to do.

Matt McClintock - *Barclays Capital - Analyst*

Okay, thank you very much.

Operator

Rick Patel, Bank of America.

Rick Patel - *Bank of America - Analyst*

Hi, good morning, everyone. Can you give us some more insights on the price increases you've implemented so far? Which categories have you found to be the most resilient to higher prices and where to you feel like you need to hold average ticket steady?

Ron Ristau - *Signet Jewelers Limited - CFO*

Rick, I'm sorry, we really don't want to go into specifics of our price increase strategy. We view that as very competitive information. Suffice it to say that in the first quarter, as I said, most of our benefit was from price increases that we took last year. This year we will have selective price increases applied across the business, but when we would do that, how much and in what categories is really something we would not get into that level of detail. But, Mike, is there any other (multiple speakers)?

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Yes, Rick, I would just add to that. This is something that we look at on an ongoing basis. It's not just some years, it's every single year we look at it. And I would say the statement that we made that our intention is to have similar gross merchandise margins to what we have had, pretty much tells you that if costs continue to creep up that we are looking to offset those and maintain those merchandise margins. But when we do it or how we do it or in which categories is something that we feel is competitive in nature and we wouldn't want to disclose that.

Rick Patel - *Bank of America - Analyst*

And can you talk about your outlook for SG&A for the remainder of the year? Do you expect the drivers of the increase in the first quarter will continue as we look at the next few quarters? And if so what level of comp do you need in order to leverage SG&A?

Ron Ristau - *Signet Jewelers Limited - CFO*

Well, what we said in our guidance was that we would maintain broadly similar SG&A ratios to last year, we believe that we accomplished that in the first quarter. Our SG&A margin was very well controlled, only moving by 10 basis points. The main drivers of it were advertising, employee-related costs for bonuses and benefits, as well as the currency fluctuations that we experienced in the United Kingdom.

I would say that those things most likely will continue to be drivers of SG&A expense as we move across the next three quarters. Relative to the level of leverage that we need in general, if everything else is stable we need a low- to mid-single-digit comp. However, we have said that what we are doing is as we see opportunities to invest in advertising and drive further market share gains we will do that.

And given the fact that we're getting very strong leverage out of our gross margin ratios right now, we do have some flexibility to think about as we think about the level and extent of our competitive advantages in advertising. So it's not a steady-state game. Does that answer your question?

Rick Patel - *Bank of America - Analyst*

Thank you very much.

Operator

David Wu, Telsey Advisory Group.

David Wu - *Telsey Advisory Group - Analyst*

Good morning, everyone. Congrats on the solid quarter. First, (inaudible) given that we're saying consumers start to trade up it looks like to higher ticket items, are you adjusting your merchandise offering at all to address these trends?

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Well yes, actually we are, David. Good morning and thanks for the question. We're seeing some opportunities to put some higher priced products in some of our ranges.

For instance, we talked a little bit about the Neil Lane bridal range, this is a bridal range that lends itself very well to some higher priced merchandise within the range. So we're seeing some merchandise within the Kay stores for instance at higher prices than historically we have seen. And that is an opportunity I believe that will continue to avail itself.

I believe the customer is really focused on design, branding and the overall freshness of the merchandise and not so much on just pure opening price points in the economy that we're seeing today, especially in the United States market. I think as we continue to drive these branded opportunities to higher levels that we will continue to see that opportunity to also sell at higher prices.

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David Wu - *Telsey Advisory Group - Analyst*

And as you see greater strength at the higher end, how does that impact merchandise margins?

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Well again, we've said that we expect to pretty much maintain our merchandise -- gross merchandise margins where they are. Obviously these branded opportunities help us because we have stated historically that the gross merchandise margin on branded opportunities that we have out there are slightly higher than non-branded opportunities. So there is some help in that area.

Another thing I should have mentioned probably along with Neil Lane at the higher price points is Tolkowsky Diamonds, which has tested very well for us. And this is an ideal cut diamond that allows us to also drive some higher price points in the bridal category.

