Signet Group plc Q3 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you. The question and answer session will be conducted electronically. [Operator Instructions]. We'll take our first question now from Dahab Shahri [ph] from Dasco [ph]. Please go ahead.

Unidentified Analyst

Hi. A question on the like for like drop since early November. Do you have any segregation of that in terms of different store brands?

Terry Burman - Group Chief Executive

We don't disclose like for like sales on a store brand-by-brand basis.

Unidentified Analyst

I see. Okay. Thank you

Terry Burman - Group Chief Executive

You're welcome.

Operator

Thank you. We'll take your next question now from James Pan [ph] from CTE Partners. Please go ahead.

Unidentified Analyst

Hi, a couple of questions. I noticed that your receivables year-over-year was up significantly higher than your sales. Can you explain what is causing that factor? Is it a different underwriting standard? Is it a different type of receivable?

Walker Boyd - Group Finance Director

No, I think that --

Unidentified Analyst

And a follow-up question.

Walker Boyd - Group Finance Director

Yes, well, dealing with your first question, the lending standards have remained unaltered. We have had a consistent lending standard over the last several years. What has happened during the current year, as we have indicated is a number of metrics point to a tighter consumer. And one of these is that our monthly collection rate has declined to some degree; no fundamental change, but certainly a slower collection rate. And that's largely a reflection that the average payment which normally exceeds the minimum payment by a significant margin, whilst that continues to be so, that margin has narrowed in the last nine months. So our level of our overall receivables in terms of total dollars has therefore increased more than in proportion to total sales. We don't see that necessarily as a major driver of the higher bad debt charges, but certainly a reflection of people being, less than as a basic monthly repayment, less than they have in previous years.

Unidentified Analyst

Can you quantify the change in pace if it was a typical payback with I think nine months before the slowdown, what is it now?

Walker Boyd - Group Finance Director

Well, I think the --

Unidentified Analyst

What was it before the slowdown and what is it now?

Walker Boyd - Group Finance Director

Well I think the average, if you look on an annual basis, monthly collection rates have been in the 14% to 15%, which is the average period to pay back would be somewhere around about seven months. And the changes of the reduction in a average monthly payment is a movement in tens of basis points rather than percentage points. So that period will have increased probably from about seven months somewhere into just somewhere under eight months. It's a change of that sort of order of magnitude. You said you had, James, a follow up.

Unidentified Analyst

I mean the last question, how high did it get in terms of payback? Did it get up to nine or ten?

Walker Boyd - Group Finance Director

I'm sorry, say that again.

Unidentified Analyst

Well, every time you answer it, I have another question because --

Walker Boyd - Group Finance Director

No, I didn't quite catch your follow up there.

Unidentified Analyst

During the last slowdown --

Walker Boyd - Group Finance Director

Well I think --

Unidentified Analyst

Yes, during the slowdown, how much would... where did the last peak... where was the last peak in terms of payback?

Walker Boyd - Group Finance Director

I think if you look over the last 10 years, and clearly that includes the slowdown of 2001, then our monthly collection period has stayed very much within that 14% to 15% bracket. And as I said, we are still within that range, although less than last year. Clearly, if you go back to the early 90s before debt [ph], our credit portfolio was entirely centralized, then you would have seen a higher period. But I think that comparison then is somewhat difficult. So if we restrict it to over the last 10 years, then we are still within that range of between 14% and 15%.

Unidentified Analyst

Okay. Last question, under what scenario would you... would your company actually start being concerned about your balance sheet and your debt level?

Walker Boyd - Group Finance Director

I think --

Unidentified Analyst

I mean in terms of more negative slower sales and slowdown.

Walker Boyd - Group Finance Director

Well, clearly, I think if you look at the strength of our balance sheet and particularly against our banking covenants which are documented in our Annual Report & Accounts that basically call for fixed charged cover of 1.4 times and net debt to EBITDA of a maximum of three times in terms of the two key covenants. I think even if you look at analysts' forecast today are based on these forecasts. I think our covenants are going to... we would remain well within these. Our fixed charge cover last year was about two times and net debt to EBITDA was somewhere around about 0.6 as opposed to the covenant of three. So against... in the context to that sort of leeway against these covenants, then clearly we still have a very strong balance sheet, and that's something we have always said was paramount. If we go into a slowdown, it is very important that you go into that with a strong balance sheet which allows you to remain on strategy. Clearly, you will vary strategy depending on the economic conditions, but we would not be forced to change fundamentally because of an issue in our balance sheet, and I think that very much remains the case today.

