**Signet Jewelers**
**Fiscal 2015 Holiday Sales Results Conference Call**
**January 8, 2015**

**Operator:**

Good morning. My name is Leanne and I'll be your conference Operator today. At this time, I would like to welcome everyone to the Signet Jewelers Holiday Sales conference call. All the lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press star, followed by the number one on your telephone keypad. If you would like to withdraw your question, please press the pound key.

Thank you. James Grant, Vice President of Investor Relations, you may begin your conference.

**James Grant:**

Thank you. Folks, we hear some bad chat at this end, so we'll try to get that rectified, if you're not hearing us well, as soon as we can, and good morning. Again, James Grant, Investors Relations, and welcome to our holiday season sales call. Hopefully, the sound has improved at this point. We hear it a little better on our end.

On our call today is Mark Light, CEO, and Michele Santana, CFO. The presentation deck we will be referencing is available under the Investors section of our website, 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 and the other disclosures in the annual report on Form 10-K that was filed with the SEC on March 27th of 2014, and the Company's Form 10-Q for the third fiscal quarter of 2015, filed with the SEC on December 8th of 2014.

We also draw your attention to slide number 2 in today's presentation, and I will now turn the call over to Mark. Mark?

**Mark Light:**

Thank you, James. Good morning and Happy New Year to everyone.

Signet performed well, delivering a 3.6% comp store sales increase for the holiday season. This led to a total sales increase of 45.3% over last year, due largely to the addition of Zales in 2014. The diversity and global reach of our retail jewelry portfolio helped to deliver a good holiday performance. While the Sterling division delivered a respectable 2.5% comp, our recent steps taken at Zale in preparation for its first holiday season under the Signet umbrella proved to be very successful as the division delivered a robust 3.5% comp increase. And the UK division recorded its best holiday season sales in 12 years with a 9.7% comp, which was on top of a strong last year.

Success in branded bridal was a clear theme cross each of Signet's divisions, as was omnichannel growth. eCommerce sales increased by 90.9%, and excluding the Zale division, increased by 20%. I am very proud of all the hard work and the execution by our team throughout Signet, and I would like to thank all of them very much for their hard work and dedication.

Now let's take a look at the drivers behind each division's performance. Our Sterling division performed well in a highly promotional environment. We resisted deep promotions and protected our profitability. We had a variety of drivers behind our Sterling results. Bridal brands and non-branded both performed very well. In branded, Neil Lane and Tolkowsky did very well this holiday. Selects (ph) fashion jewelry also did good. Diamonds in Rhythm, which was first introduced in the fourth quarter of last year, is a great example of how we successfully extend merchandise lines by creating fresh products that are trend-right. LeVian and diamond-stud earrings also sold well. Our results were partially offset by softness in the sale of lower price point fashion jewelry collections.

Our multi-channel offering continued to embrace and engage customers in shopping platforms of their choice. This led to strong holiday season growth among Sterling's network of outlet stores and eCommerce, including mobile. Our direct mail and guest appreciation events which target our most loyal customers were successful. We believe our commitment to being best in bridal, which among its planks (ph), includes continuity advertising, paid off for us in the holiday season, and our industry-leading store teams accommodated our guests with passion and enthusiasm throughout the holiday season.

The Zale division delivered a very strong holiday season. This was due to a variety of planned investments and initiatives in marketing in the right brands and our merchandise offerings, as well as our store teams. As for marketing, stores added in-store signage, new (inaudible) and creative with more impressions and reallocation of ad placements delivered powerful emotional messages about our brands and we believe had a favorable impact on our store traffic. In merchandising, branded product, most notably in the bridal category, performed very well. Vera Wang Love, the celebration diamond collection, and the arctic brilliant collection all did well. Fashion jewelry was led by strong sales in our Unstoppable Love collection, as well as good contributions from our gemstones (ph) categories.

And our store teams, they focused on training on features and benefits of all offerings, specifically on bridal and Vera Wang. We also increased payroll for appropriate floor coverage and new incentives. Holiday season results in Canada were particularly strong, driven by marketing and merchandising reasons I just cited, as well as stronger in-store events, customer relationship marketing and cross-selling of Sterling division brands. While the testament of cross-selling certain collection between the Zale and Sterling divisions got off to a good start in Canada, it is still too early to render a sound judgment of how it did in the United States.

Our UK division delivered a fabulous holiday season, accelerating its already strong momentum throughout the calendar year of 2014. The UK results were driven by a variety of initiatives around merchandising and field operations, as well as marketing and channel development. We had great success in bridal and diamonds, due in part to field operations changes that focused our team members on first selling and customer engagement as opposed to task (ph), continued training on the perfect diamond sales presentation and strategic commissions and incentives. Also, strong customer acceptance and increases of all of our bridal-branded portfolio, which continues to improve our position as best in bridal in the United Kingdom.

We also delivered strong watch sales across our portfolio. Our superior team and merchandise were supported by effective new TV advertising for H. Samuel and omnichannel management, including newly-designed, well received websites, plus our first Ernest Jones outlet stores. Finally, our UK stores did a fabulous job of preparing for and taking advantage of the emerging trend in UK retail of Black Friday shopping.