David Wu - *Telsey Advisory Group - Analyst*

Great. And you mentioned being opportunistic about new growth opportunities. Can you maybe provide more color? Would you consider perhaps entering the Canadian market or acquire another chain in the US?

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Well, we're going to be opportunistic to any opportunity that avails itself to us, quite frankly. And as I said, the more that I drill down into our business model, the more opportunities I'm seeing that we need to really vet out and see if they may be something that would help us grow into our business model.

So anything that fits our model of doing business we would certainly be opportunistic to looking at it, whether it be potential new geographies or potential new merchandise, potential synergies within our supply chain, etc. All of those are things that we need to look at very, very closely.

David Wu - *Telsey Advisory Group - Analyst*

Excellent. And just lastly, on the credit side how are approval rates trending? And have you made any changes at all to the scorecards?

Ron Ristau - *Signet Jewelers Limited - CFO*

We have made no significant changes to the scorecard. While of course our receivables management team continues to do an excellent job of refining the scorecard and adjusting to changes in the market as they see them, they also make incremental changes to our collection policies as they understand how the customer dynamics are working.

So that's an ongoing process, but from a holistic perspective nothing major has changed in any of our scorecarding over the timeframe. So our approval rates are relatively consistent and credit continues to be a main driver of our business with penetration rates again increasing during the first quarter. So that whole program is working very well and our receivables team has done an outstanding job.

David Wu - *Telsey Advisory Group - Analyst*

Excellent. Thank you very much.

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Thank you.

Operator

David Jeary, Investec.

David Jeary - *Investec - Analyst*

It's David Jeary from here in London. I'd like to just follow up a little bit on what was touched on in the last question which has to do with new opportunities if I can, Mike, and specifically in a couple of areas. When you talk about store formats, I wonder whether that meant that you're looking to acquire new store formats or develop them yourself.

And secondly, on the supply-chain, a few years ago Signet did actually venture down the supply-chain route with a view of gaining better leverage on commodity costs and then stepped back from that initiative. I wonder what your thinking was relative to past experience to make you want to look at that area again.

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Thank you, David. First off, on the store concepts, we're going to be open to looking at various different things, there's nothing that I would address specifically in that. But if you'll recall back when we started Jared, that was an organic new concept that was a off-mall concept that was a one price model that was very different from the mall concept that we have or that anybody else has out there.

So we do believe that there will be potential opportunities in the future for other types of concepts as well. As I said, nothing that I can really speak specifically to right now. On the supply-chain side, definitely something that we need to do as a company is to constantly, continually look at our supply chain from upstream all the way through downstream. And it's something that's very important.

With the size of our business and the amount of product that we sell, both in the US and the UK, it's very, very important for us to focus on our supply chain and make sure that we always have a secure supply chain.

We have some great partners out there, vendor partners that we do business with. We have some great opportunities to continue doing business with those partners. But we're always open to (technical difficulty) looking at ways to expand our partnerships and how we can secure the supply chain even further for the long-term success of our Company.

David Jeary - *Investec - Analyst*

Does that imply, Mike, that you can foresee certain pinch points potentially happening?

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

I'm sorry we couldn't quite understand you.

David Jeary - *Investec - Analyst*

I wonder whether that then looking ahead you foresee some kinds of pinch points potentially on some supply inputs.

Tim Jackson - *Signet Jewelers Limited - IR Director*

David (sic), let me just repeat that for Mike. Do we see any constraint points in the supply chain going forward?

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Well, I think that there -- it's a fact that they're not pulling more diamonds out of the earth right now. They haven't had any new big finds in diamond mines or anything like that as of recent years. And the supply is -- the demand for the supply is heating up in many parts of the world. You hear a lot about India and China and how they're demanding more and more product.

