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SIG - Q2 2015 Signet Jewelers Ltd Earnings Call

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PRESENTATION

Operator

Welcome to the Signet Jewelers second-quarter fiscal 2015 results conference call. (Operator Instructions). I will now turn the call over to Mr. James Grant, Vice President of Investor Relations. Sir, you may begin.

James Grant - *Signet Jewelers Limited - VP, IR*

Good morning and welcome to our second-quarter fiscal 2015 earnings call. On our call today are Mike Barnes, CEO; Mark Light, President and Chief Operating Officer; and Michele Santana, Chief Financial Officer. The presentation deck we will be referencing is available under the Investors section of our website, www.signetjewelers.com.

During today's presentation, we will in places discuss Signet's business outlook and make certain forward-looking statements. Any statements that are not historical facts are subject to a number of risks and uncertainties and actual results may differ materially. We urge you to read the risk factors cautionary language and other disclosures in the annual report on Form 10-K that was filed with the SEC on March 27, 2014 and in the quarterly report on Form 10-Q that was filed with the SEC on June 3, 2014. We also draw your attention to slide number 2 in today's presentation and now I will turn the call over to Mike.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thanks, James and good morning, everybody. In the second quarter, we successfully closed the Zale acquisition and we are really excited as we continue to move forward with the integration process. I will go through some of the major accomplishments that we've achieved with our new division in a few minutes, but now that we've completed the acquisition, we've also made a few changes with regards to how we discuss the operating segments, which you will see as we move through this presentation.

In looking at the second quarter, we are very pleased with our results and the achievements that we've made. For the quarter, comps at Signet increased by 4.8% all-in. In organic comps, that is Signet comps without the Zale acquisition, were up by 6.3%. From a division perspective, Sterling in the UK certainly led the way there. Based on channels, both our e-commerce and our outlets were particularly strong for us. And from a merchandise view, branded bridal, fashion diamonds and watches all performed well.

Signet delivered second-quarter profit driven by the strong execution of our strategies. Organic operating income was $124.1 million and that was up by $18.6 million, or 17.6%. And organic earnings per share was $1 and that was up by $0.16 or 19%. For the first four weeks of the third quarter, we have had a very positive start, most notably in Sterling and in the UK. We remain very well-prepared for the second half and especially for the all-important fourth quarter. Mark is going to discuss some of our initiatives for this important holiday selling season here in a few minutes.

Let's take a look now at Signet's second-quarter sales performance by our new divisions and SEC operating segments as a result of the Zale acquisition. Sterling's second-quarter total sales were $810.4 million and that was up by $69.3 million, or 9.4%. Same-store sales increased by 6.7%, a very strong number. Kay comps led the way with an extremely strong 8.1% increase while Jared increased by 4.9% and hey, that is also a great comp number. The success in Sterling was driven in part by a 16.6% increase in e-commerce sales and a variety of branded and nonbranded merchandise initiatives. In a few minutes, Mark is going to walk you through our product performance for each of our three major divisions being Sterling, Zale and the UK. He will also discuss some future opportunities for new merchandise going forward.

The Zale division, which we owned only for the last two months of the quarter, delivered total sales of $247.5 million and had a comp decline of 0.9%.

Our UK division's second-quarter total sales were $162.9 million. That was up by $23.8 million, or 17.1%. Same-store sales increased by 4.4% and e-commerce sales increased 61% in total. But to be fair, it was 43% in constant currency. So to put it into a more of a comp basis, 43%, hey, that is still a great performance by the UK e-commerce division. The UK increases were driven principally by the benefits of strategic moves we've taken around diamonds and gold based upon better understanding of our customers and the type of products, pricing and promotions that they require. For the quarter, jewelry and watches increased and were led by branded programs, including the Forever Diamond program and Michael Kors.

Signet sales growth was driven in part by e-commerce sales in total of $50.5 million. Now that was an increase of 61.9% and that does include all three divisions' e-commerce sales. So it's a non-comp number as it includes Zale as well. Still a very, very strong performance.

One of the important drivers of Q2 sales was the outlet channel. All remaining Ultra outlet stores from the November 2012 acquisition had a storefront change to Jared Vault in the second quarter or early in the third quarter. Following the changes, sales improved dramatically. Most Jared Vaults are not yet fully differentiated from the Ultra outlets other than the storefront, but additional merchandise distinctions are coming soon and as the benefits are even more apparent in the few stores where we have already reassorted the merchandise, we are looking forward to the future of the other stores.

Part of the strong year-over-year performance by our outlets could be attributed to the improved positioning of these stores versus last year when the outlet portfolio was really early on its conversion. That is to say that systems and some field operation initiatives were in place, but merchandising and marketing changes were not and training of our new associates was still in progress. Now, however, we see the many strong benefits of the changes that have been implemented as we drive to a very strong outlet business moving forward. This continues to be one of our powerful strategic initiatives.

Now looking at our strategic diamond sourcing initiative. This initiative represents approximately 10% of the value of the entire diamond procurement year to date. It ensures that we have access to the diamond cuts our guests require so that we can execute our merchandise initiatives. In fact, of the allocations we are getting, more diamonds are usable in our stores than we actually modeled originally, which is great and it means we are having to resell very little on the global market. We have expanded our relationships with mining industry leaders such as Rio Tinto and we've added new companies as sources of supply as well. You will hear more about that in the future. Most importantly, the team behind this initiative is becoming a centralized center of excellence supporting the needs of each of our divisions.

That concludes my remarks on the second quarter. In my last couple of slides here, I'd like to speak at a somewhat higher level about the overall organization we put in place and about the progress we've made so far around the Zale acquisition. I am so excited that the management lineups that we now have because of the teams' experience and the working relationships with each other and the commitment for the long term. It's really a great team that we have put together.

As you can see on this slide, we've realigned the management of our core business to fit the current and future needs of our Company. This strategic realignment will help us to build a stronger organization of the future through people, purpose and passion thereby allowing us to successfully execute our mission, which is very simple and that is to help our guests celebrate life and express love.

I like to think of our new transformed organization in terms of one, three, eight. There has been a lot of exciting changes, which I believe will help to lead us to a bigger and brighter future. So I'm sure you guys are wondering what does one, three, eight mean. Well, Signet is one great company and within our Company, we have three very strong divisions called Sterling Jewelers, which includes both the Kay and Jared brands; the UK, comprised primarily of H.Samuel and Ernest Jones; and Zale, primarily comprised of Zales, Piercing Pagoda in the US and then Peoples in Canada. Those are seven incredible national brands with leading marketshares and constitute a leading marketshare in all three geographies, not just one or two. We consider our eighth brand, which is also very powerful, to be the combination of all the regional brands that we have within each division and country.

