30-Aug-2018

Signet Jewelers Ltd. (SIG)

Q2 2019 Earnings Call

Copyright © 2001-2018 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

Randi Abada
Senior Vice President-Investor Relations, Signet Jewelers Ltd.

Virginia C. Drosos
Chief Executive Officer & Director, Signet Jewelers Ltd.

Michele Santana
CFO & Principal Accounting Officer, Signet Jewelers Ltd.

OTHER PARTICIPANTS

Rick B. Patel
Analyst, Needham & Co. LLC

Oliver Chen
Analyst, Cowen & Co. LLC

Bilun Boyner
Analyst, RBC Capital Markets LLC

Simeon Avram Siegel
Analyst, Nomura/Instinet

Tom Nikic
Analyst, Wells Fargo Securities LLC

Joshua Herrity
Analyst, Telsey Advisory Group LLC

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Leandra and I will be your conference operator today. At this time, I would like to welcome everyone to Signet Jewelers' Fiscal Q2 2019 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks there will be a question-and-answer session [Operator Instructions] Thank you. Randi Abada, SVP, Investor Relations. You may begin your conference.

Randi Abada

Senior Vice President-Investor Relations, Signet Jewelers Ltd.

Thank you. Good morning and welcome to our second quarter earnings conference call. On the call today are Signet's CEO, Gina Drosos; and CFO, Michele Santana.

During today's presentation, we will in places make certain forward looking statements. Any statements that are not historical facts are subject to a number of risks and uncertainties and actual results may differ materially. We urge you to read the risk factors, cautionary language and other disclosures in our Annual Report on Form 10-K and quarterly reports on Form 10-Q.

Except as required by law, we undertake no obligation to revise or publicly update forward-looking statements in light of new information or future events. During the call we will discuss certain non-GAAP financial measures. For a discussion of the non-GAAP financial measures as well as reconciliations of the non-GAAP financial measures to the most directly comparable GAAP measures, investors should review the press release we posted on our website.

Copyright © 2001-2018 FactSet CallStreet, LLC

I'll now turn the call over to Gina.

Virginia C. Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd.

Thank you, Randi. Good morning, everyone, and thank you for joining today's call. I'll begin with a brief overview of the second quarter and then move on to an update on our Path to Brilliance transformation plan and how it is beginning to impact our business. I'll wrap up my comments with a brief overview of the changes to our full year fiscal 2019 guidance.

During the second quarter, we continued to execute on our Path to Brilliance transformation plan and saw early signs of operational improvement in our business. We are in the initial stages of a multiyear journey to invest in growth under our three strategic pillars of: Customer First, OmniChannel, and Culture of Agility and Efficiency, which are enabled by driving out costs customers do not see or care about.

I would like to thank all of our team members for their hard work and support of our customers. The entire Signet team is intensely focused on our plans to deliver the important holiday quarter as well as laying the foundation to be a share-gaining, OmniChannel, jewelry category leader with sustainable profitable growth.

With the closing of the sale of our non-prime receivables this quarter, Signet has completed the strategic transaction to a fully outsourced credit structure. This allows us to focus squarely on our core retail jewelry business and enables significant cash returns to shareholders. Together, the prime and non-prime credit transactions generated nearly $1.4 billion in proceeds, enabling the repurchase of 25% of shares outstanding.

And now I will provide an overview of our second quarter results. Our results in the quarter reflect signs of stabilization in our sales performance with total company same-store sales up 1.7%. Although it is early in our transformation journey, we started to see our results impacted by transformation changes in key demand drivers, clear strategic priorities, greater accountability, and better processes and discipline.

Same-store sales reflected continued strong growth at Zales, Piercing Pagoda and James Allen, and improved performance at our Jared, Kay, Ernest Jones and H.Samuel banners. eCommerce was a strong contributor to growth across all of our banners with legacy banners up high teens and James Allen up 25%.

North America same-store sales increased 2% as we began to see improvements in the key demand drivers of product, marketing and value proposition. On the product side, we continue to increase newness with second quarter results positively impacted by a refreshed core assortment in both bridal and fashion and a larger percentage of unique items in each banner. We also had incremental clearance offers across banners in the quarter and wrote down certain inventory items as part of this strategic effort.