So with that being said, having gone through the drivers, I would now turn it over to Michele for a closer look at the numbers.

**Michele Santana:**

Thanks, Mark, and again, Happy New Year to all.

All right, let's start with looking at Signet in total. Signet's total sales for the holiday season were $1,854.4 billion, an increase of 45.3% over the 2014 holiday season. In the Sterling division, same-store sales increased 2.5% and total sales grew 4.2% to 1.1 billion, with Sterling's growth rate in line with holiday season retail forecasts by the (inaudible) and ICFC. Kay comps led the way at 3.4%, and Jared increased 1.5%. In both Kay and Jared, the average transaction value increased, driven by bridal, which was partially offset by a decline in the number of transactions. The transaction declines, particularly in Jared, we believe were due to the highly promotional holiday season that has become the retail norm. Our Jared stores compete with an everyday low price strategy, along with broader services and deeper assortment as part of a selling proposition. At Jared, as well as the entire Sterling division, we remain successfully disciplined on price, which protected margins, allowing us to reaffirm earnings guidance for Signet, which we will discuss momentarily.

The Zale division delivered total holiday sales of 521 million and a comp increase of 3.5%. Canada was particularly strong, with a 7.6% comp in Peoples stores. The flagship Zales brand did slightly better than the division as a whole, with a 3.8% increase. For Zale Jewelry, and that includes Piercing Pagoda, we saw an increase in transactions, with a decrease in the average transaction value due to the relative strength in fashion jewelry, led by the Unstoppable Love collection.

Our UK division total sales for the holiday season were 215.1 million, up 5.6% or 10.2% on a constant currency basis. This was driven by a 9.7% comp increase, offset in part by a weaker pound relative to the US dollar. Same-store sales were outstanding in both our store brands, particularly Ernest Jones, which delivered an 11.9% increase. In the UK division, we experienced an increase in both average transaction value and the number of transactions. This was driven by strong transaction growth at Ernest Jones and strong transaction value growth at H. Samuel.

Now turning to our expectations for the fourth quarter and full year. Signet has reaffirmed its financial guidance based on the holiday performance, as well as the favorable January trends experienced thus far. Our fourth quarter comparable store sales are expected to increase 3% to 4%. Our expectations of fourth quarter adjusted EPS remain $2.95 to $3.05, and as a reminder, adjusted EPS is EPS less the two set of adjustments that you see on slide 8, being purchase accounting and transaction costs. Within adjusted EPS, Zale operations are expected to be accretive in the fourth quarter by $0.36 to $0.40. Our annual adjusted EPS is projected to be $5.51 to $5.61, and the fiscal 2015 annual effective tax rate is anticipated to be 29.3%. We have slightly revised our capital expenditure guidance for the full year. Cap ex is now expected to be 230 million to 240 million, down from the previous guidance of 240 million to 250 million. And finally, net selling square footage is projected to grow 45% to 47.5%, including Zales, or when excluding Zales, by approximately 4%.

So moving on to shareholder distribution, reflecting the Board's confidence in the long-term strength of the business and its commitment to building long-term shareholder value, the Board approved an $0.18 quarterly dividend which we announced today.

That concludes my remarks, and with that, I'll turn the call back over to Mark.

**Mark Light:**

Thank you, Michele. In conclusion, I'd like to really thank all the Signet team members throughout the world for their contribution to a successful holiday season, and now we'll take some time for your questions.

**Operator:**

At this time, if you'd like to ask a question, please press star, followed by the number one on your telephone keypad. Our first question comes from the line of Oliver Chen from Cowen & Co. Your line is open.

**Oliver Chen:**

Thanks. Congrats on solid results. Regarding your commentary on the Zale Corp division, could you just give us a perspective on the major opportunities with—in terms of execution and the changes and what kinds of things people are facing in terms of the near-term execution there, and also, could you remind us what percentage of the quarter is left with January sales? That'd be helpful. Thank you.

**Mark Light:**

I'll let Michele start with the latter question, and I'll go to the Zale drivers.

**Michele Santana:**

Yes, so I don't have the actual percentage off the top of my head. Overall, our fourth—our holiday season is about 80% of our full year sales, and January being significantly less significant to the quarter as compared to November or December. I will look to get comp—or the percentage calculated and maybe by the time Mark answers the execution question, I'll have that information for you.

**Mark Light:**

So thanks, Oliver. As it relates to Zale and what drove the business during the November/December season, first and foremost is our bridal business was very, very strong, and as we stated in the past, we've made a conscious effort to invest specifically in the Vera Wang collection, not only in the assortment but in new creative advertisement that was on TV, and we increased the weights of impressions on TV (ph) for Vera Wang, along with our celebration diamond and our hearts of brilliance diamonds. So as a whole, our entire bridal business did very well, and that was helped out by a lot of training that was done by our field at the Zale team to focus on features and benefits of our bridal product categories that we have. So it was a combination of bridal did very well for us, the focusing of our targeted marketing towards bridal and investing more in marketing of Vera Wang. We also invested in more inventory as it relates to Unstoppable Love, which is a product category which was very hot this year and last year. Zales did very little of that last year, and we increased that assortment dramatically and had tremendous sales of that. We also had certain promotions, what we call our private events in our stores for our preferred customers that we used some of Sterling best practices that we did in the Zale division, which was also very successful.