Unidentified Analyst

Okay, thanks a lot.

Walker Boyd - Group Finance Director

It's my pleasure.

Operator

Thank you. We have a question know from Katharine Wynne from Merrill Lynch. Please go ahead.

Katharine Wynne - Merrill Lynch

Yes, good afternoon. I just wanted to clarify two things. Firstly, the indication you've given in terms of the gross margin for the fourth quarter. I think you said in the statement that the third quarter was slightly down slightly more than it was in the first half. Can you actually quantify that and then whether you expect the fourth quarter gross margin to be slightly down or slightly greater decline than we saw in the third quarter? And then I have got a question on the space growth.

Walker Boyd - Group Finance Director

Yes, I will deal with the gross margin question first. I don't want to put particular percentage points on the gross margin. But I think we had said previously that we would expect our third quarter in the U.S., our third quarter gross margin to be down a little bit more than we saw in the first half basically as a result of the continuing increase in commodity costs and in particular the rise in gold which has taken place since the summer. And that clearly will have an increasing effect on our selling margin as it works through into the stock valuation. Therefore, in terms of Q4, the answer would be yes, we would expect some further slippage in terms of the adverse impact of commodity costs as well as the imposition of duty on imports from India which was implemented I think at the end of July. So both of these factors moving against us in terms of as we have moved through the third quarter. And clearly with the proportion of sales in the fourth quarter, which means the acceleration of the impact of the increase in commodity costs, then it has a bigger impact as we go into Q4. And therefore nothing has happened in the last three to four weeks since the sales announcement that has made us alter that sort of analysis.

Katharine Wynne - Merrill Lynch

Thank you for that. And then on the space growth, I think in the context of the UK, you obviously were giving an indication of the store closure program. What does that mean we should be looking at in terms of space contribution in the UK in the fourth quarter? And I would also like to know what we should be looking at for the U.S. as well, please.

Walker Boyd - Group Finance Director

I think in terms of the impact on total sales as far as the UK is concerned, it is going to be fairly small because although we have, as Terry said, somewhere around about 24 H.Samuel closing by the end of the year, a number of them will close post Christmas because the deals we've done in the property have been agreed on the basis that we trade through Christmas. And remember, they are all exclusively in the lower end of our range, so they are not average H.Samuel stores; they are below average. So the net impact in the current year and indeed the fourth quarter on the new space for UK sales is going to be somewhere in the region of 1% to 2% and the impact on operating profit is not basically noticeable because these are all basically marginally profitable stores. The impact for next year in terms of space on UK sales will be a bit more because we will have the full year impact of that, so you are probably going to be talking in the 2% to 3% in terms of total sales. But again, from an overall level of profitability, not really a noticeable impact.

Katharine Wynne - Merrill Lynch

Thank you. And space growth in the U.S. Q4 and also for next year?

Walker Boyd - Group Finance Director

We have said that we expect to be towards the top end of our 8% to 10% space growth in terms of the U.S. On the basis that stores open at around about 60% of maturity in terms of the first full year, then we would look for non-comp sales increases in the U.S. of around about 6% per annum. As far as next year is concerned, clearly at this stage we haven't finalized our plans. But I think we remain with the view that our space increase is likely to be again in that target range of 8% to 10%. But clearly, we need to take a view on that once we get into past the Christmas trading period.

Katharine Wynne - Merrill Lynch

Thank you.

Operator

Thank you. We have a question now from Patrick Forkin from Tejas Securities. Please go ahead.

Patrick J. Forkin III - Tejas Securities Group, Inc

Good afternoon. I know you mentioned that your credit scoring really hasn't changed over the last couple of years, but have you seen any deterioration in the credit acceptance rates over the last several months here?

Terry Burman - Group Chief Executive

Yes, in the last two to three months, we have seen some lower accrual rates. And that's just shown up, as I said, in the last two to three months.

Patrick J. Forkin III - Tejas Securities Group, Inc

Okay. And then your credit promotions for the holiday selling season in the U.S. Kay stores, any changes from what you did last year?