Both our bridal and fashion categories were up in the quarter, driven by increased new product sales and incremental clearance to make room for those new items. Watch sales increased while beads declined due to the strategic decision to reduce participation in our owned bead brands and soft performance in non-owned brands. Our strategic effort to increase newness started first in Zales where we are seeing solid customer response and we are in process of scaling up newness across our other banners.

With respect to marketing, additional investment in bridal at Kay through an always-on bridal marketing strategy to both increase spend and distribute the spend more evenly throughout the year began to show green shoots. This effort began in the first quarter with signs of progress in sales in the second quarter due to the links of the bridal customer journey.

Copyright © 2001-2018 FactSet CallStreet, LLC

For example, a Kay bridal online amplification test of investment in key non-branded search terms showed significant increases in click-through rates and share of voice. We also executed a successful watch promotion on Citizen and Bulova at Kay. We saw strong performance in Enchanted Disney at Zales, which was supported by personalized campaigns targeting Disney fans in collaboration with Disney Digital Network properties.

Across banners, we remain focused on personalized data driven marketing. We began our value proposition work at Jared and have recently completed a pilot of targeted pricing actions along with product assortment changes in a test group of stores and we are pleased with the results. This strategy adjusts prices across the Jared portfolio to optimize customer value and is designed to grow sales and increase gross profit dollars. Our plan is to expand and refine this strategy across the Jared portfolio beginning in the third quarter.

Moving on to credit. We continue to execute our plan to return to operational excellence in offering category-leading payment options to our customers. The operational issues related to credit are improving in line with our expectations. We estimate the impact of the credit transition issues, lower total same-store sales by approximately 160 basis points relative to our pre-outsourcing trend performance.

This is slightly higher than in the first quarter due to calendar shifts and timing of promotions. We do expect some remaining impact on our sales in the third quarter. Going forward, our credit volumes and participation rates will continue to be subject to overall consumer health, mall traffic trends, as well as execution in our stores. We remain focused on optimizing performance within the new credit structure to drive a successful holiday season.

Now I'd like to discuss, how we are laying the foundation of the Signet Path to Brilliance transformation plan, with more to come as we move through this multi-year plan. Beginning with Customer First. In the second quarter, we took an important step to improve the customer experience in our stores. Our Voice of the Customer Net Promoter Score initiative is now live in all key North America banners, measuring both in-store and online customer experiences. We are pleased with our response rates thus far, with feedback from over 126,000 customers in the first few months of launch.

To maximize the impact of this customer feedback, we recently launched a closed-loop feedback pilot in a group of stores where store team members are specially trained and actively following up with customers as they provide us feedback through the program. We see meaningful opportunities to use this data to develop actionable insights that we can roll out across our store banners over time.

Moving on to differentiating our banners. Conventions in the jewelry category have become standardized and our research told us Signet Creative was not distinctive. Over recent months, we've undertaken extensive and thorough customer research to guide the development of clearly differentiated banner positions.

We are on track to deploy the new executions for Kay, Zales and Jared pre-holiday, each of which is designed to align with their unique target customer and value proposition. In essence, Kay customers will feel loved and appreciated as Kay inspires us to cherish our most meaningful relationships, to provide the ultimate expression of gratitude and to champion love.

Zales customers will feel known and stylish as Zales empowers contemporary chic self-expression with a bold, energetic brand personality. And Jared customers will feel cherished and understood, as Jared challenges us to celebrate those we are devoted to with premium jewelry as unique as our love. Research of these banner positions showed strong scores on both purchase intent and differentiation, indicating that we have an opportunity to broaden our audience, especially among women and millennials.

Copyright © 2001-2018 FactSet CallStreet, LLC

As we enter the fourth quarter, these banner positionings will start to come to life for our customers through new cohesive marketing campaigns. Our fourth quarter media strategy that will launch these campaigns will see an increase to digital investment versus last year, as we continue to invest in targeted higher ROI media, part of which will be bespoke partnerships to deliver greater social media customer engagement and activation.

To support our media buying effectiveness this year, we have increased our analytical capability, enabling us to better manage advertising placements, especially in support of key promotions, and to better phase our bridal and gifting messages at the appropriate point of the season.