Now ultimately I'm responsible for all of this, but on a more day-to-day basis, I will continue to spend time on corporate functions, support and strategy while our COO, Mark Light, a 36-year veteran who knows the heart and soul of the jewelry business better than anyone I know, will run the operations. Mark leads a passionate management team, which has worked so well together. They are all about teamwork and collaboration, sharing best practices and delivering excellence. Mark and our three division leaders, Ed Hrabak, who is newly promoted to President of Sterling; Sebastian Hobbs, our Managing Director in the UK; and George Murray, recently promoted to President of Zale, have been leaders of teams that have consistently produced outstanding Signet results. They possess deep understanding of their guests and each of the functional areas within their divisions.

In a few moments, you will also hear from our new CFO, Michele Santana, who I'm also very excited to have here and who I'm certain you will enjoy working with in the many years to come.

Now I'd like to turn the page and talk about the Zale acquisition and some of the accomplishments that we've made since the May 29 close. We've put teams in place to identify the best approaches and opportunities for this integration. The cultural assimilation of the newly combined company is going extremely well. The teams are identifying value-creating opportunities and they will continue to work together for at least another year. We are making so much progress that I now expect we will deliver $150 million to $175 million in synergies from this acquisition for the first full three years from January 2015 through January 2018.

As I've mentioned, I could not be happier about the lineup I've put out on the field. First and foremost, it is about the people. There have been many changes among the Zale leadership team and there have been some modest changes at other levels in the Zale division, but nothing unexpectedly disruptive. It has been good change and again, I am extremely pleased with our reenergized and motivated team that is ready to move forward in collaboration with all the remaining team members in our combined organization, which by the way now numbers approximately 30,000 people strong.

In store operations, for the first time in over 10 years, we are instituting a managers meeting, which we call a leadership conference, to gear up for the holiday selling season. Modeled after the incredibly successful event that Sterling does every year, the Zale leadership conference will bring store managers and other store ops leadership together next month for a multi-day conference to learn, practice and get energized about the holiday season's strategy, products and priorities.

Around procurement, we've started to centralize the diamond buying process. We are already seeing incremental savings as we put Signet best practices in place. Regarding merchandising, we are already testing the cross-selling of certain collections. Some of the more high-profile brands of Zale are testing in Kay and vice versa. We are leveraging Signet's media relationships to enhance the media mix and exposure to Zale brands we'll receive for the 2014/2015 year and by combining our investments, we are seeing a net improvement in pricing for the entire Company. We are also leveraging capacity in our backend business model to drive greater effectiveness and cost savings in repair and custom design.

In conclusion, as you can see, we are making a tremendous amount of progress on this integration. I couldn't be more excited about the position we are in today and where we are headed. So with that, I will now turn the call over to Signet President and Chief Operating Officer, Mark Light, for some words about our Q2 and second-half performance drivers.

Mark Light - *Signet Jewelers Limited - President & COO*

Thank you, Mike. We have a variety of drivers behind our great Mother's Day and second quarter, most notably it was due to our sustainable competitive strengths that include our superior customer experience, our exciting merchandise offerings, effective marketing and multichannel approach. The customer experience is essential to our success and we remain focused on the training and development of our store teams in each of our three divisions. A good example of our training and development is our managers leadership conference Mike just talked about.

Now let me take a little time to talk about what drove our business within each of our three divisions during the second quarter in both our branded and nonbranded merchandise programs. In our Sterling division, our Le Vian and Neil Lane brands continue to do very well along with our color diamond collections, Artistry and Vivid. In our UK division, the luxury and fashion watch brands continue to perform well, along with our bridal diamond brands, Forever and Perfect Fit in H.Samuel and Le Vian, Tolkowsky and Neil Lane in our Ernest Jones stores.

In the Zale division, the Vera Wang Love collection, Celebration Diamond assortment and the Arctic Brilliance collection all did well. And an exciting new diamond setting technique is doing very well in all three of our divisions. In our Sterling and UK divisions, we call them Diamonds in Rhythm and in our Zale division, it is called Unstoppable Love. Our marketing efforts generate strong financial returns led by bridal and successful Mother's Day programs specifically in our Sterling and UK divisions. We also saw success across selling channels. E-commerce and outlet sales were up significantly. The e-commerce performance was driven in part by 37 million visitors to our sites and over 50% of them came through mobile devices.

As we look forward to the second half, we remain confident in our ability to deliver outstanding product ranges that meet our guests' desires. We have tested a variety of line extensions and new programs with strong results. These examples on slide 10 are among the exciting new collections for the second half. And by the way, while it is still in early days of our integration, we have already worked with our team at Zales on some terrific new brand extension ideas for the future. More on that will be forthcoming as we get momentum behind these ideas and begin testing.

We are pleased to have started an association with the Smithsonian Institute, the Earthly Treasures Smithsonian collection is in select Jared stores and available online. It includes a Ceylon Blue Sapphire, London Blue Topaz, Sleeping Beauty Turquoise, Morganite, Sugilite, Grape Garnet and Jade collection in approximately 60 styles and it is only offered in our Jared stores.

We also launched new fashion-forward diamond, gemstone and gold design collections inspired by Sofia Vergara's sense of style. These pieces have bold geometric looks to showcase movement and they feature silver combined with rose and yellow gold along with all gold and all silver designs. These are being tested in our Kay stores. This spring, we expanded our Lois Hill collection and now her handmade collection has diamonds incorporated into some of her designs that are in all of our Jared doors. An additional opportunity is on the line extension of LOIS by Lois Hill, which is in our Kay stores. This collection possesses the same DNA as the Jared collection, but at price points and styles for the Kay guest. We plan to expand the collection to all Kay stores for this fall.

Also within our Kay stores, Lois Hill bridal will be introduced and tested this fall. We also have other promising line extensions such as, in our Neil Lane category, we are testing solitaires and men's rings. And one opportunity with regards to the Zale acquisition around merchandise assortments involves nonproductive inventory. We will eliminate the slowest-moving inventory for the holiday season making way for more desirable, faster-moving merchandise in those stores. We are confident we can improve inventory turns in our Zale division, not only through inventory management science and merchandise initiatives, but also through improving the productivity of our field operations, marketing and other areas that contribute to improved store productivity. We intend to use our outlet channel, vendor relationships and other techniques and channels to turn Zale's inventory at a rate much closer to Sterling's in the future.

