FINAL TRANSCRIPT

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SIGY - Q3 2003 Signet Group Earnings Conference Call

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CORPORATE PARTICIPANTS

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Timothy Jackson
Signet Group - Company Secretary, IR Director

Walker Boyd
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CONFERENCE CALL PARTICIPANTS

Lucy Sharma
UBS - Analyst

Mark Sherinogh
Investech - Analyst

PRESENTATION

Operator

Good day, everyone, and welcome to the Signet Group Q3 results conference call. This conference is being recorded. At this time I'd like to turn the call over to Terry Burman, Group Chief Executive and Walker (ph) Boyd, Group Finance Director. Please go ahead.

Terry Burman - *Signet Group - Group Chief Executive*

Welcome to the conference call and Signet's third-quarter results. I'm Terry Burman - Group Chief Executive speaking from Akron, Ohio, joining the call from London are Walker Boyd, Group Finance Director and Tim Jackson, Company Secretary and IR Director. Walker will discuss the financials and then I will cover the U.S. and UK operations. Following that we will then open the call to questions.

Before we begin Tim will give the Safe Harbor and Regulation G statements.

Timothy Jackson - *Signet Group - Company Secretary, IR Director*

This release includes [indiscernible] conference call include statements which are forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements [indiscernible] as well as assumptions made by (indiscernible) available to management [indiscernible] a number of places throughout this call and include statements which are [indiscernible] [indiscernible], financial liquidity, prospects, growth, [indiscernible] industry in which we currently operate. Our use of the words expects, intends, anticipates, estimates, may, forecasts, objectives, plan or target and other similar expressions are intended to identify forward-looking statements. These forward looking statements statements are not guarantees of future performance, [indiscernible] number of risks and uncertainties including but not limited to general economic conditions, the merchandising, pricing, inventory group (indiscernible) of the group [indiscernible] competition in the jewelry sector, the price [indiscernible] diamonds, gold, and other precious metals [indiscernible] group's business and other financial planning market risk. For a discussion of these and other (indiscernible) risks and uncertainties which could cause actual results to differ materially see the Risks and Other Factors section of the Company's 2002 [indiscernible] annual report [indiscernible] with the U.S. Securities and Exchange Commission on the 24th available 2003 and other findings made by the Company's (indiscernible) commission. [indiscernible] result may differ materially from such forward looking statements even as experienced future change [indiscernible] making clear any projected results expressed or implied therein may not be realized. The Company undertakes no obligation to update or revise any forward looking statements (indiscernible) circumstances. Certain financial information used during this call are considered to be non-GAAP financial measures. For a reconciliation of these [indiscernible] directly comparable GAAP financial measures, please refer to Note 10 of the Company's earnings release dated (indiscernible) December 2003 available on financial information [indiscernible] Company's website at www.SignetGroup.[indiscernible].com.

Unidentified Speaker

Thanks, Tim. Before handing over to Walker I would just like to comment on the Group's performance so far this year.

The business had a good 9 months of (indiscernible) although the movement in the dollar sterling exchange rates means that the extent of this progress is not reflected in the reported results. In the U.S. we have continued to outperform the main competition and gain market share in a mixed economic environment. In the UK, the like for like sales performance has been well ahead of the retail sector for the year-to-date and there was further growth in operating margin. In both markets, the third-quarter performance was solid and the focus of the business has been unpreparing (ph) for the holiday season. We believe that we are, again, very well positioned to compete this year with new and enhanced merchandising, marketing and store operations programs.

We look forward to the challenges ahead. And now, Walker, would you comment on the figures in detail, please?

Walker Boyd - *Signet Group - Group Finance Director*

Groups sales for the quarter increased 7.1 percent as [indiscernible] or 3.80 percent on a reported basis. Like for like sales were up 4.7 percent. The third quarter is the smallest of the year, normally [indiscernible] 17 percent of annual sales. Group operating cost in the quarter was [indiscernible] ahead of last year at 8.3 million against 6.7 [indiscernible] prior year. Numbers for last year have been restated for the adoption of FRS 17 even with the timely benefits. Net interest payable (indiscernible) .2 million slightly up third-quarter last year due to the lower FRS 17 credit, which also [indiscernible] lower net debt and exchange rate movements.

(technical difficulty)

.1 million up from 3.6 million last year and third-quarter (indiscernible) 35.5 percent [indiscernible] last year. [indiscernible] for the nine-month figures. Total sales were up 5.5 percent [indiscernible] and marginally better than the reported basis. [indiscernible] sales were up 3.3 percent, the UK grown by 4.7 percent and the U.S. by 2.8 percent. Group operating profit for the nine months is 8.2 percent constantly [indiscernible] and there's little change at 52.2 million pounds on a reported basis. The Group operating margin was 6.5 percent, against 6.4 percent in the comparable period last year.