Finally, our scale enables Kay, Zales and Jared to own sports network integrations with the NFL, NBA and NCAA Football. This holiday season will see the new positioning supported by integrated marketing campaigns and compelling new merchandise with execution across additional customer touch points, as we move forward on our transformation journey.

We continue to increase our Customer First approach to product with more innovative designs and more data-based qualification of initiatives, which brings me to product. This holiday we are launching new collections created by our in-house design team in collaboration with our vendor partners and working closely with our top brands to ensure we are offering the new and exciting product assortment our customers desire. We will also offer more distinctive assortments by banner in line with our new positionings and to continue to refresh core assortment.

Turning to OmniChannel. Enhancing our eCommerce and mobile first OmniChannel capabilities is a key aspects of our Path to Brilliance plan and we continue to see encouraging results. eCommerce as a percentage of total sales was 10.6% in the quarter and we achieved increases in both traffic and average order volume.

Here are a few highlights of key OmniChannel initiatives. We continue to leverage the digital innovation capabilities of R2Net with Segoma 360 degree visualization of top selling designs launching across banner websites in the second half of this fiscal year. R2Net augmented reality mobile Ring Try-On capabilities are currently operational at Jared, currently in pilot at Kay and will be piloted at Zales in the second half of the year.

In addition, we are continuing to optimize a digital innovation program in Jared stores, where we are making over 100,000 diamonds available to customers through a virtual diamond vault leveraging R2Net visualization and diamond market technology. Our recently launched Kay Bridal Configurator positively impacted Kay's eCommerce sales in the second quarter and was just launched at Zales in August.

We continue to focus on enhancing the digital customer eCommerce journey, becoming more agile in testing and quickly deploying enhancements. We are also increasing our investment in mobile. Mobile traffic was a key area of strength in the first half of the year with strong double-digit growth at Kay, Zales, Jared, Piercing Pagoda, and James Allen. For example, in the second quarter, we implemented initiatives to provide customers more relevant on site search results and a faster more efficient checkout process. We also launched the ability for customers to sign in to the Kay, Zales and Jared websites using Facebook or Google credentials.

Additionally, our research showed that customers had to search for the Add to Shopping Bag button when viewing the product page on mobile devices due to the scrolling nature of the page. Adding an ever present sticky Add to Shopping Bag button at the bottom of the screen, increased conversion by 8% during the test and was rolled out during the quarter. We are continuing to see positive results from initiatives launched over the last 12 months

Copyright © 2001-2018 FactSet CallStreet, LLC

including increased personalized content, website appointment booking, the ability to view local store inventory online, and improved product visualization through images shown on a model.

Moving on to Culture of Agility and Efficiency. A key component of our three-year transformation plan is to drive out costs customers do not see or care about in order to lower our cost base and provide funds for reinvestment in growth drivers and enhanced profitability. We are on track to achieve our fiscal 2019 net cost savings goal with approximately one-third achieved year-to-date.

Our plan to close more than 200 stores in fiscal 2019 is also on track and we are focused on our goal of achieving at least 30% sales transference with our new hyper local marketing plans rolling out in the third quarter, well in advance of planned fourth quarter closures. New store openings remain disciplined, focusing on off-mall locations in desirable markets. In addition, we are developing new store concepts, the first of which is a James Allen concept store and showroom in Washington, D.C. This store opens preholiday and will feature advances in digital technology and a millennial-inspired shopping experience.

And now I'd like to make a few comments about culture. It's incredibly important at Signet that we create a workplace experience and culture that will allow us to continue to attract, retain and advance great people. We have the distinct privilege of helping our customers celebrate their most memorable moments. And as such, we strive to make sure that our 36,000 team members are well-trained and engaged in delivering that mission and that they feel supported, empowered and motivated at work every day.

We recently fielded our first employee survey in eight years and I'm pleased to report that our overall engagement levels outperformed retail benchmarks with particular strength in our field operations team. Team members like the work they do, enjoy strong relationships with their immediate managers and, importantly, believe they have a responsibility to promote diversity in the workplace.