So let me summarize again, Oliver. Investments in key bridal brands, both in inventory, training and TV advertising creative, investment in training of our people, along with some special trip incentives that we had for the people this year, investment in—and focus on best practices at preferred customer weekend and special promotion and events. So we were actually very happy with what the Zales team accomplished this fourth quarter, and we're really excited about the way they are really taking to our initiatives.

**Oliver Chen:**

Thank you.

**Michele Santana:**

Hey, and Oliver, just to go back to your first question, I want to clarify because I might have misspoke (ph). So in terms of January, that's, call it about approximately 20% of the fourth quarter sales; 80% is done in the fourth quarter with the holiday season, so just want to get back to you on this.

**Oliver Chen:**

Perfect. Just as a quick follow-up, are you—could you speak to briefly traffic trends amongst the banners and also, your feeling on inventory levels relative to each banner and how you're positioned currently versus, you know, going forward?

**Michele Santana:**

Yes, so why don't I start with the inventory levels. We did end the holiday season with higher inventory levels than what we had anticipated in both Zale and Sterling, and so I think we'll see some effect of that when we end the quarter. Not concerned by that by any stretch. This is new inventory that we brought in, so I think we feel—still, although inventory levels are slightly higher than where we would want to be, I think given the trend we're seeing in January and moving on into Q1 with our Valentine's Day, we'll work through those inventory levels. So I think there's no concern there.

In terms of traffic – and Mark can kind of chime in as well – you know, we did see some effect from lower traffic trends going into the stores, and we kind of had a mixed approach when you look in terms of, you know, transaction counts, and our Kay and Jared transaction was down over the prior holiday season, and that is partly driven by the lower traffic trends we saw. In the Zale division, you know, we saw strong transaction conversion.

So I don't know if you want to comment a little bit more, Mark, in terms of overall traffic.

**Mark Light:**

Yes. Oliver, you—yes, I really believe you have to look at our divisions completely separately. The Zale division increased their traffic but there were certain initiatives that we did to increase traffic, both with the PC weekend, the preferred customer event that we referred to and also with getting them involved in categories like Diamonds in

Rhythm, or what they call Unstoppable Love, and these are high, high unit type of categories that just didn't get involved in in the past. In our Sterling division, some of our lower price pointed categories, or categories and programs like our Charm Memories (ph) program, like our Open Hearts by Jane Seymour (ph) did not do as well as we had hoped for this season, so we were affected by unit counts that relate to some of the lower price pointed categories and programs we have.

**Oliver Chen:**

Got it. Thank you very much. Best regards for the rest of the quarter.

**Mark Light:**

Thank you.

**Michele Santana:**

Thanks, Oliver.

**Operator:**

Our next question comes from the line of Lorraine Hutchinson from Bank of America. Your line is open.

**Lorraine Hutchinson:**

Thank you, good morning. I wanted to follow up on your commentary around fashion jewelry. Was that just a Jared-specific problem, or was it Kay too? I know you just mentioned the Charmed Memories, and also Jane Seymour. Was it specific categories that weren't working, or was it the fashion jewelry collection as a whole?

**Mark Light:**

As a whole, with the lower price pointed fashion jewelry, Lorraine, it was Open Hearts by Jane Seymour, which is lower price points, Charm Memories. In the Jared division, our biggest brand that we have is Pandora, and we did not do as well as we had hoped for or expected to do in Pandora. So as a whole, it was the lower price pointed fashion jewelry in both the Kay brand and the Jared brand.

**Lorraine Hutchinson:**

Do you think Jared was impacted more by the fact that they don't do the promotional activity that some of their competitors did?

**Mark Light:**

We do.  Lorraine, Jared being an everyday low price retail concept, it has a little bit more challenges when the retail environment is a lot more promotional, and we saw that going in the tough recession years, and so because they don't sell and we don't promote heavy discounts at all on Jared, it is a little more challenging when you're in a promotional retail environment.  That being said, we do think there are ways, and we're investigating and analyzing everything that happened last quarter, and we're looking at ways of how we can—there are ways to, let's just say promote without having discounts, and we're going to look and investigate different ways of doing that for the Jared division.

**Lorraine Hutchinson:**

Do you think you can execute that in time for the key Valentine's and Mother's Day, or will that be a next holiday initiative?

**Mark Light:**

Well, for your our Kay brands and our mall brands, we believe we're very well prepared for the Valentine's Day timeframe.  We always have a more promotional—I would say we're presenting ourself more promotional in Valentine's Day than we have in Christmas, consciously, and also, what's going to benefit both Jared and our Kay brands and our mall brands is that the bridal business, which is a—has been doing very well, did well in November/December, continues to do well in January, is a much bigger part of the business in Valentine's Day in February than it is in November and December.

