PROFILE | **TERRY BURMAN: BEST IN CLASS**

A native of Los Angeles, Terry Burman has been in retail almost all his life. "I grew up in the family department store business, so I worked there in vacations, in school breaks," he recalls. "I've been working in the retail business, really all my life." After a spell in the U.S. Navy, based in the Philippines, he worked as a partner in the ten-store chain. "I left my family business in 1980 and went into the jewelry business. I was brought in by Signet in 1995 after being the CEO of a West Coast-based jewelry chain and then became CEO of the group in 2000. I bring a strong retail jewelry background plus experience in public markets. And I guess, a strong work ethic – I believe in hard work."

What about personal ambition? Burman says: "I really like the business, I like the company, I'm enjoying my work and I plan to continue to run this best-in-class retailer."

Signet's bright performance

Signet Group may be the number one jeweler in its class, but there is plenty of scope for growth. CEO **Terry Burman** explains how to Maurice Geller.

SIGNET

NASDAQ Magazine: How would you characterize Signet Group and its current performance?

Terry Burman: We are the largest specialty retail jeweler in the world. In fiscal 2002, which ended in February, we made pre-tax profits of nearly $330 million on sales of $2.64 billion, with like-for-like sales growth of just over 5 percent. So, in this difficult environment, we're more than holding our own, especially compared to our rivals.

Over the past five years, we've continued to gain market share in both the U.S. and the U.K. Our EPS has been increasing at a compound annual growth rate of more than 20 percent, and we've got a return on capital employed of nearly 24 percent and like-for-like sales growth of more than 6 percent over the past five years.

The group as a whole stands for

excellence in execution, better advertising, better merchandising and better store operations, quality sustained performance and outperforming the market on a continuous basis.

NM: What are the components of the Signet operation?
TB: We operate in two markets, the U.S. – about 71 percent of sales – and the U.K. In the U.S., we have two divisions: Malls and Jared. Our Mall division consists of our national brand Kay Jewelers and regional stores, which are chains under a variety of names that are well known in their specific markets. They've slightly higher price points than Kay, but essentially are also targeting the middle market.

And then there's the group's primary expansion vehicle, Jared, The Galleria Of Jewelry, which is an off-mall category killer or a destination jewelry store and accounts for some 15 percent of U.S. sales. These are about five times the size and carry about five times the inventory as Kay – creating the opportunity for about five times the sales of a mall jewelry store.

We'll open ten to 15 Jared stores this year, to add to the 67 stores we operate, and we'll continue to open ten to 15 a year. We believe that the potential market for the chain is more than 200 stores and more than $1 billion in sales.

We sell primarily diamonds – they accounted for 69 percent of our total sales last year. Kay is the second-largest specialty retail jeweler in the U.S. If Jared were standalone, it would be number eight by sales.

Above: The Leo Diamond range, which is sold exclusively by Signet in the U.S. and the U.K., has its own independent certification called 'Return of Light'

And not only are we continuing to expand Kay in the malls, we're also testing a new format, a new off-mall opportunity in power centers and lifestyle centers, which are the primary shopping center expansions in the U.S. today, and we're opening ten of those this year.

As for the market opportunity: currently we've got about a 3.5 percent share of the total jewelry market – which is worth a little over $50 billion; and about a 7 percent share of the specialty market.

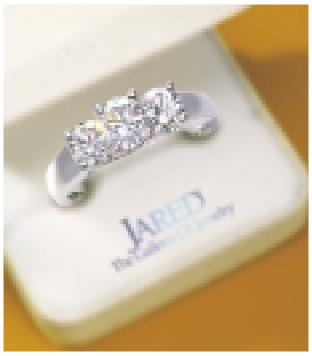
NM: What about marketing and promotional activities – how important are they to future growth?
TB: Kay is one of only two jewelers in the country that can afford national network TV advertising – it's the most effective way to attract customers to your store. In our Jared stores, we spend more than 9 percent of sales on advertising, primarily on radio, but we have been testing television on a local, spot basis in ten markets over the last couple of years and the results are very encouraging.

"Signet stands for excellence in execution, quality sustained performance and outperforming the market on a continuous basis" CEO Terry Burman

NM: That's the U.S. comprehensively described: what about the U.K.?
TB: We're the leading jeweler in the marketplace – we've got a 17 percent share, so we're clearly the market leader. In the U.S. there's opportunity for growth; in the U.K., with 600 stores, we don't have a lot of that – so our primary growth strategy is making existing space work harder. In the U.S., one of the reasons we have such high operating margins by comparison to our competitors is our high average sales per store. In the U.K. we've been successful in raising our average transaction value and by increasing diamond sales from 17 percent to 25 percent of the total over the past five years.