Terry Burman - Group Chief Executive

No, actually, we don't have any... there are no special credit promotions. We have found them to be... we have tested these things in the past, including longer payment terms in various other programs that are out there and we have found them to be meaningless in terms of generating any sales increase. So customers don't... customers come into the mall shopping for jewelry or customers go to our Jared stores because they are shopping for jewelry; they don't shop for credit. Credit is a customer service that we provide that enables the customer to choose among payment plans to make a jewelry purchase. But they are making the decision on that jewelry purchase based on the quality of the merchandise, the fashionability of the merchandise, the value on the merchandise and the customer service that's delivered by the store staff. And therefore it's not surprising to us that in all the tests that we have run, and we've run them many, many, many times with control groups within the same markets against different markets, don't move our total sales line. What they do is they wind up transferring sales between different kinds of credit... different kinds of payment vehicles. So after years of testing these things, we find that if we offer a range of credit programs that enable the customer to make their purchase that they are happy to choose among our various credit programs and we have got sufficient offering.

Patrick J. Forkin III - Tejas Securities Group, Inc

Okay, that's very helpful. Thank you.

Terry Burman - Group Chief Executive

You're welcome.

Operator

Thank you. We have a question now from Loveday Morris, Bloomberg. Please go ahead.

Loveday Morris - Bloomberg

Hi. You've guided that that you are going to be slightly below analysts' estimates. Can you quantify that at all? How much below?

Walker Boyd - Group Finance Director

No, I think the purpose... as we see in the statement that if one looks at the, particularly the U.S. trend in November, one has to recognize that that cannot be ignored in looking at the likely outcome for the year. Against that we still have 75% of our November, December trading to go. So as we say in the statement, given that these two data points and the general increase in economic uncertainty, there is a wide range of outcomes remain possible for the year. And I think it will be for analysts to make their mind up as to the likely direction of the consumer generally over the balance of the Christmas trading statement.

Loveday Morris - Bloomberg

But you can't quantify at all how wide either way that might be?

Walker Boyd - Group Finance Director

No, as I say, I think it is for analysts to make their mind up based on the facts that we have given them and their assessment of the economic conditions as to what they believe the general direction the UK... the U.S. consumer particularly is going to take.

Loveday Morris - Bloomberg

Also, you said U.S. sales down 7%... around 7% in November. Do you have any figure for the UK? You said it was weak and --

Terry Burman - Group Chief Executive

We commented in the UK is that it had weakened. We didn't give a specific figure because it's more difficult to read in the UK. And that's because the weakness, if you will, that's shown up is just shown up in the last few weeks.

Loveday Morris - Bloomberg

Right.

Terry Burman - Group Chief Executive

And in addition to that, we have changed the promotional calendar. So we gave a directional comment about sales in the UK; whereas in the U.S., the trend, if you want to call this a trend, has been in place for a little longer, and that's why we gave this specific number there.

Loveday Morris - Bloomberg

How have you changed the promotional calendar in the UK?

Terry Burman - Group Chief Executive

We changed a large distribution of catalogues from the second weekend to the third weekend in the month.

Loveday Morris - Bloomberg

Okay. Thank you.

Terry Burman - Group Chief Executive

You're welcome.

Operator

Thank you. We have a question now from Fraser Ransem [ph] from Lehman Brothers. Please go ahead sir.

Unidentified Analyst

Hi, good afternoon. Just a couple of question. First of all, on the U.S. business, you've obviously got quite a lot of clarity now on your space growth for the year. Could you quantify what cost growth might be on the back of that space growth, because presumably that is something that's slightly more certain for the fourth quarter, for the fourth quarter that is?

Walker Boyd - Group Finance Director

Yes, Fraser, it's Walker here. I don't think anything has changed in terms of our anticipated expense growth, whether it be in the underlying business in terms of the non-volume related, clearly, there will be some changes in terms of turnover rent and commission payments or in the underlying space growth. So I think we've spoken in the past about total expense increase in the U.S. somewhere in that high single-digit number, keeping underlying business and new space together. To be frank, there hasn't really been any change in that over the last quarter or so. So we would still be in that high single digits as an expectation for overall expense growth.

Unidentified Analyst

Okay. And then just a sort of small one on the November slowdown you have seen in the U.S., is it geographically very broad-based or do find it concentrated in markets where that's perhaps greater stability in issue... in areas such as housing for example?

Terry Burman - Group Chief Executive

It's broad-based.