**Lorraine Hutchinson:**

Great.  Thank you.

**Mark Light:**

Thank you.

**Operator:**

Your next question comes from the line of Joan Payson from Barclays.  Your line is open.

**Joan Payson:**

Hi, good morning and happy New Year, everybody.

**Mark Light:**

Thank you; same to you.

**Joan Payson:**

Thank you. I was wondering, in terms of I guess going a little further on the promotional side and the promotional strategy this year, could you quantify at all how it compared to what was done last year in really any of the concepts, Jared, Kay or Zale?

**Mark Light:**

Sure. Let's start with the—let's start with Kay. As far as promoting, we definitely didn't—we did not promote any more this year than we did last year. If you remember last year, we—obviously, the Christmas season was very promotional and we had weather issues last year which we didn't have to deal with this year. So last year, we—in the tail end of the season, we elected to discount more behind the counters and promote a little more to try to capture back some of that lost sales relative to what happened with the weather, and we made a conscious decision, a strategic conscious decision not to do that this year because last year when we did it, we actually ended up lowering our guidance and we didn't get the gross margin dollars we were looking for. So going into the season, realizing that the business wasn't as good as we were expecting to be, we made a conscious decision not to discount more and make sure we maintain our profitability. So in the Kay brand, we did not promote more. I would say if anything, it was the same or a little less than the previous year.

The same goes for the Jared brand. We did not discount or promote any more on the Jared brand than we had in the previous year. And Zale, by the way, Zales discounting was not more—or promoted more. What we like to think and say is that our promotions were more targeted, and we used some of the best practices that we've learned from the Sterling division and have more targeted promotions, and we've got very nice returns from those targeted promotions this year. So we didn't have—we did not have more promoting this year in Zales, but we have better targeted promoting this year.

**Joan Payson:**

Okay, great. Also, I would say with best practices with Zale, what were some of the biggest surprises out of the business, either what metrics differed most from plan, and was there anything you saw this season that really informs or changes how you were planning on proceeding with Zale going forward into next year?

**Mark Light:**

I would say the big surprises were that the initiatives that we put in place did so well so fast, that the Vera Wang bridal collection did very, very well. The celebration bridal collection did very well. So the investments and the time where we focused on investing in bridal, investing in training of selling bridal, investing of advertising of bridal just did very well. So the nice surprise was that the initiatives that we worked with on the Zales team, the Zales team embraced them and did better than we had hoped for this—and a quicker pace than we expected.

**Joan Payson:**

And were there any early indications from some of those cross-selling initiatives that you've been putting in place?

**Mark Light:**

So in Canada, as we stated in our prepared comments, the cross-selling did very well. We put Levy (ph) on in our Canadian stores, we had Open Hearts by Jane Seymour, in our Canadian stores and both did very well, and we're looking to roll those brands in our Canadian stores next year, so that did very well. In the US, the Zale and the Kay analysis still—we still need more time to understand the cannibalization effect, and just—you know, eight weeks is not enough time for us to make a determination on what we're going to do with that going forward yet.

**Joan Payson:**

Okay, great. Thank you.

**Mark Light:**

Thank you. Have a good New Year.

**Joan Payson:**

Thanks.

**Operator:**

Your next question comes from the line of Rick Patel from Stephens. Your line is open.

**Rick Patel:**

Good morning. Congrats on the solid holiday.

**Mark Light:**

Thank you.

**Rick Patel:**

As you think about the promotional environment you had in the fourth quarter and what you're seeing in commodity prices, how are you thinking about pricing in 2015? I don't think you'd raised them last year, so do you expect to keep it stable again this year, or do you see this as an opportunity?

**Michele Santana:**

Yes, I think I'll go ahead and answer that. We're going through—again, we still expect to see lower commodity cost as it relates, you know, to the gold. As we move forward into 2015, we'll continue to kind of assess our pricing strategies, and you're correct that we really didn't have a price increase in the past year. So it is something that we'll continue to assess, you know, based on what's trending in diamond. We expect some maybe small inflationary increase, some of it could be higher depending on the type of diamond we're looking at or size of it. So I'd say we're in the process of assessing whether we would do a price increase or not. As a whole, directionally, when we look at our margins, again I think we'll continue to expect to see probably some benefit coming through on the margin side just given where we sit on the lower commodity curve.

**Rick Patel:**

And then a question on charm jewelry, you know, it looks like Pandora and Charm Memories performed below plan. Do you think this is a one-quarter fluke, or do you think the demand for this charm jewelry category is slowing down, because this is an area that you've invested in for years so if there is a slowdown in this type of fashion, how confident are you that other products can grow fast enough to offset the weakness there?