We also have exciting new store concepts in various stages of testing or rollout. Importantly, all real estate, be it Kay or Zale's, outlet or enclosed, is all managed by a centralized best-in-class Signet team with consistent IRR expectations. A new generation of the Kay stores is rolling out featuring more side-by-side selling, boutiques, a consultation room and enhanced technology. Jared Vault stores are fully rolled out completing the conversion of our acquired outlet stores. Now a gradual merchandise transition is underway to distinguish these stores even more from Kay, Zale and other outlet competition. We have also launched five Pandora Shop & Shop locations within our Jared stores with a selling concept that mirrors Pandora stores.

In the area of e-commerce, this fall, we have updated our mobile apps to complement our mobile and tablet optimized sites for both Kay and Jared brands within our Sterling division. We will also launch a digital influence campaign working with bloggers and other social media influencers to reach new and expanded audiences.

From a marketing perspective, in all three of our divisions, Kay and Jared in the Sterling division, Zales and Peoples in the Zale division and H.Samuel in the UK division will be increasing TV advertising this fall. And each of our divisions will have new TV creative, which will help promote some of our new campaigns and promotions. And now I will turn the call over to Michele for a run-through on the financials.

Michele Santana - *Signet Jewelers Limited - CFO*

Thanks, Mark and good morning, everyone. So let's start by reviewing second-quarter sales. Mike had offered a similar overview of the numbers on slide 4, so I will just point out a few brief highlights. Starting with Sterling division, total sales increased 9.4% to $810.4 million, which included a same-store sales increase of 6.7%. Sales increases were driven by a balance between both the number of transactions and the average transaction price with the number of transactions increasing 5.8% and the average transaction price increasing 4.6%. The average transaction price increase was driven principally by the mix effect of strong sales in high ticket brands such as Le Vian and Neil Lane.

The Zale division sales were $247.5 million for the quarter and that includes a $9.3 million unfavorable revenue impact due to purchase accounting adjustments. Under purchase accounting, Zale's deferred revenue was reduced on the opening balance sheet from $183.8 million to $93 million resulting in a permanent reset of the associated revenue to be recognized. This adjustment will continue to have an unfavorable noncash impact to Zale revenue over the next several years and will diminish thereafter until fully recognized over the estimated claim period.

UK total sales increased 17.1% to $162.9 million driven primarily by Ernest Jones. Merchandise transactions in the UK increased 4.8% and that was primarily due to higher sales of fashion watches and jewelry and more effective store events. The average merchandise transaction value declined slightly by 0.9% and that is primarily driven by sales mix.

Now moving on, over the next couple of slides, we will look at Signet's consolidated Q2 performance before we then discuss Signet's organic results. Our second-quarter results include the 65 days of performance of the Zale division. In looking at the year-over-year gross margin rate, SG&A ratio and operating margin, there is an unfavorable movement in these rates due to the acquisition of Zale. Zale operates with a lower store productivity and a less efficient operating cost structure and so therefore at present is dilutive to Signet's ratios. Nevertheless, the Zale operations were in line with internal forecasts and were accretive to the quarter.

Accounting adjustments primarily included a reduction of deferred revenue recognized in relation to expanded service plans, inventory fair value step-up amortization, as well as amortization of unfavorable contracts, which were all dilutive to EPS by $0.10. Other factors such as severance, which, by the way, is substantially behind us as we move forward, capital structure and financing and transaction costs also impacted EPS as outlined on slide 13.

Income tax expense was $11.8 million with an effective tax rate of 16.9% for the quarter. The forecasted effective tax rate for fiscal 2015 is 29.3%, which is lower than the 35.1% applied as of first quarter. This reduction of 5.8% in Signet's effective tax rate primarily reflects the benefit of Signet's amended capital structure and financing arrangements utilized to fund the acquisition of Zale. This all led to a reported earnings per share of $0.72 compared to the prior year's second quarter of $0.84.

Next, I will walk you through the breakout of operating income by division. Operating income was $83.5 million or 6.8% of sales and that was made up of the following components -- Sterling Jewelers' operating income of $129.9 million, or 16% of division sales, Zale division operating loss of $9.8 million or 4% of division sales. Now that does include a loss of $11.5 million related to acquisition accounting adjustments, which we just discussed on the previous slide. Excluding the impact from these accounting adjustments, the Zale division's operating income was $1.7 million or 0.7% of sales. And when looking at the Zale division operating income of $1.7 million, that consist of $1.4 million from the Zale jewelry operating segment and $0.3 million from the Piercing Pagoda operating segment. UK operating income was $1.1 million or 0.7% of division sales and other, which other consists primarily of our corporate administrative expenses and Signet's diamond sourcing subsidiaries, was a loss of $37.7 million and that was principally driven by transaction and severance costs.

To give you better comparability to last year, I will share with you our results on an organic basis, which excludes the Zale operations, accounting adjustments and costs related to capital structure and financing, as well as severance and transaction costs. Organic gross margin was $340 million, an increase of $30.3 million with a gross margin rate of 34.8%, down 40 basis points. This decrease was driven primarily by two factors in the UK division. The first being Signet's strategic initiatives around diamond and gold programs, which reduced the gross margin rate, but importantly and successfully drove incremental gross margin dollars.

The second factor was a shift in merchandise mix as a result of strong watch sales. Organic SG&A was $269.6 million compared to $250.5 million in the prior year's second quarter, an increase of $19.1 million and as a percentage of sales decreased 90 basis points to 27.6% and this was driven principally by greater sales leverage on store staff and centralized cost.

Other operating income was $53.7 million, or 5.5% of organic sales compared to $46.3 million or 5.3% of sales last year. This increase of $7.4 million was primarily driven by higher interest income earned from the higher outstanding receivable balances. Organic operating income in the second quarter was $124.1 million or 12.7% of sales, an improvement of 70 basis points. Organic EPS was $1 and that compares to $0.84 in the second quarter of fiscal 2014, an increase of 19%.

Now let's turn to the balance sheet and I will start with inventory. Net inventories ended the quarter at $2.3 billion and that compares to $1.4 billion in the second quarter last year, an increase of $928 million or 65%. The majority of the increase was driven by the acquisition of Zale, a variety of merchandise initiatives in the Sterling division, including branded programs, both new and expanded, as well as new store growth. UK inventory, which increased in US dollars due to the impact of foreign currency translation and being more vertically integrated by growing our rough diamond initiative.