Net interest was 9.3 million pounds, down 1.5 million reflecting a [indiscernible] of net debt and the exchange rate movement. Net interest collar (ph) continues to improve.

Group pretax profit was up 10.9 percent constant exchange rate 3.3 percent from a reported basis to 52.9 million for the nine months. EPS rose 5.3 percent 2P (indiscernible) 96.5 cents per [indiscernible]. Looking at the balance sheet net debt at the end of the quarter was 187.63 (indiscernible) pounds, a reduction of 67 million from the corresponding figure last year. This reflected 46 million pounds underlying improvement and the 21 million pounds exchange rate benefit at the closing rate of $1.70 against $1.56 last year.

The seasonally [indiscernible] during the quarter was less than the prior year as a result of continued tax control of inventory and timely differences in receipt of merchandise. With regard to capital expense, we had expected Group capital expenditure to be around 60 million pounds for the full year slightly less than previously anticipated. I will now hand you back to Terry who will deal with the operational.

Terry Burman - *Signet Group - Group Chief Executive*

Thank you, Walker. I will begin in the U.S. In the quarter, total sales increased by 7.7 percent, at constant exchange rates, and 2.8 percent on a reported basis to 192.9 million pounds. We again benefited from focusing on our proven strategy with like for like sales up 1/2 percent representing a further gain in market share. The mall stores account for about 85 percent of sales in the like for like calculation and are, therefore, the major element of growth in our U.S. like for like sales number.

We continue to be pleased by the relative performance of our mall stores against our main competition in both the short and the long-term.

This has driven our superior sales per store which is central to our industry-leading operating margins. In the U.S., third-quarter operating profit rose to 5.7 million pounds. As a reminder, this is a low quarter in terms of sales, only accounting for 16 to 17 percent of the annual U.S. total reflecting a lack of any major events and a low-level of marketing activity during the quarter.

In the year-to-date, U.S. like for like sales were up 2.8 percent. We again outperformed our main competitors and continued to gain market share by focusing on our competitive advantages. Total U.S. sales increased by 5.7 percent at constant exchange rates. U.S. operating profit for the nine months was 54.6 million pounds, an increase of 5.4 percent at constant exchange rates but down by 3 percent on a reported basis.

The operating margin for the nine months was unchanged at 8.2 percent, reflecting a continued tight control of cost and gross margins.

Merchandise margins were broadly similar to last year. A range of management initiatives are continuing to offset the adverse impact of the increase in the cost of gold and expected sales mix changes in both product category and distribution channels. As already flagged, the increase in the cost of gold is expected to have a slightly greater impact on gross margins in the fourth quarter.

The strong performance of the credit portfolio continued. The bad debt charge for the nine months was 20 basis points better than last year at 3 percent of total sales and remained consistent with a range of results over the last seven years. The level of the in-house credit participation for the year-to-date is a little below last year. We continue to invest in staff, training, and systems to maintain or improve the quality of our credit portfolio.

Our mall store real estate investment and 47 new stores and 60 refurbishments and relocations is substantially completed. This is slightly lower than our expectations at the start of the year, reflecting continued tight real estate criteria. We also invested in 10 trial format Kay stores in outdoor centers.

The development of Jared remains on target and 12 Jared stores will be open this year, bringing the total to 79. This is equivalent in terms of space to some 340 mall stores. The luxury watch initiatives continue to be developed and a number of different branded jewelry ranges are being tested. Like for like sales performance continues to be ahead of the mall division.

This holiday season Kay TV impressions are planned to be up by about 7 percent despite the noticeable increase in cost of airtime. Radio advertising impressions for the regional brands have been maintained. Following the very encouraging results achieved last year we are doubling the number of Jared TV impressions during Christmas and extending the advertising from 10 markets covering about 35 percent of Jared sales to 22 markets supporting about 75 percent of the division sales.

Overall marketing spend as a proportion of sales is expected to be slightly higher than last year. Name recognition and consumer response to our Kay TV advertising are at record levels. The ads continued to romance an appreciation-based theme of recent years including our tagline, "Every kiss begins with Kay". The Leo Diamond is, again, featured strongly. We continue to keep inventory under tight control and have broadly maintained it as a proportion of sales. Due to our industry leading direct sourcing capability, we offer value for money and superior product quality which we believe appeals to the consumer.

Highly trained staff, supported by sophisticated systems and merchandising procedures, underpin this direct sourcing capability which has been built up over many years.

Our value and superior product quality is communicated to customers by our well-trained sales force. We have again increased training with a number of -- with a record number of people coming to Akron to attend courses this year. This complements our extensive store-based training programs. The initiative to reduce the time spent on administration in the stores continues and has increased the resources available for customer service.