**Mark Light:**

I wouldn't—I don't know if it's a one-quarter fluke, but I would say that the bead business has been a stable basic item in our business for a good five years now, and yes, they did slow down and did not do as well as we planned, but they are still very, very large businesses for us, both our Charm Memory business in the Kay and regional brands and very large business in our Pandora with our Jared brands. So we believe it was a soft quarter but, by the way, in our UK business, our bead business was very strong. I mean, strong double-digit increases, and if you look at our bead business in the UK business, two years ago and even last year, we had major declines. So we believe there just—could just be a—could just be a quarter issue, and we believe that beads is going to be a staple in our business.

That being said, we are always focused on looking for other traffic items, other areas of lower price point units to make certain that we bring traffic into our stores. So we're never complacent with the lower bead business, but we don't believe it's just—this is a fad and that business is done. We believe it could be a one-quarter issue.

**Rick Patel:**

Just one more, if I may, on watches. You know, it seems like another strong quarter performance there. You know, what do you think is driving that strength? Are you rolling out certain products into more stores? Is it marketing initiatives? Just how do we think about that?

**Mark Light:**

There are several brands that really outperformed very well. In the UK division, Michael Cores (ph) did extremely well; in the US divisions, Movado (ph) did extremely well, and so what's happening in—with some of these watch lines and watch companies, they're being innovative. In Movado, they have a new program they've had for a couple of years called their Bold (ph) collection, which did well, and Michael Cores obviously is a very hot commodity as a designer goes. So there are certain brands that did very well that kind of carried the day, and then a lot of it is on the backs of their innovation of new designs and new styles that they put out there.

**Rick Patel:**

Thanks very much.

**Mark Light:**

Thank you.

**Michele Santana:**

Thank you.

**Operator:**

Your next question comes from the line of Ike Boruchow from Sterne Agee. Your line is open.

**Ike Boruchow:**

Hi, everyone. Thanks for taking my question. Happy New Year. I guess my first question I would ask is, I understand the core Sterling business looked a little light for the holiday, but the Zale business seems to have come in much better than where you may have planned it, and the UK division even more so with a 9 or 10 comp. Is there any reason the total sales for the holiday come in at or above your expectation? Then the second question I wanted to ask is, I think, Michele, you talked about January picking up in the early part of the month. Can you comment any further, January trends versus the holiday trends that you just reported?

**Michele Santana:**

Sure. So, you know, your question just in terms of sales, and as you stated, I mean, the UK was unbelievable. You know, we didn’t project nor plan to see comps that we saw, especially given, you know, the 5-plus comp that we saw last holiday season. So we were very, very pleased, very proud of our UK team with the execution. Zale, I would—quite honestly, Zale came in better than what we were expecting. I mean, we were hopeful, we put initiatives in place, we weren’t sure if they would be able to take off as quick as, quite honestly, what they did. So Zale, you know, did come in higher than what we were expecting. Sterling, you know, quite honestly, when you look at even a pre-holiday season trend, we were expecting more, I’d say higher comp sales at the Sterling division, but with that said, we were still very pleased. They performed extremely well when you look at the environment that was out there. So I would say, yes, a little bit short of expectations, but nonetheless, nothing to take away from the performance of our divisions.

And your second question relating into the January trend, you know, we don’t go into kind of quoting annual or month or even monthly sales or comp sales, but we are seeing a nice pickup following the holiday season, and what I would say is, directionally, the trends are kind of where we were pre-holiday.

**Ike Boruchow:**

And you said January is about 20% of the quarter?

**Michele Santana:**

Yes, it’s about 20% of the quarter.

**Ike Boruchow:**

Great. Thanks so much.

**Michele Santana:**

You’re welcome.

**Mark Light:**

Thank you.

**Operator:**

Your next question comes from the line of Dorothy Lakner from Topeka Capital Markets. Your line is open.

**Dorothy Lakner:**

Thanks.  Good morning, everyone, and happy New Year.

**Mark Light:**

Thank you.

**Dorothy Lakner:**

I just wanted to kind of make sure I'm understanding what you're saying about the Sterling division, but what it sounds like is that last year, you promoted a little bit more, made some more offers to customers, you got very nice comps at the end of the holiday season but you lowered guidance.  This year, you chose to be—to kind of stick to your guns and not promote any more than you'd planned to, you know, so the comp is a little bit lighter than perhaps you or some of us were expecting.  Is that fair?

**Mark Light:**

I think you summarized it very well (cross talking) very well.  Last year, we—as a retailer, you usually don't want to discount in the last two weeks of December because, obviously, those men are shopping and they're going to shop whether you discount or not.  But because of the holidays, then it was kind of more promotional, and because of the weather, we discounted and did not see the benefits on the bottom line or gross margin.  This year, we made a conscious decision not to discount more getting deep into the holiday, and we believe it was the right decision because we—as you've seen from our guidance, we were able to reaffirm those guidance to what we weren't able to do last year.  So yes, you summarized it well.

**Dorothy Lakner:**

Right, okay.  Then just in terms of the softness in the fashion jewelry category, you know, are there changes that you would make to the balance in the assortments going forward?  Are there certain things you're going to do to hopefully get that category going again?