Now just to add a little bit more color on the biggest driver, the addition of Zale inventory. The initial net fair value step-up on the Zale inventory was approximately $31 million. At the end of the second quarter, $27 million remained and that will continue to be recognized in the P&L based on inventory turns and will have the effect of reducing gross margins in Zale. The other item I would point out is that the Zale inventory is now reported on a FIFO basis, which is consistent with Signet's other divisions.

So let's move on and discuss in-house credit metrics and statistics. In-house credit remains an important component of Sterling division's business. Net accounts receivable increased to $1,316.0 million compared to $1,152.1 million last year and that is up 14% driven by higher sales and an increase in the credit penetration rate.

In the year-to-date, credit participation was 60% compared to 57.1% last year. The increase in credit participation is attributed primarily to the credit decision engine improvements, higher outlet participation and strong guest acceptance of our credit offerings. We have recently invested in a new decision engine, which preserves credit requirements, but more accurately scores applicants, which yields more qualified customers. The average monthly collection rate year to date was 12.4% and that compares to 12.6% last year as guests continue to opt more for our regular credit terms, which requires lower monthly payments as opposed to the 12 months interest-free program.

Next, I will move on to credit statistics focusing on year-to-date metrics, which minimizes the effects of seasonality. So on a year to date, our net bad debt expense was $64.1 million compared to $57.8 million last year, an increase of $6.3 million and this is driven primarily by the growth in the receivable balance from increased credit penetration and change in the credit program mix. Year to date, other operating income was $107.7 million compared to $93.3 million last year, an increase of $14.4 million and that is due primarily to more interest income on the higher outstanding receivables, as well as the shift away from interest-free programs.

As a percent of Sterling division sales, other operating income in the year to date increased 6.3% of sales from 5.8% of sales last year. So the net impact of these two items was income of $43.6 million year to date compared to $35.5 million in the prior year, an increase of $8.1 million. Operating improvements made to our decision engine have helped increase credit penetration without adversely affecting the net impact of bad debt. The portfolio continues to perform strongly and that is evidenced by the allowance as a percentage of ending accounts receivable decreasing 20 basis points from 7.2% to 7%.

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So let's move on to some other highlights on the balance sheet. We now carry $1.4 billion of debt and this debt is very cost efficient at an average interest cost of 2.6%. The Zale acquisition was financed in such a way so as to really balance cost efficiency and end up with an appropriate mix of short, medium and long-term debt. As we continue forward, Signet is committed to maintaining an investment-grade rating and a capital allocation strategy that provides for financial flexibility to allow execution of strategic priorities for growth, including M&A, protection if a black swan event should arise, optimization of Signet's capital structure and cost of capital and return of excess free cash flow to shareholders in the form of share repurchases and dividends.

We will remain disciplined, but we will also flex our capital structure as necessary based on the circumstances such as growth opportunities or economic conditions. The Signet Board and management team continue to have a shareholder-friendly history that includes share buybacks, dividend increases, M&A and keeping reasonable cash reserves. We ended the quarter with cash of $215 million as we move into our third quarter, our heavy holiday buying period.

Now let me share with you our guidance. For the first time, our guidance includes the acquisition and integration of Zale. Third-quarter Signet comparable store sales are expected to increase 2% to 4%. Now underlying this guidance, we expect ongoing momentum in our Sterling and UK divisions and slightly positive Zale comps, which should improve sequentially as we continue to work through the integration and build to the holiday season.

Third-quarter adjusted EPS is expected to be $0.12 to $0.18. Adjusted EPS includes the organic EPS and the EPS attributable to the Zale operations, as well as the impact from capital structure and financing costs. So said differently, adjusted EPS includes Signet in its entirety, excluding purchase accounting adjustments and transaction costs.

Now as for these adjustments, purchase accounting adjustments, including a deferred revenue impact of $0.10, are expected to be dilutive by $0.14 to $0.12. Transaction costs, which primarily consists of integration expenses, are expected to be dilutive by $0.09 to $0.07. And if I can just add two final thoughts on this quarterly adjusted EPS guidance, first, Zale operations are expected to dilute third-quarter EPS by $0.21 to $0.19, which Zale has historically reported losses in the October quarter just given the small volume in non-gift-giving period. And secondly, while our adjusted EPS guidance may appear to be lower than last year's third-quarter results, this is really due to Zale and interest expense both embedded in our adjusted EPS guidance. So apples to apples, we anticipate a better Q3 year over year and I'd be more than happy to walk through this further in Q&A if need be.

While we are also introducing annual EPS guidance and therefore Q4 EPS guidance, for the first time and on a one-time basis, because of the complexity of modeling in this early stage of integration, following guidance on this call, we expect to return to giving EPS guidance on a quarter-to-quarter basis. The annual adjusted EPS projection is $5.38 to $5.54, but remains subject to revision later this year. Zale operations included within the adjusted EPS are expected to be accretive to fiscal 2015 by $0.18 to $0.24 and the annual effective tax rate is anticipated to be 29.3% for fiscal 2015.

Capital expenditures guidance for the full year is now $240 million to $260 million, up from our last earnings call and that is due to the imminent planned investments in Zale of approximately $55 million. Looking at net selling square footage, that's projected to grow 45% to 47.5%, including Zale or approximately 4% when excluding Zale. And I would also reference you to see our news release for further details by store concept. Longer term, as Mike mentioned, our three-year synergy ending January 2018 has been increased to the range of $150 million to $175 million.

Finally, I encourage you to see our non-GAAP reconciliation table on slide 21. We have prepared the non-GAAP reconciliation to provide you with a clearer view of the components of our business pre and post-acquisition and we hope that you find this information helpful and useful. And with that, I will turn the call back over to Mike.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thanks, Michele. That was great. In conclusion, I'd like to once again thank the Signet team members worldwide for their incredible contributions to a successful quarter and now we'd be happy to take some time to answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Simeon Siegel, Nomura Securities.

Simeon Siegel - *Nomura Securities - Analyst*

Thanks. Good morning, guys and congrats on the progress. Mike, so as you continue the successful cross-selling, can you talk about the guardrails you have to ensure the specific concepts maintain their own brand identities, I guess? And then, Michele, if we can take you up on your offer, can we talk about the organic results and the guidance maybe? How was the US organic gross margin rate this past quarter? Any thoughts there going forward? You had really impressive leverage in the organic SG&A rate this quarter. Can you talk about that at all, maybe the right way to think about it? And then just lastly, you mentioned interest. So if you can share the interest expectations for 3Q, that would be great. Thanks.