Unidentified Analyst

Right. Okay. And just to finally clarify, that of course does include Black Friday sales and the weekend, yes?

Walker Boyd - Group Finance Director

Yes. The comment about the 7% is basically on our sales since the beginning of the fourth quarter through Sunday evening.

Unidentified Analyst

Right, okay, thank you very much.

Walker Boyd - Group Finance Director

Our pleasure.

Operator

Thank you. We have a question now from Dan Brontolis [ph] from Citigroup. Please go ahead.

Unidentified Analyst

Good afternoon. Just building on Fraser's question, can you talk us through a little bit more detail the fixed and variable cost base in the U.S., particularly focusing on this like for like decline in November? How much could be offset by variable costs or control of fixed costs and then perhaps looking out to 2009 the same question?

Walker Boyd - Group Finance Director

Yes, I think clearly in terms of the balance of this year, it is very much about those expenses that vary primarily with sales volume. And I think we've spoken in the past that directionally our operational gearing over that short period of time is somewhere in the 40% bracket. So that's basically in gross margin less those expenses which change basically with volume. And the two key ones there clearly are the fairly extensive turnover rent we have in the mall stores and also the incentive-based payments in our store staff. On top of that, clearly then there are additional variables in terms of bank charge, acquiring costs, the boxes etcetera for jewelry. And broadly that 40% as a regional rule of thumb in terms operational giving is a regional one to use. Clearly then as you look out into 2009, and we need to see exactly where the consumer goes over the next few weeks, there is then more opportunity to look at what we would call more fixed expenses. We would, however, say at this stage that those key areas of competitive strength, which in the past as we've said is the quality of our staff and the ability to national advertise. I think given the strength of our balance sheet, it's unlikely that we are going to do things that would be detrimental to the long-term build of our business. Clearly, if the consumer is more circumspect, we are going to run the business more tightly and we will look at efficiencies in these areas as we will in terms of our head office infrastructure. But again, it would be, I think, wrong of us to go for short-term expediency at the detriment of the long-term development of the business.

Unidentified Analyst

Thank you.

Operator

Thank you. We have a question now from John Baillie from Société Générale. Please go ahead.

John Baillie - SG Securities

Good afternoon gentlemen. Just on... could you talk a little bit more about this price realignment in 2008 in terms of quantifying it and is it a position that you are going to have a... plan sort of stable gross margin in the U.S. against price realignment? And are you sort of flagging it in the hope that competitors will shift up in line to, so it's a... it's not a case of becoming uncompetitive?

Terry Burman - Group Chief Executive

No, John, we are flagging it because it's a change from our pricing strategy that needs to be disclosed because you and other analysts like you are all making projections for... on our business... for next year. And therefore we needed to flag this so that you could be... so that we could set... so that you could set accurate market expectations and have full information of what we are doing. In terms of the magnitude of this, we are still working through some of that, and it's going to be different on different truck types of products. So there is certain pricing architecture of the pricing of items and relationship to each other and in relation to shift to some fashion items, basics to fashion items that we have got to... that we've got to get right. So we are still working on the specifics. I can't give you an overall... I can't give you an overall percentage increase on just how much it's going to be. But the recent spike in gold prices... in addition, we see some increase in diamond prices and we would anticipate there would be more next year as the price of rough really hasn't... the increased price of rough really hasn't been translated into polished prices. Really means that, especially on these basic products that we have where we haven't raised prices for several years. However, our commodity costs have been increased. Meaningfully, something's got to give. So we are just announcing so that the market can set their expectations properly that we will be realigning our prices.

John Baillie - SG Securities

Okay. I mean can you give a broad range of between sort of the... contrary [ph] to what sort of move we should be thinking of?

Terry Burman - Group Chief Executive

We are not prepared at this time to start quantifying those increases.

John Baillie - SG Securities

Then should we then expect... but is it based around getting back to a broadly stable gross margin in the U.S. except for the adverse impact of Jared's rollout?

Terry Burman - Group Chief Executive

Well, we need to offset these commodities prices increases that have been... that have worked their way into our cost base. So just where and how much we set those at, as I told you, has not been finalized at this point.

John Baillie - SG Securities

Can I just ask another question just on the level... the inventory level, which is up about 11%. I mean you've got a situation whether you'll see like for likes down 7, inventory up 11. I mean at what point do you feel any pressure to respond to that and maybe become more promotional this season or are you absolutely determined not to change your position on that?