**Mark Light:**

Yeah, I think, you know, we always are introspective after any holiday season, after any year, and we do a whole what we call "let's learn from all of our divisions."  20/20 hindsight, we—I think we would probably have put more lower price points on TV, we would have put—maybe done a little bit more promoting on TV and we have those levers at our hands any time we want to do that, so 20/20 hindsight, yes, we probably would have done a little bit more promoting, and promoting, I mean presenting more discounts on national TV than we did this year, and so (cross talking).

**Dorothy Lakner:**

For that specific product group.

**Mark Light:**

By some lower price points and product groups and more—some of the more the gift-giving type of product categories, yes.

**Dorothy Lakner:**

Right, okay.  Thanks and good luck.

**Mark Light:**

Thank you so much.

**Operator:**

Your next question comes from the line of Jennifer Davis from Buckingham Research. Your line is open.  Jennifer Davis, your line is open.

**Jennifer Davis:**

Hi, congratulations on a solid holiday.  Most of my questions have been answered, but I was wondering if you could provide a little bit of color on maybe mall versus off-mall and remind us what percent of your sales come from mall-based stores?

**Michele Santana:**

I guess—and, Mark, do you want to talk about a little bit in terms of mall and off-mall. We saw fabulous performance by our outlets and that was, I think, very exciting for us to see.  Mark had mentioned, in the UK, we did open some outlet stores under Ernest Jones.  Solid performance there in the States with our outlets, they outperformed in terms of our expectations, and I think your other question—and, Mark, do you have anything you want to add between mall and off-mall?

**Mark Light:**

Yes, when you talk about mall versus off-mall, the mall—the off-mall stores kind of are broken down into several categories. One is the outlet which Michele spoke to, which did very well, very, very well for all of our brands. Then there's obviously the Jared division, which is—the majority of it is off-mall and, as you know, did not do as well. We believe that was because of the promotional environment, not because it was off-mall. So as a whole, Jared did not do as well and the outlet did obviously very well and outperformed our enclosed mall stores.

**Jennifer Davis:**

Yes (cross talking).

**Michele Santana:**

Just to let you know that in terms of percentage, our mall is about 53% of our sales.

**Mark Light:**

In our Sterling division.

**Michele Santana:**

Yes.

**Jennifer Davis:**

Okay. I'm sorry, on the mall versus the off-mall, I was referring to Kay, if you could provide any color there kind of on the off-mall stores versus the mall stores.

**Mark Light:**

The old…

**Jennifer Davis:**

Or I don't know (cross talking) too much detail.

**Mark Light:**

We just—we haven't analyzed—we analyze outlet versus Kay…

**Jennifer Davis:**

Okay.

**Mark Light:**

(Cross talking) versus Kay, and there's a big difference.  We have not done that analysis yet of dissecting the off-mall versus the mall, Kay stores that are outside of outlets.

**Jennifer Davis:**

Okay, great.  Then is it fair to say, you know, your total sales are pretty much in line, maybe the composition of the comps was a little bit different than you thought it would be but, overall, sales are in line with your expectations?

**Michele Santana:**

Here's what I would say:  Definitely, you're right in terms of the composition looks different than our (inaudible) store expectations going into it.  I would still say that total sales—they fall (inaudible) the lower expectations.  Heading into the holiday season, we probably had higher expectations, but with that said, and again, kind of to my earlier response to the question, you know, we had a solid performance, very happy with the results of our divisions, the execution of our teams but a little bit soft from what we were expecting.

**Jennifer Davis:**

Okay.  Well—and it sounds like January is off to a very good start, so you know, we'll see (cross talking).

**Michele Santana:**

Yes, January's off to a good start.  You know, the caveat there is there's still three weeks left to go, but we're pleased with the trends that we're seeing so far.

**Jennifer Davis:**

All right, great.  Thanks, and best of luck.

**Michele Santana:**

Thank you.

**Mark Light:**

Thank you.

**Operator:**

Your next question comes from the line of Simeon Siegel from Nomura Securities. Your line is open.

**Simeon Siegel:**

Thanks. Hey, guys, good morning.

**Mark Light:**

Good morning.

**Simeon Siegel:**

So to your point about holding promotions, any color on expected gross margins for Sterling embedded within the guidance? Then just for the—quickly on the January, can you remind us how much January and February of last year slowed relative to the holiday trends just given the weather and the store closures? I guess maybe the corollary to that is the—any color within the three to four consolidated guide of where that rounds out? Is that just similar to what we're seeing now? And then why not, I'll throw one more; any color you can give, Mark, on the Vera Wang opportunity you see? Maybe looking out 12 to 18 months, where do you think that exclusive branded product can go for the Zales business? Thanks.