Michele Santana - *Signet Jewelers Limited - CFO*

Sure.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thanks, Simeon. I will start off with the first one and then maybe flip it over to Mark to give a little bit more color to it. We are working very diligently to preserve the identities of both Kay and Zale, knowing that they are both in the malls. Now one thing that a lot of people don't realize is the crossover is less than I would have expected certainly if I had taken a guess years ago. I think it is about 55%, Mark?

Mark Light - *Signet Jewelers Limited - President & COO*

Yes.

Mike Barnes - *Signet Jewelers Limited - CEO*

Somewhere in that neighborhood, so we have the opportunity to leverage that aspect of the business. But having said that, we do want to have very strong brand identities for both brands and we are going to work with -- we have not announced yet who and how, but we are going to work with a major third-party consultant firm to help us with some brand studies, marketing studies and identity of studies going forward. Mark, do you want to add anything to that?

Mark Light - *Signet Jewelers Limited - President & COO*

The survey of the research we will be engaging, as Mike said, not only talk to consumers and understand what is going on with the brands, but we are also going to look at some other companies that have separate brands or separate divisions. So we are going to be very thoughtful and methodical on what we do with this. It's a big question not only to our customers, but to our people. But this fall, we will be testing -- it's one data point for us -- we will be testing 50 Kay stores that will be carrying Vera Wang. We will have 50 Zale stores that will be carrying Neil Lane and be carrying Le Vian and we will also have Open Hearts by Jane Seymour up in Canada, our Peoples stores and they will also be testing Le Vian and Neil Lane up in Canada. So it will be a good data point for us to understand the effects within each store and within the effects store by store.

Mike Barnes - *Signet Jewelers Limited - CEO*

So just to add onto that before we move on to your second question, the bottom line is we are going to do the same thing we always do. We are going to test before we invest and Mark has put together these incredible tests that I think are going to give us a lot of information. We are also going to work with a third-party organization to help us with this process and I'll tell you I have never been more excited about this acquisition than I am today. The integration progress is going along very well. I am not wearing rose-colored glasses here just so you guys know. I know we are going to run into some headwinds along the way and there is going to be issues to deal with. But you know what, we have got the most collaborative experienced management team that I could ever hope for working on this. So I am very excited about the future. Michele, do you want to go into the other point?

Michele Santana - *Signet Jewelers Limited - CFO*

Sure, sure. So let me take you through the guidance in a little bit more detail that we provided for the third quarter relating to organic EPS. So we talked about the adjusted EPS being in the range of $0.12 to $0.18 and when you back out what we've provided in terms of the Zale guidance of $0.21 to $0.19, that would kind of lead you to an organic EPS plus financing costs in the range of about $0.33 to $0.37.

Now what I would say is you should think about interest costs very similar to the impact that it had this quarter and that is kind of roughly about a $0.10 impact. So assume $0.10 on the financing, which would really get you to an organic EPS in the range of about $0.42 to $0.43 up to $0.46. So hopefully that's helpful in terms of thinking of the organic EPS guidance.

I think one of your other questions related to gross margins in the US. So I'll give you a little bit more color on that. Our gross margin in the Sterling Jeweler's division did increase as a percentage of sales by 10 basis points and that benefit was favorably impacted by both sales mix, as well as lower commodity costs. You get a little bit of an offset in there as we are still kind of winding down the gold hedge losses that we had incurred in fiscal 2014, but I'd say substantially that is behind us, just a little bit more to go. And I believe your other question related to SG&A leverage and how to think about that as we move forward. Again, when we think kind of full year, we would expect to continue to see leverage on our SG&A rate driven by sales growth.

Simeon Siegel - *Nomura Securities - Analyst*

All right, that's really great, guys. Thanks. Good luck on the ongoing success of the integration.

Operator

Lorraine Hutchinson, Bank of America Merrill Lynch.

Lorraine Hutchinson - *Bank of America Merrill Lynch - Analyst*

Thank you. Good morning. I just wanted to hear your early thoughts as you begin the integration of Zale. Are there a lot of SG&A investments that need to be made this year to get their stores and salesforce up to Signet standards and is that all factored into your guidance?

Mike Barnes - *Signet Jewelers Limited - CEO*

The answer is yes and yes. We are making a lot of SG&A investment. We are holding a leadership conference for Zale for the first time in well over 10 years and we think it is going to be powerful quite frankly. We have done this annually for the Sterling division for many, many, many years. It has always been kind of the culmination of starting off our holiday season. It really gets the associates and store managers very excited about what we are going to drive for the holiday selling season. They haven't had that at Zale and they are looking forward to it by the way. We have had regional management meetings. Mark Light, myself and George Murray, the President of Zale, we have sat down with the regional managers, we have sat with the district managers and we have talked about the opportunities going forward. And quite frankly, I have never seen more excitement.

When we got to Q&A, we had a lot of questions from people and they were great questions and people are engaged and that is really the key here. They are engaged in the business, they are engaged in wanting to move forward. We have made the management transitions that needed to be made, the people that wanted to opt out did and that is great for them. Wish them the best, all the best because they were very helpful in this transition quite frankly and I have a lot of respect for both Theo and his management team.

But you know what, we have a new management team going forward. The people are excited and we are going to make investments in things like leadership conferences. That is what it is all about. One of the things that we have always held out there is that one of our strategic strengths was people and the way that we develop people for the future, the way that we have led them to drive the store sales and to really take us into the future and we have always said people are the most important thing in our Company and we believe that.

And this Zale team is incredible. Let me tell you. There are some unbelievable people down there. Unfortunately, we have been spending a lot of time down there in August where it is damn hot and I wish it wasn't, but what we have found is that the people have just got this great energy and this great excitement about moving forward and taking this thing into the future and so it really is a great thing. But we will invest in that and it has all been built into our forecast numbers. Believe me, it is a great investment in the future this Company and we believe that we are going to start seeing some wonderful results starting with the holiday selling season in the fourth quarter.

Lorraine Hutchinson - *Bank of America Merrill Lynch - Analyst*

Great. And then what were your biggest surprises that caused you to change the synergy target so quickly?