Terry Burman - Group Chief Executive

We've been through slowdowns during Christmas before in the jewelry. And running around and changing your promotional calendar at the last minute I found is not profit productive, and moreover, especially because we've got a good promotional calendar out there anyway and we've also got a category that's reasonably inelastic. In terms of our inventory levels, I don't think you related to the minus 7, which has been going on for about three weeks now. However, we do have a practice of keeping our inventory aligned with our sales. And most of the 11% increase is for new space. And since we set our inventory levels in a new store for third year sales, you normally see in any new space that we open a slightly greater lift in inventory than comes through in the sales line in the first or the second year. So it's a normal position for us to... it's a normal... the increases are not abnormal whatsoever.

John Baillie - SG Securities

Okay, thank you very much.

Terry Burman - Group Chief Executive

You're welcome.

Operator

Thank you. We have a question now from Naomi Shapiro [ph] from J.P. Morgan. Please go ahead.

Unidentified Analyst

Good afternoon. Naomi Shapiro speaking from J.P. Morgan. I just wanted to ask you about the trading update on the UK. Could you tell us if there are [indiscernible] are coming in positive territory?

Terry Burman - Group Chief Executive

As I said earlier, we are not putting a number on it. We are just giving a directional comment, and that's because the change has only been... the weakness that we have seen has only been recent and also there has been a change in the promotional calendar which confuses our ability to really get a solid number on this. So we are just not commenting any further than our comment in the statement.

Unidentified Analyst

Okay. Thank you.

Terry Burman - Group Chief Executive

You're welcome.

Operator

Thank you. We have a question now from David Lynch from Investec. Please go ahead.

David Lynch - Investec

Hi. Could you tell me what percentage of credit applications you are currently rejecting and whether this figure has changed recently?

Terry Burman - Group Chief Executive

In thelast two to three months... first of all, we don't give specific numbers on that, but directionally in the last two to three months, we have seen a slightly higher decline rate on new applicants.

David Lynch - Investec

Okay. Could you tell me how big the debt you've booked currently is?

Terry Burman - Group Chief Executive

It's about $700 million right now. It goes up seasonally after Christmas, but you can see it on the balance sheet.

David Lynch - Investec

Okay. And you just launched a securitization on that $200 million. Has that been drawn on and is that... does that show up yet in the net debt figure? Will it be --

Walker Boyd - Group Finance Director

No, the 200 million is a facility that is part of our long-term plans in terms of just building up what we think is proportionate or appropriate for the business going forward. So we have not yet drawn down on it, and really it's more part of the long-term planning in terms of the appropriate level of facility rather than requirements for the current year.

David Lynch - Investec

Okay. And presumably it could be extending quite easily to a higher figure if need be, if something interesting, for instance, came [indiscernible]

Walker Boyd - Group Finance Director

Sorry, I didn't quite catch your last sentence.

David Lynch - Investec

Assuming the facility could be increased given the 700 million of covers [ph] and the 200 million facility, it could be extended quite a lot generally from that current figure?

Walker Boyd - Group Finance Director

Yes, it could be extended. There is a limitation, however, if you recall on the private placement facility that we put into place in May of last year. There is a limitation as part of that facility on the amount by which we can take secured borrowings, which is basically 15% of total assets. So the 200 million is not the maximum that we would be able to utilize under the private placement facility if the 200 million was based on what we felt was appropriate in the medium term as far as our overall facilities are required. So, yes, the answer is the answer to your question, but not without limitation based on the private placement covenant.

David Lynch - Investec

Okay. Final question. Given the current share prices, are you actually considering buy backs?

Terry Burman - Group Chief Executive

The Board regularly considers that issue based on the... based on corporate needs, our cash flow, our results and the needs of the business. So as you can imagine, we are really not... until after Christmas, we would not make any determination on that.

David Lynch - Investec

Okay. And would management consider putting their hands in their pockets to buy some shares?

Terry Burman - Group Chief Executive

It's up to each manager individually to make those kind of decisions, but we are in a closed period right now.

David Lynch - Investec

Okay, until after January?

Terry Burman - Group Chief Executive

Until after the Christmas Trading Statement on January 10th.

David Lynch - Investec

January 10th. Okay. Thank you.

Terry Burman - Group Chief Executive

You're welcome.