Overall, the quality of our staff has once again improved and morale is high.

Merchandising initiatives are in place for this Christmas. For example the Leo range which is unique to Signet and offers consumers a clear product benefit is being further expanded. The development of the luxury watch range in Jared continues to expand and the trial of further branding initiatives such as the Adore (ph) diamond is taking place.

We're also participating in the de Beers Righthand Ring program.

In summary, the U.S. business has again made further progress in the third-quarter, outperformed its main competition and gained market share.

The results for the year-to-date show that we have cost, margins, inventory and receivables under tight control. By remaining focused and building on our competitive strengths, we have moved the business forward in the last year and remain well positioned to compete.

Turning now to the UK, like for like sales were up 5 percent for the quarter with total sales increasing by 5.8 percent to 96.5 million pounds. H. Samuels performance was significant to the second quarter and in line with the British retail consortium retail sales figures. Ernest Jones saw acceleration in growth to 9.4 percent and continues to significantly outperform most other UK retailers.

Merchandise margins were above last year. Operating profit showed an increase to 4.1 million pounds from 3.5 million pounds in the quarter. Operating margin increased to 4.2 percent from 3.8 percent. For the year-to-date UK like for like sales increased by 4.7 percent and total sales increased by 5.1 percent to 289 million pounds.

Operating profit increased by 2.2 million pounds to 11.9 million and operating profit improved 4.1 percent from 3.5 percent, reflecting improved store productivity.

Sales in both H.Samuel and Ernest Jones continued to benefit from the focus on diamonds. Ernest Jones also benefited from a pickup in the watch category.

The successful merchandise strategy to improve the diamond collection and its presentation continues. The Leo Diamond range is being expanded in Ernest Jones and more H.Samuel stores are carrying the Forever Diamond selection. Diamond participation is up by over one percent in the sales mix year-to-date.

In real estate the level of capital expenditure is up over last year. In total 31 stores will be refurbished or relocated this year in the new design -- which is more conducive to the sale of diamonds and fine jewelry.

52 stores or just under 8 percent of the estate will be trading in the new format this Christmas. We opened four stores this year -- all Ernest Jones. In line with our real estate strategy 10 H. Samuel and 2 Ernest Jones will be closed.

Improvement in customer service remains a priority and during 2003, we have introduced a comprehensive new training program. Additional time is also spent on improving the training of the staff when the stores are refurbished in the new design.

For both H. Samuel and Ernest Jones we have further developed the design of the catalogs and improved the targeting of their distribution. As some of you in the UK may have seen, we begun testing television advertising for both H. Samuel and Ernest Jones. This is the first time television advertising will have been tested for Ernest Jones. And there was -- while there was a small H. Samuel test in the mid-90s, this is the first large-scale test.

H. Samuel ads will run in the Midlands and northern England representing about 40 percent of the market for H. Samuel. Those for Ernest Jones will run in London, representing about 25 percent of the market. There will be a mix of 30 and 10 second commercials.

In summary, during 2003, the UK division has made notable progress in developing a range of programs to drive the business forward in both the medium and in the long-term.

And in conclusion while the general retail environment and the important fourth-quarter will certainly influence our performance, we believe that -- supported by a number of new and continuing initiatives and merchandising, marketing, and store operations in both markets -- our businesses on both sides of the Atlantic are well positioned to compete this holiday season.

And now apply I'd like to open the call for Walker and myself to take any questions. However before I do so, I would just like to state that we will refrain from commenting on trading in November or on the outlook for the holiday season.

QUESTIONS AND ANSWERS

Operator

[Operator Instructions].

Lucy Sharma (ph) of UBS.

Lucy Sharma - *UBS - Analyst*

Talk about in the U.S., the fact that you negated the negative impact of the gold price through management initiatives. Just wondered if you could perhaps give us a little more flash on that and say how much further that can go?

Terry Burman - *Signet Group - Group Chief Executive*

Well we are -- first of all the range of close to 20 different initiatives regarding sourcing, our pricing and controlling store discounting. I don't want to get into that any further because -- for competitive reasons. We have identified some further -- some further initiatives. Plus we've got the wraparound of the current initiatives at the beginning of next year, and some further initiatives to begin -- to begin next year. However, having said that, with the -- with gold prices running in the 390 -- $390 plus range, it is anticipated to have some effect on us in the coming year. But that will obviously depend on the price of gold and on the competitive set with regards to pricing.

Lucy Sharma - *UBS - Analyst*

Thank you and if I may, another one [indiscernible] marketing spend is going to be up this year versus last year. Could you give us any indication of how much that will be in terms of sales or anything?

Terry Burman - *Signet Group - Group Chief Executive*

Well our marketing spend runs about -- you talking U.S., UK, or both?