Mike Barnes - *Signet Jewelers Limited - CEO*

Well, I think it is really a matter of the fact that, when we looked at synergies initially, it was before the close and we had to put those numbers out there and as always, we took a fairly conservative, prudent approach to what we put out there. And we had always hoped that we would find more synergy numbers. But I'll tell you, as we dig into this and Mark, I will let him jump in here next because he is an experienced operator in the jewelry industry, the most experienced quite frankly and he sees things every day that are going to be productive to our future in terms of how we can leverage things between all of our divisions, not just Zale and Sterling, but also the UK division, which he has been working with extremely closely for the past year. So Mark, do you want to jump in there with some thoughts?

Mark Light - *Signet Jewelers Limited - President & COO*

Yes, to Mike's point, before the announcement, we didn't have visibility really into the business. So the more and more we get involved and the reality is Zales and Sterling do the same thing. We sell jewelry to the middle-market sector and that company has been starved for investments in their business and they are operating the company more I would say as a turnaround company as opposed to how we operate, for instance, on how to grow and capture additional marketshare. So there is a lot of areas of the business that I won't be specific on that we see best practices that we can enable and work with the Zale management team and the Zale people.

And to Mike's point, they are very excited. They understand, they looked across the hallway into a lot of the Kay doors and saw investments in technology, saw investments in additional brands, so investments in advertising, saw investments in merchandise assortments and now they are excited about the opportunities going forward to have Signet invest in those parts of the business that they haven't had for years. So yes, the more and more we get involved, the more bullish we are about the opportunities for the Zale division.

Mike Barnes - *Signet Jewelers Limited - CEO*

It is still early days. We hope to find a whole lot more ability to leverage our success across all of our divisions going forward, but we think it's a prudent number to take it up by 50% to 75% to $150 million to $175 million at this time and we are confident in being able to deliver those synergies. Hopefully there is more ahead as we go forward, but we will wait and see.

Lorraine Hutchinson - *Bank of America Merrill Lynch - Analyst*

Thanks and good luck.

Operator

Ike Boruchow, Sterne Agee.

Ike Boruchow - *Sterne Agee - Analyst*

Hey, everyone, good morning. Thanks for taking my question and congrats, everyone, on a great integration so far. I guess my first question to Michele, for the fiscal year, the $5.38 to $5.54, I just want to make sure we are thinking about it right. Does that include a $1 adjusted number for Q2? And then also for Q3 and Q4, just for modeling to help us out, can you help us with what the interest rate and tax rate should look like for those two quarters? And then last, Mike, just the Zale progression throughout the quarter, I know it sounded like the business was negative the first couple of weeks. Can you just talk about what you saw as the quarter kind of progressed and you got your arms around the business?

Michele Santana - *Signet Jewelers Limited - CFO*

Yes, so let me start just in terms of the annual guidance we provided with the $5.38 to $5.54. That would include our Q2 adjusted result as well. And also, as I pointed out, it includes our finance expense in there. So for the second quarter, I kind of indicated roughly finance equated to about a $0.10 impact to EPS. We would expect a similar impact in Q3 and Q4, each of those quarters now that it is a fairly normalized interest expense that we can expect to incur. And in terms of tax rate, our annual effective tax rate of 29.3% is really what you should end up seeing within each of those quarters. 2Q is a little bit of a strange or a lower rate because, again, given that we have that lower annual effective tax rate and a higher rate in Q1, it squeezes that quarterly rate down lower, but you should expect a 29.3% effective tax rate for Q3 and Q4.

Mike Barnes - *Signet Jewelers Limited - CEO*

The only other thing I would add to that, Ike, is the team has done a great job in structuring our capital basis and how we did the financing of this deal and how it affects the results of our business going forward. There is probably going to be some future benefits, not huge maybe, but additional future benefits because we have not had the benefit of this structure for a full year. So you might think about that as well.

Ike Boruchow - *Sterne Agee - Analyst*

And Mike, the progression of Zale throughout the quarter, just kind of what you saw.

Mike Barnes - *Signet Jewelers Limited - CEO*

I'm sorry?

Ike Boruchow - *Sterne Agee - Analyst*

Just the progression of Zale because I mean Zale started out negative the first couple weeks of the quarter.

Mike Barnes - *Signet Jewelers Limited - CEO*

Oh, yes, yes. Well, let's talk about that a little bit. That's a great question, Ike. Zale announced that they didn't have the best Mother's Day results, which is the strongest part of the quarter. We only owned them for the past two months of the quarter, the last two months of the quarter and not during that period. And obviously, there has been a lot of transition integration work going on, a lot of operational work. We are working on inventories. So I would say there has been some distraction in the Zale business. They still were accretive to us in the quarter, slightly accretive.

Obviously, what I am really excited about is the opportunity to take them from where they are today to where they can be and they have got the team to do it. They have got some great people out there and with the leadership that I think that we can help provide them, although they already have some great leadership out there in the field, I'll tell you this district manager and regional manager team, it was a joy to meet with them and work with them and I think that when we put our collective knowledge together that it is just going to be explosive. And that over time, it is going to take some time, but we are going to drive that business. We have really been focused on the fourth quarter and we have told everyone in both Sterling, the UK and Zale, don't let anything distract you from delivering that important holiday selling season in the fourth quarter.

The second quarter, we are finalizing this deal; we are getting it done. The third quarter, we are going to be doing a lot of integration work. We are going to be changing things around. We are going to be imparting a lot of knowledge from one division to another, etc. But the fourth quarter, don't let anything stop you from going out there and executing at the point-of-sale. Don't let operational things get in the way. It is all about helping our customers do two things and that is to celebrate life and express love. That is our mission statement. Everything else is only meant to provide those two end results quite frankly and that is what we are doing.

And what that does is it has a flowing effect and it cascades down and it increases earnings for our Company, it increases our ability to deliver results for our shareholders and to return capital to our shareholders, etc. So all these things working together I think are going to be a powerful combination and this is going to be an absolutely incredible transformational acquisition for this industry.

Ike Boruchow - *Sterne Agee - Analyst*

Great, congratulations, everyone.

Operator

Oliver Chen, Citigroup.

Oliver Chen - *Citigroup - Analyst*

Thanks. Congrats on solid results. Really exciting. Regarding Zale Corp and your comments on inventory opportunities there, what is the nature of the unproductive inventory that you can add and as we look to Zale Corp going forward, what comp drivers are most opportunistic in terms of pricing versus units? Also just a second question on holiday, if you could highlight what you are most excited about on a year-over-year basis with respect to marketing and your thoughts on the pricing and merchandise margin opportunity as we go through holiday and maybe environment out there with the promotional kind of noise (inaudible).

