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Event Transcript

SIGY - Q1 2003 Signet Group Earnings Conference Call

Event Date/Time: Jun. 05. 2003 / 9:30AM ET

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SIGY - Q1 2003 Signet Group Earnings Conference Call

CORPORATE PARTICIPANTS

Terry Burman
Signet Group - Chief Executive

Tim Jackson
Signet Group - IR and Secretary

Walker Boyd
Signet Group - Finance Director

CONFERENCE CALL PARTICIPANTS

Rod Weishead
Deutsche Bank - Analyst

David Jeary
Credit Suisse - Analyst

PRESENTATION

Operator

Please stand by. Good day, everyone, and welcome to the Signet Group Q1 results conference call. This conference is being recorded. At this time I would like to turn the call over to Mr. Terry Burman, Group Chief Executive. Please go ahead, sir.

Terry Burman - *Signet Group - Chief Executive*

Thank you, operator. Welcome to the call on significant nets first quarter results. I am Terry Burman, Group Chief Executive and with me are Walker Boyd, our group Finance Director and Tim Jackson, our company secretary and IR director. Walker will briefly deal with the financial results and I will comment on the operations in the U.S. and U.K.

First, however, I'd like to ask Tim Jackson to give the Safe Harbor statement.

Tim Jackson - *Signet Group - IR and Secretary*

The call includes certain forward-looking information that is based upon management's beliefs as well as on assumptions made by and data currently availability to management. This information which has been or in the future may be included in reliance of the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995 and is subject to a number of risks and uncertainties including but not limited to the facts identified in the company's filings with the U.S. Securities and Exchange Commission. Including its 2002 '03 annual report on form 20 F filed with the commission on April

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Terry Burman - *Signet Group - Chief Executive*

Thank you, Tim, and Walker will now review the numbers.

Walker Boyd - *Signet Group - Finance Director*

Thank you, Terry. We have made further progress in the first quarter with an underlying improving in profit being largely offset by the adverse movement in the average exchange rate from 1.43 to 1.59. Profit before-tax at \$24.1 million a small increase from last year an increase by 11.6% at constant exchange rates. This quarter's PBT includes a pension charge of 500,000 following the adoption of FRS 17, the full impact of which I will discuss later.

Group like for like sales increased by 2.2% and total sales by 4.6% at constant exchange rates. On a reported basis sales decreased by 3.4% to £342.9 million. Operating profit was 27.2 million and operating margin unchanged up 7.9%. Interest costs reduced by £900,000 to £3.1 million, primarily reflecting a lower level of debt and the benefit of exchange translation partially offset by a lower FRS 17 pension credit. Other anticipated tax rate the tax rate is 35.5%, unchanged on last year. EPS was also unchanged at .9P., equivalent to 40% PDR.

Turning briefly to the Balance Sheet, next debt at the end of the quarter was £137.7 million, down £42.9 million from the level 12 months ago, primarily reflecting the improved year end position and the movement in quarter end exchange rates to \$1.60 from \$1.47.

As I mentioned the Group has adopted FRS 17 for 2003/4 as a basis for accounting for the U.K. defined benefit pension scheme. FRS 17 adopts a more market-based approach than the previous accounting standard. In line with best practice 2002/3 has been restated to deal with pensions on a similar basis. The charge to profit before-tax for quarter one of this year is £500,000 against a zero compatible charge for 2002/3. At the operating profit level the charge to the U.K. is £700,000 in the current year, a marginal increase in the prior year charge of 600,000. However, as a result of the lower level of asset values

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in 2003/4 the net credit to interest in quarter one was reduced from 600,000 to 200,000.

With regard to the BS, the impact of reflecting the market value base deficit of £6.7 million in comparison with a surplus of 19.1 million under SSAP 24 [inaudible] has been dealt with as a non-cash charge directly to reserves. This charge of £18.1 million net of deferred tax represents some 2.7% of shareholder funds at [February] 2003.

I will now hand you back to Terry who will talk about developments in the two businesses.