We learned a lot from this survey and are committed to further strengthening the training, development and advancement opportunities of all team members, and promoting fresh, diverse and innovative perspectives. These changes are very important for the future of Signet and the growth of our business. Our talented and hard working team members are our greatest strength. And Signet will continue to foster a culture where they are all able to unleash their full potential.

Turning to our guidance. Based on our second quarter performance, we are modestly raising our full year revenue and earnings objectives. We are still early in our transformation plan and continue to expect the vast majority of our operating profit to be generated in the fourth quarter. While we have seen some improvement in the first half, we recognize there is still a lot of work ahead to deliver a successful holiday season. We feel good about our holiday preparations, but recognize that we are making multiple changes in our business this holiday, including branding, product assortment and value equation.

For fiscal 2019, we now expect same-store sales of down 1.5% to flat and non-GAAP EPS of $4.05 to $4.40. Michele will discuss the guidance in more detail in her remarks, but I would like to highlight that we have decided to increase advertising in the second half of the year relative to our original plan and are now forecasting some additional compensation expense due to sales outperformance.

In conclusion, we are confident that Signet is on the right path to create long term profitable growth. Our transformation efforts will take time and there is still a lot of work ahead, although we are encouraged by and building on early green shoots.

Copyright © 2001-2018 FactSet CallStreet, LLC

We remain optimistic that the benefits we are currently seeing and the incremental benefits we expect to see from second half Path to Brilliance initiatives will leave us well positioned to be successful in the highly competitive fourth quarter marketplace.

With that, I'll pass the call to Michele for more details on our financial results.

Michele Santana

CFO & Principal Accounting Officer, Signet Jewelers Ltd.

Thanks, Gina, and good morning, everyone. I'll begin with a review of our second quarter results and then move on to our updated fiscal 2019 guidance and our outlook for the third quarter. For the second quarter, total sales were $1.4 billion, up 1.5% year-over-year on a reported basis and up 1.1% on a constant currency basis.

Same-store sales growth was 1.7%, inclusive of: one, a 40 basis point benefit from a planned shift in timing of promotions at Jared out of the first quarter into the second quarter; two, an unfavorable impact of approximately 160 basis points due to the transition issues related to the October 2017 credit outsourcing; and three, as Gina mentioned in her remarks, as part of our initiatives to increase newness and refocus our product assortment, there were incremental clearance sales in the quarter which positively impacted same store sales by 240 basis points. In addition, James Allen generated $54.4 million of revenues in the second quarter with a favorable impact of 80 basis points on same-store sales.

Other items which did not impact same store sales but impacted total revenue dollars included the following four items: first, the adoption of new revenue recognition accounting standard which contributed $24 million in sales; second, a calendar shift of weeks in the quarter which resulted in a Mother's Day event in Q1 that was held in Q2 of the prior year.

Note that the shift has no impact on same-store sales as same-store sales calculations were adjusted to comparable weeks. The net effect of realigning the weeks following our 53rd week fiscal year, including the Mother's Day shift, was an unfavorable impact of approximately $50 million. Third, an unfavorable impact at store closures of $34 million, partially offset by new store openings; and fourth, foreign exchange benefit of $5 million.

Touching briefly on the sales drivers of our banners. Zales had strong results with mid-single-digit, same-store sales growth driven by strength in both core bridal and fashion as the merchandising changes implemented last year continue to gain traction in addition to slightly higher levels of clearance sales. solitaires, Enchanted Disney, the Vera Wang Love, gold jewelry and diamond fashion were key sales performers.

Piercing Pagoda achieved low double-digit, same-store sales growth and improved sequentially driven by strong double digit growth in our chains, gold earrings and charms business as well as solid performance in piercing.

Same-store sales down 2.1% at Kay benefited from a higher percentage of new merchandise, incremental marketing investments, and incremental clearance sales. While fashion and engagement performed well with refreshed core assortment, each declined as we continued our strategy to exit [indiscernible] (24:31) Watch has also grown in the quarter including the benefit of the watch promotion Gina mentioned in her remarks.

Jared same-store sales growth was 1.2% including a positive 195-basis point impact from a planned promotion shift out of the first quarter. The performance at Jared reflects positive results from the pilot of the customer value proposition that Gina discussed and incremental clearance sales as well as headwind from beads.