Mike Barnes - *Signet Jewelers Limited - CEO*

Thanks, Oliver. I appreciate your questions. I will start off and then kick it over to Mark and then Michele and we will kind of handle you on a team basis here, tagteam approach. But to begin with, we have found a lot of unproductive inventory and our thoughts were, you know what, let's get it out of there, let's get rid of the unproductive inventory and let's invest in inventory to take this Company forward. And we have the ability to do it, so let's just make it happen. There is no secret in the fact that our turns have been substantially higher than Zale turns in the past and we intend to close that gap. It is going to take some time. I think Mark mentioned in his prepared remarks that we were really working on upping their inventory turns over time and give us a little bit of time to do that, but this is a great start for us to pull out a lot of unproductive inventory and to really build back into some very productive inventory. Mark, do you want to talk about some of the drivers that you expect in the fourth quarter?

Mark Light - *Signet Jewelers Limited - President & COO*

Yes. First off, Oliver, when we looked at the unproductive inventory, it was easy to determine what was unproductive. But more importantly is where we were going to invest the new money and we looked at the fast turning classifications, the fast turning brands, the faster turning programs where quite frankly weren't even -- they was a limited stock. They weren't getting the appropriate replenishment to maximize sales. So the first place we went was the most productive programs and products that they have and that is where we are going to reinvest.

What we are excited about in the future is if you look at the Zales store and their brand portfolio and compared to a Kay store brand portfolio, you will notice that Kay has a lot more brand. So we believe there's a lot of opportunities to continue to expand Zale's brand portfolio through a thoughtful, methodical strategic testing before we invest methodology and we believe there is great upside potential to get involved with more brands and more opportunities and assortments in the future with Zales. We are also excited just about some of the basics where we start investing in Zale systems and sharing our inventory science best practices with Zales. We just think there is going to be a lot of opportunities just in replenishing the assortment of the generic inventory.

Mike Barnes - *Signet Jewelers Limited - CEO*

Also, Oliver, notwithstanding the comp results of Zale during the second quarter, boy, we saw incredible results, as Mark was just mentioning, in some of their branded opportunities. Vera Wang continues to be a strong brand for them. The Celebration diamond collection continues to have a lot of strength. I think to Mark's point, Unstoppable Love, which is the moving diamond that we talked about that is so powerful right now, they just hadn't invested enough into it and didn't have the proper inventory to drive the business during the important parts of the selling seasons and that is what we are working on with them.

We believe that over time we are going to create a synergy with collaboration of all the divisions that we can have an expertise in inventory management and how to drive sales through the execution of how we buy and sell our inventory over the future and that is going to make a big difference in how you see turns in this industry going forward at least within our Company. And Michele, do you want to take the financial question?

Michele Santana - *Signet Jewelers Limited - CFO*

What was the financial element? Oliver, I'm sorry. Did I miss it? Do you have a financial question in there as well?

Oliver Chen - *Citigroup - Analyst*

Yes, I was curious about, as you do engage in the journey at Zale, what comp drivers do you think will be the biggest factors in terms of units or transactions or maybe a combination of both?

Mike Barnes - *Signet Jewelers Limited - CEO*

I will jump on that, Oliver, because I think that is a great question. One of the things that we have seen at Zale, I think it is important to call this out and we really haven't talked about it today much, is the fact that while comps in the second quarter were not particularly great, what was great was margin. We continue to see increased -- strong increase in margin and I think one of the things that Mark and his team are really going to have to tackle is a strong look at the balance between driving sales and driving margin. This has been one of the big things that we have worked on in the UK over the past year and quite frankly with some ideas behind especially our diamond business, which is not as strong in the UK and which is becoming much more stronger now with the collaboration with the US team, Mark and his team working with the UK, I think the same thing at Zale.

We really need to figure out the appropriate balance between driving sales and driving margins with the overall goal of driving profitable store growth long term. That is what it is all about. It is all about profitable growth, long-term consistent results. That is really all that matters to us, not about the short term. They have done great in driving margin up, especially as cost inputs have come down over the last couple of years, but we need to drive the sales as well. And I think with the team working together that we will start to see a balance similar to what we are seeing at Sterling and that is a balance of comps being driven by a combination almost equal of transaction and cost depending on where cost inputs go in the future.

But right now, what I see is a healthy balance. There have been many years where it has been driven by cost alone at the expense of transactions and there were years a long time ago where it was driven by transaction and not cost. But right now, I think there is a pretty healthy balance and I think we are in a good position to help get that team onto the right page in terms of balancing driving their sales and maintaining their margins. The bottom line is that they have done well from an operating income standpoint, but we believe that there is a lot more opportunity out there.

Oliver Chen - *Citigroup - Analyst*

Thank you. And Michele, that's really helpful. What are your thoughts on the holiday season with pricing and merchandise margin? Mike, I know how last year given some volatility in the traffic, you got strategically levered, some allowances to offer better deals. So how are you thinking about that with respect to the upcoming season?

Mike Barnes - *Signet Jewelers Limited - CEO*

Are you talking about in terms of promotions?

Oliver Chen - *Citigroup - Analyst*

Yes.

Mike Barnes - *Signet Jewelers Limited - CEO*

Right now, I think that, and Mark can speak to this as well as Michele, I feel like from a promotional standpoint we are probably going to be somewhat in line with prior years. We don't really see the need at this point to drive additional promotional activity out there. Our expectation is not that this season is going to be highly promotional or highly discounted. We will see what the competition does, but we think that we can maintain our status in terms of driving sales and margins on a fairly balanced basis without having to go overboard in any way promotionally.

Michele Santana - *Signet Jewelers Limited - CFO*

Yes, and I would just echo that, Oliver, that the goal would be broadly maintain margins. Again, I would just point out that when we are all in, including the Zale operation, Signet's overall margins will be dilutive just given that they currently are operating at a different cost structure, but hence the opportunity on a going-forward basis.

Oliver Chen - *Citigroup - Analyst*

Great, thanks a lot. Best regards for holiday.

Operator

Dorothy Lakner, Topeka Capital Markets.

Dorothy Lakner - *Topeka Capital Markets - Analyst*

Thanks, good morning, everyone. Congrats on the quarter and what seems like such a smooth transition so far. In terms of the $150 million to $175 million in synergies, I wondered if you could break that down a little bit in terms of where that is coming from piece by piece. Secondly, I know Mark spoke to eliminating the nonproductive inventory at Zale prior to the holiday. I just wanted to -- if you could clarify that. I just wanted to understand how that process is going to work. And then on the Jared Vault, just how the new merchandise initiatives are going to be rolled or the timing in terms of the rollout of merchandising initiatives there. Thanks.