Obviously you can follow the gold prices on a day-to-day basis. It continues to trade at, last time I checked, over $1500 an ounce. And so the supply-chain is something that does have some pinch points and can be constrained and that's why we have to focus on it all the time and make sure that we continue to work with our vendor partners towards better and better supply agreements for the future.

David Jeary - *Investec - Analyst*

Okay, thank you very much.

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

You're very welcome.

Operator

Mike Dennis, MF Global.

Mike Dennis - *MF Global - Analyst*

Yes, good morning to you. I have three questions. One, the first one is about capacity. Could you talk about any capacity changes by stores in the UK market that might be helping you at the moment to drive your business there? And also the same question in the US by region. Is there any fallout over the last couple of periods in terms of people you compete against that will help your business going forward?

And the second question is your market share gain in the US, can you tell us what that was in basis points terms in the first quarter? And lastly, is there any limitations in branded jewelry by category in your eyes in terms of the amount of outside names that you could bring into a category either in bridal wear or in other categories? Do you see a future of Signet with three or four major brands within each category or is there opportunity for more than that? Thank you.

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Thank you, Mike. When you say capacity changes in the UK and the US, do you mean in terms of competition (multiple speakers) out?

Mike Dennis - *MF Global - Analyst*

Yes, competition. Stores closing. I mean, how have you been tracking that and what do you see? Do you see a lot of stores closing in the UK?

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Well, in the UK we see fewer stores closing than we have seen in the US. A lot of the competitors in the UK, once you get beyond the next chain or so, it gets to be pretty much a lot of independents out there. And many of these people or many of these independents are family owned businesses that may have been in the family for generations.

And some of them I believe, and, Tim, you can verify this, actually probably own their own lease holds there. And so they're able to kind of compete. As the economy goes up and the economy goes down in many cases they're just working to create a paycheck from week to week. And so they just kind of hang in there.

In the US, we did see several large chains go out during the recession, we saw a lot of independents go out as well. I think that that has mitigated itself somewhat because the overall jewelry industry has picked up a little bit and of course we've seen that as it's picked up a slowdown in the number of stores that are closing or people going out of business.

As far as the branded jewelry by category, let me address that as well. We do have quite a few branded offerings right now within both the bridal category as well as our fashion category. So that is something that I don't see any restraints on, I think that it is -- a movement toward more branded opportunities is where the consumer is heading.

Brands are going to become more important, not less important, people really love brands. And I think there are opportunities to take the portfolio that we have and continue to drive it to higher levels of success.

Having said that, we're pretty happy with our portfolio but will be opportunistic from a brand standpoint as well. And if another great brand comes along that we think we can leverage into either the bridal category or the fashion category we're certainly going to look at it. And a lot of our brands are very powerful opportunities for us.

From a strategic point, the exclusive brands like Charmed Memories that we have in the Kay stores, some brands where we have differentiated ranges, although they may not necessarily be exclusive like Le Vian, have performed extremely well for us. We've seen strong growth in that brand and that is a major fashion brand for us not focused on bridal.

So while we've talked a lot about the bridal brands there are also a lot of fashion brands where we have opportunities to continue driving that branded assortment and that's something I think you're going to continue to see more of over time, not less.

Mike Dennis - *MF Global - Analyst*

Okay, thanks a lot. And what about your market share gain?

Ron Ristau - *Signet Jewelers Limited - CFO*

We don't actually have quarterly information. We usually work against annual numbers published by the US government. So I'm sorry, we can't -- we wish we could, we can't provide a quarterly update.

Mike Dennis - *MF Global - Analyst*

Okay, thanks a lot.

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Thank you.

Operator

Anthony Lebiedzinski, Sidoti & Company.

Anthony Lebiedzinski - *Sidoty & Company - Analyst*

Yes, good morning. Could you perhaps quantify the percentage of your sales that are coming from branded product? And what's the margin profile of those products versus unbranded products?