Operator

Thank you. We have got a question now from Simon Webber from Schroders. Please go ahead.

Simon Webber - Schroders

Hi, most of it's been covered, but just focusing again on costs. What are you actually looking for kind of duration of this kind of trading activity or anything else before deciding upon more cost measures, thinking more seriously about the fixed and variable cost control that can be taken in the U.S.?

Terry Burman - Group Chief Executive

We certainly wouldn't make any moves until after... on costs until after Christmas. I think Walker spoke already about costs and we'll any determination that we have in terms of changing some of our plans at that time.

Simon Webber - Schroders

Okay, thanks.

Terry Burman - Group Chief Executive

You're welcome.

Operator

Thank you. We have a question now from Mark Sherlock [ph] from Hermaine [ph]. Please go ahead.

Unidentified Analyst

Good afternoon. I was just wondering, going back to the U.S. trends in November of minus 7%, the only other data point that I have seen is from Zale where their guidance for this quarter was down 0 to minus 2%. Does that mean that you are underperforming the competition or that things would go up significantly worse for everyone?

Terry Burman - Group Chief Executive

I think Mark... I think to a certain extent you are comparing apples and oranges. What they did is they made a comment about our prediction... or market guidance they gave as to the quarter as a whole. So the November through January sales, they predicted, their comp store sales, they predicted would be 0 to minus 2. We made a comment only on the first three weeks of training.

Unidentified Analyst

All right. Okay. I mean, inevitably, there will be a read across I guess from the minus 7 for these three weeks across to Christmas. Is there anything that you can say given what you've seen historically as to the correlation or otherwise between trading at this period and Christmas?

Terry Burman - Group Chief Executive

I wish I could, but I... no... we've been here before and with slow starts to Christmas, and sometimes it carries right though and sometimes it reverses, and there really isn't a correlation. I'd just remind you to the comment in the statement that we do have 75% of Christmas sales still to come.

Unidentified Analyst

Absolutely. But just to be clear, you don't believe that you are underperforming in the competition so far into the period?

Terry Burman - Group Chief Executive

Well, let me just put it this way. I don't think we've outperformed the competition and gained market share for a lot of years straight [ph]. I don't think... and by the way, we've outperformed the competition and gained market share for the first nine months of this year. In the last three weeks, I don't think we've gotten suddenly stupid, and I don't see a fundamental change. There is not fundamental change in the way that we're running our business and I don't see any fundamental changes in the marketplace. So there is little tactical changes here and there, which always occur, but there is no fundamental change in operating strategy that I see out there.

Unidentified Analyst

Okay.

Terry Burman - Group Chief Executive

So, again, I can only say I don't think... I don't know what would cause that to happen for us to be underperforming the marketplace after this long history of outperforming the marketplace.

Unidentified Analyst

Good, good. Thank you.

Operator

Thank you. We've got a question now from Tony Shiret from Credit Suisse. Please go ahead.

Tony Shiret - Credit Suisse

Yes, hi, good afternoon gents. Yes, just a couple of questions on the debtor book in the States. First of all, I just wonder what would be a reasonable forecasting assumption for the bad debt ratio for 2008 bearing in mind that you have kindly given us your views on price realignment to allow us to make more accurate forecasts. And secondly, I just don't know this because I don't know it well enough, but could you tell us what the spread on your debtor book is between your service revenues and your cost of finance gross of any bad debt charges? Thanks.

Walker Boyd - Group Finance Director

I think in terms of... when you say '08, you mean in terms of next fiscal year or year --

Tony Shiret - Credit Suisse

Calendar two... yes, 2008 the year to January 2009.

Walker Boyd - Group Finance Director

I think that clearly is very difficult. We say in the statement there is an increasing level of consumer uncertainty, and obviously you read the same articles as we do in terms of the issues that face U.S. consumers. I think based on our history of the last 10 years, we've seen our net bad debt as a percent of sales within a fairly tight band going from the, I think, about 5.6% of credit sales through to 7% performance in the current year and fairly consistently through the current year has been comfortably within that range. And plus we see the metrics across a range of measures in the credit portfolio, whether it be accept rates, monthly collection rates or indeed bad debt rates, all reflecting a tighter consumer. There have been no fundamental changes so far. So as we sit here today, we wouldn't expect that to occur next year. But clearly we need to see general economic conditions go.