**Michele Santana:**

Yes, so why don't I start. I'll talk first, the gross margin question. So I guess, first, maybe I would just say in terms of gross margin, we don't really start to disclose what that is for the holiday period, but directionally, just to give you some comment on what we expect for the fourth quarter – and, again, I'm going to exclude Zale from the discussion because when you do take Zale into consideration, Zale is dilutive to our gross margin rate year-over-year – but directionally, we would expect gross margins will be higher in the fourth quarter, attributed to, again, we talked about being disciplined on our pricing strategy kind of not falling to the promotional cadence that we saw in the retail, benefits of the lower commodity cost. All of that being in there will lead to a, I think, directionally a higher gross margin in the fourth quarter period.

In terms of comps and where do we expect fourth quarter comps, again, I'd just say I think the guidance speaks for itself. You know, we set a 3 to 4% of expectation for the quarter, and that's where we expect to fall in that range. And then, Mark, do you want to talk about Vera Wang?

**Mark Light:**

Yes, Simeon, as far as it relates to Vera Wang, we are excited about the opportunity for Vera Wang. As I said, we had a very good November/December sales increase, better than we expected with Vera, and we believe we're just getting started with her. We believe there's a lot more opportunities to do more through an advertising, do more with relation to assortment, maybe even do more in the fashion end of the business. We're actually testing Vera Wang this month in our UK stores. Over some 20 stores in the UK we'll bring the Vera Wang assortment in the UK, so we are very excited and think there's very good upside for the Vera Wang Love collection in our stores.

**Simeon Siegel:**

Great. Thanks a lot, guys.

**Mark Light:**

Thank you.

**Michele Santana:**

Thank you.

**Operator:**

Your next question comes from the line of Janet Kloppenburg from JJK research. Your line is open.

**Janet Kloppenburg:**

Good morning, everyone. Congratulations on a good holiday. I just had two quick follow-ons. Does the impact of the fashion jewelry at Sterlings, does that change the outlook for gross margin improvement? I'm wondering if that category has a relatively high gross margin and that the end of performance there hurts the opportunity for the level of gross margin opportunity? I was also wondering, for Valentine's Day, if you would keep—if you would maintain a higher level of marketing for the Zale division to take advantage of the great impact you saw at the holiday season? Thank you.

**Michele Santana:**

Yes, I'll just start with in terms of the gross margin question with lower price transaction and some of the softness that we did see in the fashion jewelry collection. You know, I don't believe that there is any significant impact or concern that we see moving forward in terms of gross margin from that standpoint, and I think Mark can speak to your second part of your question in terms of Valentine's Day.

**Mark Light:**

Yes, and as it relates to Valentine's Day, we definitely are investing more in advertising for the Zale division for this Valentine's Day year-over-year, and it's something that we think is a great opportunity. We liked what happened in November/December, and we think there's going to be benefits for the Valentine's Day selling season.

**Janet Kloppenburg:**

Great. Thanks so much.

**Mark Light:**

Thank you.

**Operator:**

Your next question comes from the line of Bill Armstrong from CL King and Associates. Your line is open.

**Bill Armstrong:**

Good morning, Mark and Michele. In the UK, could you discuss the promotional environment there over the holidays, and also, you know, kind of directionally, do you see UK gross margins also increasing along with the rest of the Company?

**Michele Santana:**

Yes, so UK, again, I mean it was just fabulous to see the holiday season and to be part of that journey. What we saw happening in the UK, Black Friday became, you know, the big phenomenon over there, so huge sales coming from Black Friday I want to say was probably about a third of our total holiday season sales. You know, there was a promotional—you know, they are starting to become, I'd say, not quite to the degree of the United States but bringing Black Friday, starting to pull promotions out in advance of that last weeks of Christmas, so there was a little bit more promotional cadence, I would say as a whole, across the industry trend, not so much, I would say, with us. I think we were probably, you know, consistent in terms of promotional cadence with last year.

I think what really worked well for us, again, this is something from the past year we've been working on with the collaboration between Sterling and our UK division on our diamond selling practices, the store trading, we put more TV advertising for our H. Samuel store, and we believe that that was a great benefit that we did see in the holiday season. So I think for us, it was really more of the levers that we went through during the holiday season that we saw the lift in our UK division.

Then I think—I'm sorry, you had another question in there as well.

**Bill Armstrong:**

Just in terms of gross margins, you know, directionally in the UK year-over-year, you mentioned that overall Sterling's gross margins look like they're up year-over-year. I was wondering, just in the UK, how that's trending.

**Michele Santana:**

Yes, I think—just in terms of the gross margin, I would just say kind of what—directionally as a whole, when you exclude Zale, I think our gross margins will have a benefit on a year-over-year basis.

**Bill Armstrong:**

Okay, thank you.

**Michele Santana:**

You're welcome.

**Operator:**

Your next question comes from the line of Jeff Stein from Northcoast Research. Your line is open.

**Jeff Stein:**

Good morning. So, Mark and Michele, a question on Valentine's Day. Given the fact that it is a lower price point holiday, are there any concerns about kind of the lingering effects of what you saw over Christmas in terms of how that may translate to Valentine's Day, and wondering how important—like, what percent of your sales come from beads over the Valentine's Day season typically? Thanks.