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

We can't break down the percentage on a quarterly basis right now, Anthony. But from a margin standpoint we have said that the branded offerings do offer a slightly higher gross merchandise margin and that's on a fully loaded basis. So that includes any cost in terms of license agreements, etc., with the actual brand owners.

Anthony Lebiedzinski - *Sidoty & Company - Analyst*

Okay --.

Ron Ristau - *Signet Jewelers Limited - CFO*

And another point, the only (inaudible) we have is the year-end number which was about 22% of our (multiple speakers) merchandise sales.

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

And that was up 300 basis points last year.

Anthony Lebiedzinski - *Sidoty & Company - Analyst*

Got it. Okay, that's helpful. And then I was wondering if you could comment on your long-term outlook about your UK business. While they comped positively here in the first quarter, the business has posted in that negative comps certainly in the past.

Does it really make sense to keep that business or do you think there are enough synergies between the UK and the US businesses? I was just wondering if you could comment on that.

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

First off our UK business is a very strong business and has got some great people operating it and doing a really good job. If you look at the numbers, last year we had an 8% operating margin in that economy and a return on capital employed of 25% and it was cash flow positive. So we actually have some pretty good numbers out of the UK business, especially in that environment. We think that there's a lot of opportunity there.

And we continue to make major investments in the UK. We're continuing to refurbish our stores over there. We're moving certain sites as we see new opportunities come along. We're testing new merchandise within the UK market and we're seeing some things that really show that there's a big opportunity in that market on a go-forward basis.

Anthony Lebiedzinski - *Sidoty & Company - Analyst*

Okay, that's helpful. And lastly, what's your outlook currently on shareholder distributions?

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Well, that's something that, as I mentioned in my prepared remarks earlier, having just finished my first quarter and as I continue to drill down into our business model, both in the US and the UK, there are a lot of opportunities to look at things. And that's something I want to be very thorough about and make sure that I vet all these opportunities to the benefit of all of our shareholders.

So I'm really not going to address that at this time, other than just saying I'm looking at many different opportunities with our management teams and it's an exciting time for us.

Anthony Lebiedzinski - *Sidoty & Company - Analyst*

Okay, thank you.

Operator

Rod Whitehead, Deutsche Bank.

Rod Whitehead - *Deutsche Bank - Analyst*

Thanks. You mentioned the second quarter started well, that includes the important Mother's Day period which clearly isn't -- I wouldn't imagine is a bridal period. Would you call out any particular things that -- did you do well in Mother's Day and what particularly drove that?

And secondly, on the central costs increase from $4 million to $7 million in the quarter. Should one extrapolate that $3 million increase, so i.e. a $12 million increase for the full year as a whole?

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Ron, I'll take the first question. As we said, going into the first two weeks of the second quarter we continue to see the momentum continue into those first two weeks. Couldn't really go into any specifics of what drove that business other than to say that we continue to see a pretty broad base of strong business out there across many different categories.

Ron Ristau - *Signet Jewelers Limited - CFO*

In the central costs area, what I would say is that the central cost is due to some changes in the way that we have classified certain costs in our corporate structure. And on the year, while I wouldn't directly extrapolate it, I would say that on the year that number would be in the $24 million to $26 million range.

Rod Whitehead - *Deutsche Bank - Analyst*

Thank you. Does that change in structure, I mean the SG&A cost in the UK in sterling was clearly down. Is that partly because of some costs being moved from the UK line to the central line?

Ron Ristau - *Signet Jewelers Limited - CFO*

No, actually, I wouldn't get into the specifics of it. But the UK SG&A costs were relatively flat, okay.

Rod Whitehead - *Deutsche Bank - Analyst*

Right.

Ron Ristau - *Signet Jewelers Limited - CFO*

It was primarily -- it didn't affect the UK, it wasn't affected in the UK.

Rod Whitehead - *Deutsche Bank - Analyst*

Okay, okay. Lovely, thank you.

Operator

(Operator Instructions). John Baillie, Society General.