Tony Shiret - Credit Suisse

But Walker, basically, you are saying that there has been about 140 basis points spread on your bad debt ratio as a percentage of credit sales, yes?

Walker Boyd - Group Finance Director

Over the last... in the last 10 years, yes.

Tony Shiret - Credit Suisse

Your bad debt ratio as a percentage of total sales looks like it's gone up by about 40 basis points on this period.

Walker Boyd - Group Finance Director

Yes.

Tony Shiret - Credit Suisse

So --

Walker Boyd - Group Finance Director

On what was a lower... within that 10 years range last year was the lower number.

Tony Shiret - Credit Suisse

So it's fair to assume you are going to go up to the 7 on the credit sales type of figure?

Walker Boyd - Group Finance Director

Not necessarily. I think that is... that's extrapolating out and assuming there are further deteriorations, which clearly, one has to say, is a possibility. So all I would say is repeat that is the range of the last 10 years. That includes clearly the slowdown in 2001 where there was a significant increase on unemployment. We will continue to keep, I think, our lending standards fairly constant. Our credit offer hasn't just been consistent over the last two years; it's been consistent over the last several years. This year we have, in recognizing the metrics moving against us, we have put more effort on in terms of our collection staff, so keeping the lending standards steady and allowing then if there is a deterioration in personnel [ph] balance sheets, that does result, as we've seen in the last two to three months, in a lower accept rate. So if we keep with that strategy then I would say the range of the last 10 years remains a reasonable parameter in which to work with. But within that, where it goes within that, I think will be dependent on how the consumer develops over the course of the next 15 months.

Tony Shiret - Credit Suisse

But presumably, when you were hitting those high levels before, since that time the general availability of credit in the U.S. has become much easier, hasn't it, consumer credit. And presumably, you've had to move sort of in line with that trend in the market. So it's sort of structural sort of change in the way you are --

Walker Boyd - Group Finance Director

No, we have not made our credit offer easier. Our lending standards throughout that 10 year period have been very consistent. So, no, we haven't... we would not chase the credit business in the sense that if there is a proliferation of credit cards by third parties, whether it be bank cards or whoever, then at that time we have seen credit our participation go down. So we would not chase that credit business. We would maintain our lending standards very steady. So if you look over history when certainly credit did become, there were periods over the past when credit has become easier in the States, you've seen our credit participation decline. If you go back certainly into the mid 90s, our credit participation was somewhere in the 56%-57%. Over the last 10, 12 years, that has declined. Clearly, over the last five years, it's been in the 50% to 51% area.

Tony Shiret - Credit Suisse

So where is it now?

Walker Boyd - Group Finance Director

It's still within that 50%-51% range.

Tony Shiret - Credit Suisse

So on that basis, you're basically... your bad debt has... since your total sales have gone up by 40 basis points, the percentage of credit sales has gone up by about 80 basis points within a range of 140. Is that a fair characterization?

Walker Boyd - Group Finance Director

Yes, that --

Tony Shiret - Credit Suisse

So if you went to the max of what you've seen in the last 10 years, it will go up another 60 basis points of credit sales and 30 basis points of total sales, is that broadly what you are --

Walker Boyd - Group Finance Director

In the order of magnitude, yes. Basically, that would be a --

Tony Shiret - Credit Suisse

How confident are you that that would be the sort of extent of it going out to something like 3.6%, 3.7% of sales?

Walker Boyd - Group Finance Director

As I say, I think we've seen this year the metrics move in terms of what we would expect to see in a tighter consumer without fundamental changes. I think where it goes next year will depend on how the consumer reacts as we go through that. In today's climate, sitting here today then I think the range that we've seen over the last 10 years is a reasonable assumption.

Tony Shiret - Credit Suisse

Okay. And the second part of the question... sorry, the spreads you are seeing between the service revenues and the funding debt.

Walker Boyd - Group Finance Director

I think we've said in the past if one takes account of our interest-free portion, which, remember for higher priced merchandise in both the mall stores and in terms of Jared, then our gross yield on the portfolio is somewhere in the 15%, 16%.

Tony Shiret - Credit Suisse

Great. Thanks very much.

Operator

Thank you. We've got a question now from [indiscernible] from Eurozone Capital. Please go ahead.