Lucy Sharma - *UBS - Analyst*

Well U.S. but if it's going to be up in the UK as well perhaps you [indiscernible] [inaudible]

Terry Burman - *Signet Group - Group Chief Executive*

In the U.S. the marketing spend will be around 6 percent of sales -- that's in a gross basis. It's about -- it's about -- a little over $110 million but its proportion of sales will be broadly similar but slightly above -- slightly above last year's total. Some of that is due to mix because we do carry a higher advertising cost in Jared on a normal basis than we do in the mall store divisions. So that -- it's primarily driven by the mix issue.

Lucy Sharma - *UBS - Analyst*

And in the UK will that be different versus last year?

Terry Burman - *Signet Group - Group Chief Executive*

In the UK it will be -- Walker -- I don't have the exact number handy.

Walker Boyd - *Signet Group - Group Finance Director*

Again on gross (ph) terms with the [indiscernible] TV, it does increase by a few basis points. Last year this time we had some -- as you will recall, we were testing the tests of [indiscernible] so TV (indiscernible) effectively all international (ph) basis price [indiscernible] it is really not significant in terms of overall modeling.

Terry Burman - *Signet Group - Group Chief Executive*

But the increase in total sales provides a -- provides an increase in total spending as long as -- obviously as long as we keep our percentage of sales broadly similar.

Operator

[Operator Instructions].

It appears there are no further questions at this time. Mr. Berman, I'd like to hand the call back to you for any additional or closing remarks. Sorry -- we have one additional question from Investech and Mark Sherinogh

Mark Sherinogh - *Investech - Analyst*

Hi guys, just two or three questions here for you. Just on the [indiscernible] gross margins, you mentioned that it's ahead in the most recent quarter. Can you just give us some kind of idea [indiscernible] improvement you've got there and what the drivers are behind that? Question on stock, most of the stock levels are pretty well flat year-over-year. Is that [indiscernible] changing currency or is that underlying growth in the stock level that you could just mention? Just finally, on Jared you've extended the TV advertising to a lot more [indiscernible] this year compared to last year. Could you just give us some idea as to how the TV advertising last year influenced the performance in the region as to where (ph) it took place?

Terry Burman - *Signet Group - Group Chief Executive*

I'll take the Jared -- take the last one first. The Jared question regarding TV and then Walker will answer the margin and the stock level questions.

Jared was -- obviously we're extending the test and were successful with the test last year and that has motivated as to extend this year to over double the number of markets and the percentage of stores that are being -- that are being covered by television. The response, in terms of quantum of the response we don't want to say specifically, but we view it as a positive return on investment in terms of driving both sales margins and the incremental sales over the control groups that we're noticing. So it is, it has proven to be very encouraging, very effective in its test markets.

We would expect that -- we would hope and expect that to continue in the new markets and look forward to the time when we could -- in two or three years -- we can possibly take that Jared TV program national if it continues providing the kind of results that it's been providing.

Mark Sherinogh - *Investech - Analyst*

So it drives both the sale and the gross margin mix here?

Terry Burman - *Signet Group - Group Chief Executive*

Drives both the sales and the gross margin dollars.

Unidentified Speaker

As far as inventory levels are concerned, yes, I think if you (indiscernible) year on year there is, clearly, an impact of exchange. If you look at cash flow in detail with [indiscernible] on page 6 of the statement, you'll see that the seasonal increase this year and inventory, however, is less than last year. I think, seasonally, inventories are (indiscernible) 110 million in the quarter as opposed to 125 million last year and not as I said in mid [indiscernible] one [indiscernible] tight control on inventory both at this time of year when you've got the largest seasonal increases it's very much down the timing of receipts, so I don't think in overall terms I would be too much in terms of more [indiscernible] in year on year in terms of the inventory build it down to timing on receipts as we go into the fourth-quarter. As far as gross margin in the UK is concerned, too many drivers I would say, one is -- we continue to control discounts very tightly and second, we clearly thought we do face some increase in the cost of gold. On the other side the weakness in terms of the dollar against sterling and not only mitigates the [indiscernible] and the cost of gold but also means the other merchandise including diamonds and some of the H. Samuel business which is also dollar denominated is a lower cost this year compared to last year.

These two drivers have pushed the margin up by [indiscernible] again and so we'll take the basic point certainly rather than percentage place but nevertheless, slightly ahead.

Operator

[Operator Instructions]

Gentlemen, we have no further questions at this moment in time.

Terry Burman - *Signet Group - Group Chief Executive*

Right. Thank you for taking part in this call. We wish all of you a happy and healthy holiday season. Our Christmas trading statement is scheduled for January 8th and will be followed by a conference call. Thank you again for participating. Bye.

Operator

That will conclude today's call. Thank you for your participation.