John Baillie - *Societe Generale - Analyst*

Good morning, gentlemen. John Baillie from SG. Just a couple questions, one is on the US store expansion in terms of your ability to, I think you had originally said 25 stores this year. I mean is it at this stage, is that opening up a little bit and is there more scope to maybe exceed that target or is it even a struggle to get to the 25 stores?

And secondly, could you just give us a bit more clarity on the advertising spend, what is the level of increase and maybe what, as a percent of sales, what we should maybe now expect it to run at this year?

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Sure, John. On the store base, obviously we stated that we expected to open about 25 stores in the US, which is a substantial increase over I believe it was about six last year that we opened. We're definitely willing to open more stores than 25. We are still not seeing as much quality real estate come our way yet. The developers are still not back to really developing a lot, so we're hunting pretty hard. And as we find that quality real estate that meets our criteria we're signing up for it because we see the opportunities in opening more stores.

Our guys are really beating the bushes every day and working with the developers. In fact, they've just been in Las Vegas at the real estate conference that's been going on there and I'm waiting to hear back on how some of their meetings went. So that's something we'll continue to focus on in looking for new opportunities to do that. We're fortunate in that we're seeing opportunities to kind of expand some of the concepts a little bit.

Kay, which is pretty much the majority of mall brand, but we have seen opportunities to open some Kay stores off mall in certain power centers, etc., like we do with Jared. And those have been successful for us as well. So we'll keep looking at ways that we can expand, find the best real estate and really do everything we can to continue to open good quality real estate because we think that there is an opportunity to do so.

John Baillie - *Societe Generale - Analyst*

But unlikely to be the 25 in the short-term, is that really the sense of the marketplace?

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Well, 25 for this year is what we've said. And we think that over the coming years that there may be opportunities to open more than 25 per year, certainly.

John Baillie - *Societe Generale - Analyst*

Okay. And maybe a word on the advertising?

Ron Ristau - *Signet Jewelers Limited - CFO*

On the advertising, what we said is we target between 6% and 6.5% of our US sales to be committed into advertising. And so those are the ranges that we work with. We wouldn't comment specifically on how much our advertising was up in the first quarter. It was up, it was up substantially, it was targeted primarily in our Kay stores. But as to the exact dollar amount and so on, we would defer comment on that. Thank you.

John Baillie - *Societe Generale - Analyst*

Okay. Maybe one (inaudible), can I just ask -- because I understand maybe the UK exit rate when we're talking about momentum. I mean, certainly in the UK we've had minus 4 in the first half quarter and maybe plus 5 in the second part -- very different trends. Is it more like plus 5 going into Q2 or is it -- how should we read your comment about continuing momentum as far as the UK is concerned?

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

In terms of going into Q2 you mean?

John Baillie - *Societe Generale - Analyst*

Yes.

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Well, as we said, we saw increased momentum in the second half of the first quarter. And what we said is that we saw that momentum continue into the first couple weeks of the second quarter.

Tim Jackson - *Signet Jewelers Limited - IR Director*

Be careful of the Mother's Day shift, John, on that. I think with the number you're looking at that would state the overall run rate.

John Baillie - *Societe Generale - Analyst*

Right. So the run rate, maybe it's not as high -- maybe not as high as 5?

Ron Ristau - *Signet Jewelers Limited - CFO*

We can't be more specific.

John Baillie - *Societe Generale - Analyst*

Okay. Thank you.

Operator

As there are no further questions in the queue, I would like to turn the call back over to you, gentlemen, for any additional or closing remarks.

Mike Barnes - *Signet Jewelers Limited - CEO & Director*

Thank you very much. And thank you all for joining our call today. Our next scheduled call is for our second-quarter results and this is expected on August the 25th. I look forward to speaking to you then.

Operator

Thank you. Ladies and gentlemen, this will conclude today's conference call, thank you for your participation. You can now disconnect.