Unidentified Analyst

Yes, actually a couple of questions. First one is related to your price realignment indication. And I wonder what is your expectation in terms to demand elasticity to that sort of price increase given the fact that the environment has been defined by yourself as challenging. So what do you think is going to be your approach? And the second question is related to the balance sheet, and more generally speaking I mean your opinion about the current stock price, because if we look at the stock price at present, I mean the stock is at the same levels basically what it was at the end of 2002 or 2003. So whether there was a level of bearishness extremely high and it's not very far from where it was I think after September 11. So I was wondering whether you think it is appropriate to maybe be somehow opportunistic also in terms of what to do with your stock at the current levels and not just look at how to spend the cash flow for CapEx and other kinds of growth investments, which are important of course but do you think about the current valuation levels for the stock?

Terry Burman - Group Chief Executive

Well, as I said earlier, in terms of... you are talking about buybacks, and in terms of buybacks the Board regularly reviews that issue and decisions are made depending on the needs of the business, the strength of the cash flow, operating results, the... operator, are we still connected here?

Operator

Absolutely, yes.

Unidentified Analyst

Yes, yes.

Terry Burman - Group Chief Executive

And the results of the business. So we would not frankly make a determination like that in November and December. We are going to... it's important to wait until there is very meaningful quarter or period is over and we'll review... we'll certainly review that issue as we regularly do in January. In terms of the demand elasticity vis-à-vis the price increases, we have some estimates on that. Clearly, it's going to be dependent on... it's partially dependent on the consumer environment, it's partially dependent on the amount of increase we take and then it's partially dependent on how our consumer... I am sorry... how the competitors react to the price increases. So we have got a range of models in terms of that.

We believe it's appropriate to take these increases because of the commodity cost increases that we've faced for the last several years. And we will certainly keep a close eye on what happens to our sales and our gross profit dollars during the period and adjust further if need be.

Unidentified Analyst

Right. Okay, thank you.

Terry Burman - Group Chief Executive

Thank you.

Operator

Thank you. [Operator Instructions]. We have a question now from Tim Ranken [ph] from Blue Harbor Group. Please go ahead. Hello, Mr. Ranken, your line is open.

Unidentified Analyst

Yes, Walker, could you comment on whether you guys increased the bad debt reserve? Yes, can you hear me?

Walker Boyd - Group Finance Director

Yes, sorry. Yes, I can hear you. The bad debt reserve has increased; the methodology has not. Hello, can you hear me? Hello, Tim.

Operator

: Mr. Ranken, your line is still open.

Unidentified Analyst

Yes, yes. Okay. And can you comment to what extent... yes?

Walker Boyd - Group Finance Director

Hello, can you hear me now?

Unidentified Analyst

Yes. Can you comment on to what extent the bad debt reserve?

Walker Boyd - Group Finance Director

Yes, the bad debt reserve has clearly gone up as you can see as a percent to sales and as we --

Unidentified Analyst

Yes, I can. I don't know why we have such a bad connection. Can you comment to what extent did bad debt --

Terry Burman - Group Chief Executive

Operator, if you tell him that we can hear him and that we are trying to answer his question.

Operator

Certainly.

Unidentified Analyst

But as a percent of receivables?

Walker Boyd - Group Finance Director

Yes, in terms of the methodology by which we reserve for bad debt, no, that has not changed. We have had a very consistent policy over the years that says if a debt is past due on a recency basis by 90 days, then we provide 100% for that debt. And for those debts which are not within that category, then we have a provision to cover statistically the likelihood of them going down into that 90 days slot. So overall, the methodology has been consistent, which means if there is any change in the performance of our portfolio, that does show up in the bad debt numbers fairly quickly. So, yes, overall, the reserve has gone up because of the slight deterioration in the performance. But the overall methodology by which we provide for bad debt has remained consistent right through that 10 year period that I was referring to earlier.

Terry Burman - Group Chief Executive

Operator?

Unidentified Analyst

Great, thank you.

Operator

Thank you. There are no further questions at this time. Gentlemen, I would like to hand the conference back over to you for any additional or closing remarks.

Terry Burman - Group Chief Executive

Let's see, our Christmas Trading Statement is scheduled for January 10th next year and will be followed by a conference call, the details of which can be found on our website and in due course. Thank you for taking part in this call. We wish you a happy and healthy Christmas and holiday season. Good bye.

Operator

That will conclude today's conference. Ladies and gentlemen, thank you for your participation. You may now disconnect.