We are also leveraging our strong brand names – we've got the two largest jewelry logos in terms of units with H Samuel and Ernest Jones – by expanding advertising and marketing activities. And finally we've got a new store design, a more open format. We've seen very encouraging results so far: we've got 17 of them in operation; we'll be remodeling 32 stores and building 11 this year in the new format.

NM: Do you think you'll ever venture beyond those markets? And if not, why not – it's a big world?
TB: It is a big world but we have no plans to go offshore. Fifty percent of the world's diamonds are sold in the U.S.; about another 25 percent are sold in Japan; then you've got the U.K. piece. It's a widely dispersed market after that, ▶p46



so it would be a lot of work and a lot of disruption for not a lot of benefit.

NM: You have said that while value and quality, for example, are issues, "price is not one of the key levers that creates demand".

TB: Correct. Price is an issue of course. First of all we price our merchandise competitively, as opposed to being a price leader – price is not the main determinant in a sale. The first thing that's got to be established in the customer's mind is confidence in where they're purchasing their merchandise. We place a high importance on training our people – the Diamond Council of America, the independent industry organization, provides a training course to become a certified diamontologist and we have more of them in our company than any other jeweler in the U.S.

NM: How does Signet monitor and manage what's hot and what's not? How much market research does the company undertake?

TB: We attend major trade shows, of course. We also visit manufacturers regularly and they visit our offices. Being the largest retailer of jewelry in the world, we have no shortage of designers and manufacturers who would like to work with us and propose new styles and ideas.

Our systems provide real-time, online tracking of all of our merchandise and all of our operations: all of our stores are polled nightly. We have a department within our merchandise department called IMPACT – inventory management planning allocation control teams – which tracks trends down to an individual item or store. We merchandise each store individually around a core range based on the categories and price ranges that it sells the best.

And we can ship more than 200,000 items out of our home office in any 24-hour period. Our IMPACT people are constantly looking for trends of merchandise sales, placing reorders and making sure we're in stock in the hot-selling items and expanding the best-selling ranges and cutting back on items that are slowing up.

NM: As well as carrying all the key brand names, Signet has put a lot into developing own-brand lines. Do you have any worries about cannibalizing sales, say, or conflict of interest with suppliers? Do better margins make up for it, anyway?

TB: It's not just about the margins – or raising the price points, necessarily. It's about finding the items that have the features and benefits that are best in class. And when a company can provide best in class, total sales will increase. At Signet Group, our skill set is retailing. We believe we should stick to what we know and let manufacturers do what they know, which is designing and manufacturing. But we are a very desirable partner.

A good example is the Leo Diamond – a patented cut that is independently measured and certified for its superior brilliance. In 2000, we joined with Leo Schachter, one of the world's largest diamond suppliers, for the exclusive distribution of the Leo Diamond in the U.S. and U.K. markets.

NM: Does Signet have ambitions in online retail?

TB: More than 80 percent of our stores are covered by web sites – but these are for information only and to support the brand: they're not for retail. We have examined the possibility of online retailing – but we haven't felt that there's enough sales volume to make it a profitable venture, although we will continue to watch it. Jewelry sales have been slow to grow online because jewelry is an emotional purchase, not a commodity.

NM: Since Signet is a U.K. company by origin, why also list in the U.S.?

TB: In the mid-1980s, the Ratner Company, Signet's predecessor, expanded into the U.S. and acquired Sterling Jewelers. In a much bigger jewelry market, the U.S. has just grown beyond the size of the U.K. Having said that, more than 80 percent of our shareholders are in the U.K., that's where the company is headquartered and we don't see any need to change that. But we established the ADR in the late 1980s and our U.S. shareholder base is growing. N

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GLOBAL VIEW | STRONG SALES ON BOTH SIDES OF THE ATLANTIC

In fiscal year 2002	UNITED KINGDOM H Samuel	Ernest Jones	UNITED STATES Kay Jewelers	Regional chains	Jared
Number of stores	421	192	676	307	67
Average size of store (square feet)	1,124	851	1,444	1,444	5,800
Average sales per store	$1.1m	$1.7m	$1.49m	$1.59m	$4.28m