Terry Burman - Signet Group - Chief Executive

Thanks, Walker. Looking first at the U.S., total sales increased by 4.1%, a constant exchange rates and by 1.1% on a like for like basis. This was against a 6.6% like for like increase last year. We did outperform the sector on a like for like basis and increased market share.

There was a strong performance over the Valentine's Day period. Subsequent trading in the quarter was impacted by inclement weather and lower consumer confidence. U.S. sales in May have shown some improvement compared with March and April as a whole. Jared like-for-like sales continued to grow faster than the mall stores. This performance was enhanced by initiatives to increase local television advertising in test markets and to expand the luxury watch category. Both helped to drive [football] and added incremental sales. We were pleased with the results of the television advertising and continue the development of the creative execution. Further good progress is also being made to increase the number of luxury watch agencies in Jared.

U.S. operating profit was \$26.2 million, up 5.9% on a constant currency basis but down 4.7% on a reported basis. The operating margin was ahead of last year by 20 basis points at 10.5%. This reflects our strict control of costs and gross margins throughout the period, clearly these are good results given the general economic environment. Overall average selling price saw a small increase. The gross margin was improved slightly with a range of sourcing, pricing and store discount had initiatives which have delivered small improvements in a number of areas. As anticipated we are continuing to see mixed changes to diamond categories with a lower gross margin. This together with the plan to expand Jared and higher gold prices meant that gross margins were under pressure consistent with the trends in the fourth quarter of last year.

In the quarter overall marketing spend as a percentage to sales was similar to last year. In particular we benefited from increased TV impressions for the Kay division over Valentine's Day and for the increased local TV advertising for Jared.

The bad debt charge for the three months was broadly in line with the comparable period last year and well within our range of the last five years. We again increased the level of training and maintained staff levels at our stores. The World Class Store Systems initiative continues to deliver benefits and has helped to control store operating costs. The quality of our store portfolio continues to be improved with the annual store refurbishment and relocation program expected to cover approximately 80 stores. We have opened 15 new mall stores in the year to date with up to a further 30 planned. No Jared stores opened in the period. However we remain on course to open about 12 in the current year. We are well on the way to open the trial ten off-mall Kay stores this year. We continue to apply strict criteria to our store investment.

In summary, we remain focused on driving improvement through concentration on our competitive strengths in merchandising store operations and marketing. We will continue our strict control over costs, margins and cash flow while investing in our brands, our people and our stores.

Turning now to the U.K. Total sales increased by 5.8% to £92.6 million with alike to like sales increase of 5.4%. The sales performance in May has been at a satisfactory level. Over the last 4 years the first quarter compound annual growth in like-for-like sales is 7.9% while that of the U.K. retail market as a whole has been 3.3% based on BRC figures. The performance reflects further excellent results in the diamonds category. The operating profit increased by £600,000 to £2.4 million. GM was in line with the prior year first quarter.

Both H. Samuel and Ernest Jones benefited from improvements based on the diamonds merchandise selection, clearer in-store presentation, enhanced training and store systems, better catalogs and more focused catalog distribution. H. Samuel increased like to like sales by 4.5% and Ernest Jones by 6.6%. In the U.K. we remain committed to increasing store productivity by lifting our average selling price by emphasizing diamond merchandise. There are many initiatives that are now well well-established to achieve this. For example, the trial of the new store design is still at a relatively early stage. We remain encouraged by the performance of the 17 stores trading with this format. Our plans are well advanced to refurbish our further 32 stores and open about ten stores using the new design this year. We continue to test new product ideas and the proprietary Forever Diamonds

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branding initiative at H. Samuel will be expanded later in the year.

The marketing support for the Leo diamond has been increased with magazine ads for Ernest Jones featuring the brand for the first time. We are also developing a television ad for H. Samuel that we plan to test in one region this Christmas. A major emphasis remains increasing staff training and store standards to support the effort to increase the level of diamond sales and the change in selling techniques that the new store formats entail.

In summary, our strategy of improving store productivity has made good progress in the first quarter. We remain committed to investing in key areas of the business in order to gain further improvement.

Now we would like to open up the conference call to any questions that you may. Operator, will you take questions, please?