Michele Santana - *Signet Jewelers Limited - CFO*

So Dorothy, let me take the first part of your question dealing with the breakdown of the synergy target of $150 million to $175 million. Previously, when we had disclosed our initial target of $100 million, we had provided about $50 million of that would come from margin sourcing opportunities, about $20 million from SG&A savings and then about another residual $30 million coming from cross-selling and repair service opportunities. So what I would say is I think looking at the $150 million to $175 million range, I would tell you to broadly think about that in the same terms as what we had previously provided for the breakdown of that. And again, I think some elements of it might come a little bit quicker than others. We are still kind of looking at that three-year full fiscal period. And then I think your second question was dealing with nonproductive inventory, so maybe, Mark, you want to jump in on that.

Mark Light - *Signet Jewelers Limited - President & COO*

In reference to nonproductive inventory, we started pulling out inventory in July. A large bulk of the inventory -- so it's a three-month process. We started in July, we will go through August and September. A big -- a large -- a preponderance of the inventory is being pulled out this month, which kind of is another issue that relates to the Zale numbers because stores are working on pulling inventory out and they will be pretty much finished in September pulling out the inventory and we will start replenishing the faster, more productive inventory that will start coming into the stores September, October and into the beginning of November. So we will see a lot of benefits of that, that inventory obviously in the fourth quarter.

As far as Jared Vault goes, the new merchandise product, which is going to differentiate the Jared Vault stores from all the other outlet competitors, will have a little bit more of the Jared flair. So we will have Pandora in some of our Jared Vault stores, we will have a different type of offering that is similar to what is in some of our Jared stores, but with product that is different from that of the Kay or Zales and competitive sets. So all the new inventory for the Jared Vault stores will be in the stores by the beginning of the fourth quarter, by November 1.

Mike Barnes - *Signet Jewelers Limited - CEO*

One of the things that we probably haven't driven home as well as maybe we should have is, number one, I tell you, this outlet opportunity has been a terrific opportunity for us. As we converted the Ultra stores into Kays and now the remaining ones into Jared Vaults, we are seeing incredible opportunities to really grow the productivity of that business and it is exciting. And now one thing that we shouldn't overlook in the Zale acquisition is that they were right up there with us in terms of outlet business and number of stores. So we have a much more powerful portfolio to move forward with and we are going to be able to drive a much more powerful business. We have learned a tremendous amount since we have put a big focus on outlets following the Ultra acquisition and it has worked. So we are excited about where we are going with that entire business category and by the way, we are testing it in the UK. Mark has worked with Seb. They have put together a test of five or six stores --.

Mark Light - *Signet Jewelers Limited - President & COO*

Five, six stores this fall. We will have Ernest Jones outlet collections that we will be testing in half a dozen stores this fall in the UK also.

Dorothy Lakner - *Topeka Capital Markets - Analyst*

Great.

Mike Barnes - *Signet Jewelers Limited - CEO*

So we are keeping the foot on the pedal on this thing and it is totally working for us at this point and we are just excited about the growth in the business.

Dorothy Lakner - *Topeka Capital Markets - Analyst*

That's terrific. Just one more housekeeping question. I just wanted to make sure on the interest expense we should be modeling for the third and the fourth quarter?

Michele Santana - *Signet Jewelers Limited - CFO*

Yes, so Dorothy, on the interest expense component, it will follow broadly similar to what we saw in the Q2 and if you picked up the interest expense off the P&L and kind of ran it down that was about a $0.10 impact. So what I would say looking at Q3, Q4, it is a $0.09, $0.10 impact is how you should be thinking of that.

Dorothy Lakner - *Topeka Capital Markets - Analyst*

Okay, great. Thank you.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thanks, Dorothy. And at this point, we have time for probably one more question before we run. So please go ahead, operator.

Operator

Jeff Stein, Northcoast Research.

Jeff Stein - *Northcoast Research - Analyst*

Okay, I'd like to have question A and question B real quickly. First of all, Mark, I just want to make sure I understand, what do you do with the inventory that you are pulling out of the Zale store and how does that run through the P&L and is that one of the comp drivers that you see? And then the second part is, high level, given the fact that you've taken the synergy guidance up from $150 million to $175 million and looking at all the puts and takes, do you see the accretion for next year still being high single digit in the first 12 months? Thank you.

Mark Light - *Signet Jewelers Limited - President & COO*

Okay, I will deal with the first part of the inventory and then turn it over to Michele on how we deal with the accounting of it. There are several options, Jeff, in what we do with the inventory. One is that we work with our vendor community and we talk about working with them on some deals on how we can send back product and repurchase other product. There are other options. We have over almost 300 outlet doors that we have a lot of outlet doors, which is the perfect place to liquidate and get rid of this type of inventory. So those are the two main areas, the two main vehicles that we are looking at.

Michele Santana - *Signet Jewelers Limited - CFO*

And Jeff, from a P&L standpoint, so with the opening balance sheet, how we go through and determine the fair value stepup of inventory is also considering any components of nonproductive inventory. So that kind of gets swept up in part of that process. So when we look at what happens from a P&L standpoint, effectively, what we've done is we have written that inventory down to the value that we would expect to receive any recovery on. So as that clears out and we liquidate that inventory or return it back to the vendors, that will get netted in the P&L at the same time we are receiving the recovery. So dollar wise, it should not really have an impact to the gross margin dollars. Now it will end up impacting the rate because it is really a zero amount that is going to be running through there, so I would expect some slight impact.

And then I think your second question relating to -- with the increase in synergies and how do we think of next year with Zale operations and its accretion, I think at this point we are still committed to what we've said before with it being high single digit accretive and I would say at this time that view has not changed and potentially maybe there is opportunity for us to revisit that, but that is where we sit today.

Jeff Stein - *Northcoast Research - Analyst*

Got it. Thank you very much.

Operator

That was the final question. I will now turn the call back to Mr. Barnes.

Mike Barnes - *Signet Jewelers Limited - CEO*

Thank you. And thank you all for taking part on this call. We really appreciate your interest and your support. Our next earnings call will occur in November when we are going to review our third-quarter results. I hope you all have a great day, have a great holiday weekend and thanks again and goodbye.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.