**Mark Light:**

Thanks, Jeff. First of all, I want to reiterate a point about Valentine's Day. It is a big bridal month for us, and bridal is a very strong category for us. It was a strong category for us in November/December, it continues to be in January, and as it relates to the percent of business that it is, in Valentine's, much, much higher than it is in Christmas. So that, in and of itself, is a big opportunity for us. As it results to the lower price points, we are putting—because the holiday is more lower price point and we made conscious decisions to have more lower price points marketed on TV, promoted, we have more promotions, per se, being visually visible in front of the consumer, so we feel pretty good about our Valentine's Day presentation to the customers we have; low price point items (inaudible) consumers and we have a good promotional offering for the consumer.

**Jeff Stein:**

Okay. With respect to Zale inventories, I know you guys had a difficult time making changes to their assortments given the timing of the closing of the transaction. Where are you now with regard to Zale inventories? Are they where you want them to be, and if not, when do you see them align properly for selling on a go-forward basis?

**Michele Santana:**

That's a great question, Jeff. Here's what I would say: We made a lot of strides in front of the holiday season on giving what we thought was the right assortment in—going back to the bridal collections that Mark talked about on the Vera Wang Love collection. Also, in terms of the fashion category, which is an area where we saw Zales had struggled in the past on the holiday season in the fashion gift-giving, and we made investments in the Unstoppable Love collection, which was a huge merchandise seller for us over the holiday season. So what I would say is I think we got to where we wanted to be with what we could do for the holiday season. I think there's still an opportunity for us as we kind of move forward and looking at merchandise assortments. Again, I think it's something—you know, it doesn't happen overnight. I think it's a little bit more an evolution that we gradually kind of work our way in there to getting—making sure we have the right assortment for the Zale customer that shops within the stores, but I would say great progress so far.

**Jeff Stein:**

Okay, so it sounds like it's going to be a while yet before you're properly aligned. Would it be mid-year, or you know, would it be fair to say that by fall of 2015, you'll kind of be where you would like to be?

**Michele Santana:**

Yes, I think that's probably fair. I would say I think by fall, I think, again, you know, we have some lessons learned. We'll keep diving into assortment mix as we move through. One of our focuses on inventory turns, we talked before about the differences we see in the inventory turns between our Sterling and our Zale division, opportunity there. So I think we'll be in good shape I'd say by the fall season. Again, not to say that, you know, there's substantial progress that we still have to make. I think we sit pretty good going into Q1, but I still believe that there's opportunity on the assortment mix.

**Jeff Stein:**

Just final question, quickly, eCommerce, were you satisfied with eCommerce sales for the Kay division? I know Zale's probably a little bit farther behind technologically, but how do you feel about your eCommerce offering, and any investments that you still feel need to be made there?

**Michele Santana:**

I feel absolutely great about our eCommerce sales.

**Mark Light:**

Yes, we think—Jeff, from what—from the information we have, we believe our Kay division outperformed the eCommerce (inaudible) in retail over November/December. We always think there's upside opportunities. We continue to invest in our eCommerce business. We have a couple of major launches and enhancements to our websites this upcoming year. So we were satisfied with our results, and we saw the outperformance in retail, but we have a lot more to do and it's a journey that we're going to continually invest in our eCommerce businesses across the board.

**Jeff Stein:**

Great. Thank you.

**Mark Light:**

Thank you.

**Michele Santana:**

Thanks, Jeff.

**Operator:**

Our last question comes from the line of Dana Telsey from Telsey Advisory Group. Your line is open.

**Dana Telsey:**

Hi, good morning, everyone. As you think about 2015 and potential product drivers, what is the next bead—is there a next bead category, and what about watches going forward as you see it in the UK? What are the product trends that we should be looking for to be sales driver for '15? Thank you.

**Mark Light:**

Thank you, Dana. First of all, I want to reinforce that we believe that our best in bridal strategy has been a very, very good strategy, and it continues to be so and it will be going into the future, and that we believe that the more enhancements we put into bridal is the category that we continue to believe we will grow, and we put in enhancements in training, in marketing, in assortments. So we think the bridal business is going to continue to be a strong business for us.

As far as any other opportunities out there, we've got a loss of tests out there, we're testing some very unique different items, different designers. So we're not ready to share what we think the new trend will be next year, but we are ready to share with you that we've got a lot of ideas and tests out there that we'll be excited to share with the marketplace at a latter time.

**Dana Telsey:**

Thank you.

**Mark Light:**

Thank you. Okay, so...

**Operator:**

This concludes…

**Mark Light:**

I'm sorry.

**Operator:**

This concludes our Q&A session. I will now turn the call over to Mr. Light for closing remarks.

**Mark Light:**

Thank you so much. Thank you all for taking part in this call. Our next scheduled call is on March 26th when we review our full-year and our fourth quarter results. I would also want to remind you we will be present at the ICR Exchange conference on January 12th. We'll be webcasting that live and it will be archived on signetjewelers.com. Thank you all again and have a very happy New Year, and good-bye.

**Operator:**

And this concludes today's conference call. You may now disconnect.