QUESTIONS AND ANSWERS

Operator

Thank you. The question and answer session will be conducted electronically. If you would like to ask a question please press the star followed by one on your telephone key pad. We will take questions in the orders received and we will take as many questions as time permits. Again please press star one to ask a question. One moment while we pause for questions.

Again, if you'd like to ask a question please press star one. Thank you.

Our first question will come from Rod Weishead from Deutsche Bank. Please go ahead, sir.

Rod Weishead - Deutsche Bank - Analyst

Good afternoon, guys.

Operator

Next question will come from David Jeary.

Terry Burman - Signet Group - Chief Executive

Operator, I think you just cut off Rod Weishead.

Operator

He is still on the line. Thank you.

Rod Weishead - Deutsche Bank - Analyst

Hello, can you hear me? I shan't take that personally. I was just going to ask whether you could comment on the competitive landscape given that it's been fairly tough in the U.S. how you are seeing the competition reacting that has been talk of sort of a more interest free [offers] from competitors and so forth, what you see going on there at the moment?

Terry Burman - Signet Group - Chief Executive

Well, the interest free offer has really become ubiquitous. Some of our competitors have lengthened the terms on their interest free offer and also, well, they've just become more, the interest free has become more prominent.

In terms of pricing, I would say that there is generally some additional promoting going on but it's not, it's not a major increase over the prior year but it is, it is up a notch over prior year. And I think you can see that from some of our competitors gross margin figures.

Rod Weishead - Deutsche Bank - Analyst

Right. When you saw the dip in March, April, was that a dip in foot fall or a dip in average transaction values?

Terry Burman - Signet Group - Chief Executive

It was a dip in foot fall. Our average transaction values in March and April held up.

Rod Weishead - Deutsche Bank - Analyst

Okay. Thanks.

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Operator

Next question will come from David Jeary from Credit Suisse. Please go ahead, sir.

David Jeary - Credit Suisse - Analyst

Two questions if I may. One [read] the trends, I don't know if you are able to give us quantitative trends in May, the slow March and April, I was going to ask about Jared not only the first quarter but what the possible pattern is going to look like going forward from here?

Terry Burman - Signet Group - Chief Executive

In terms of the trends, as we said and we really aren't prepared to expand on it any further than we said in the release that the U.K. had had a satisfactory May and that we had shown some improvement over the March, April figures in the U.S.

In terms of, in terms of Jared, the fact that about half the stores are less than two years old is, we should expect higher like-for-likes out of those stores as any mall store or new Jared store historical pattern shows that immature stores produce higher like to likes throughout the first five years of their trading than the average, than the underlying rate of the company. Now, that higher like-for-like level decreases as we move through the five years, the first and second years being the highest and then the third it decreases a bit and the fourth and fifth year it decreases a little further. Compared to the underlying rate of the company. So I think we can, being that we have so many stores on that immature end of the cycle we can continue to expect or we do continue to expect higher like-for-like sales out of the Jared division.

David Jeary - Credit Suisse - Analyst

Of the openings this year going to be more [H2 or Q2] weighted in time for Christmas? Is that the pattern as usual?

Terry Burman - Signet Group - Chief Executive

Yes, it is. We like to get a few open in the spring. Unfortunately we are subject to all the planning and site preparation and store construction. These are much more complicated stores to build than the mall stores and our timing made it so that we haven't been able to. But primarily we will be Q2 and Q3, primarily the stores will open in Q2 and Q3.

David Jeary - Credit Suisse - Analyst

Thank you very much.

Terry Burman - Signet Group - Chief Executive

You're welcome.

Operator

Once again if you'd like to ask a question please press star one. Thank you.

Operator

We have no further questions in queue at this time. I will pass the call back to you for any additional or closing remarks. Thank you.

Terry Burman - Signet Group - Chief Executive

All right. Well, thank you for listening and thank you for your questions. Our next scheduled announcement is the second quarter sales figure on August 7. Or interim results are expected to be announced on September 3 when there will be the normal analyst presentation in London and a simultaneous conference call for all interested parties. Once again, thank you for listening to our conference call and good bye.

Operator

That would conclude today's conference. Thank you for your participation.

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