Copyright © 2001-2018 FactSet CallStreet, LLC

James Allen performed particularly well with 25% same-store growth and all banners saw growth in eCommerce sales. The results in our international division, which includes our UK operations, improved sequentially but continue to be impacted by overall macro conditions. We saw lower sales of diamond jewelry and fashion watches somewhat offset by higher sales in prestige watches. Our UK banners also saw strong eCommerce growth.

Moving on to margin. The GAAP gross margin rate was 30.1% in the quarter, down 260 basis points year-over-year. GAAP gross margin rate reflects the impact of a $63 million or 440-basis point inventory charge related to brand and collections that we are discontinuing as part of our transformation plan to increase newness across our categories.

Excluding this charge, non-GAAP gross margin was 34.5%, up 180 basis points year-over-year. Transformation cost savings related to direct sourcing, distribution and store occupancy in the quarter offset sales to leverage and a higher mix of clearance sales.

Additional factors that impacted the gross margin rate included the following four items: first, gross margin benefited by 350 basis points as we no longer recognize bad debt expense or late charge income due to the completion of our credit outsourcing; second, the impact of the addition of James Allen, which carries a lower gross margin rate unfavorably impacted the rate by 80 basis points; third, the decision to cease offering credit insurance midyear in fiscal 2018 unfavorably impacted the second quarter margin rate by 60 basis points; and lastly, an unfavorable impact of 20 basis points related to the adoption of the new revenue recognition standard.

SG&A expense was 31.3% of sales in the quarter, compared to 29.2% in the prior year quarter. Total SG&A was up by $36 million over the prior year quarter. The primary drivers of increased SG&A were the following four factors: first, 6 million in higher advertising; second, $6 million in higher store staff cost; third, $9 million in higher incentive compensation; and fourth, $32.6 million in credit outsourcing cost, partially offset by $10.4 million in savings related to in-house credit operations.

These increases were partially offset by transformation cost savings related to IT, professional fees and other corporate cost savings. Other operating income declined by $69 million, as expected, compared to prior year, primarily due to a loss of interest income as a result of the outsourcing of credit. The $3.2 million of other income this quarter relates to a gain on the sale of assets.

Our GAAP operating loss of $58 million included the impacts of the non-prime credit sale and restructuring charges. As expected, we recognized a loss of $24 million on non-prime receivables during the quarter as we completed the non-prime credit outsourcing transaction. We also incurred restructuring charges of $83 million related to inventory charges, severance, professional fees and impairment of IT assets associated with our transformation plan.

On a non-GAAP basis, excluding these items, operating income was $48.6 million or 3.4% of sales, which was ahead of our plan, as a result of better than expected same-store sales performance. The total impact in the second quarter related to credit outsourcing was a $39 million reduction operating income, slightly higher than our guidance due to higher than anticipated sales performance.

In looking year-over-year, the decline in non-GAAP operating margin rate of 630 basis points was primarily driven by a 370 basis points decline attributable to the net combination of credit outsourcing and discontinuation of credit insurance. Additional drivers included higher advertising, store labor cost due to higher sales and incentive compensation expense, somewhat offset by cost savings.

Copyright © 2001-2018 FactSet CallStreet, LLC

GAAP EPS was a loss of $0.56 including a $0.25 impact related to the loss on the sale of non-prime receivables and $0.83 of restructuring charges associated with the transformation plan. Excluding these charges, non-GAAP EPS was $0.52 for the quarter.

So let me briefly touch on our payment plan participation in the second quarter. As a reminder, starting with our first quarter, we are now reporting our payment participation on a North America segment basis, which includes credit and leasing.

The North America payment plan participation in the second quarter was 53.3% versus the prior year quarter of 54.9%. The rate decline of 160 basis points in the quarter was driven primarily by lower credit applications, which is near the decline we saw pre-conversion. The second quarter rate reflected improvement over the first quarter rate decline of 370 basis points.

Turning to an update on the sale of our non-prime receivables portfolio. The sale of the non-prime receivables was completed in the second quarter resulting in $445 million in proceeds, which were used for share repurchases. We repurchased $425 million in Signet shares during the second quarter and year-to-date Signet has repurchased $485 million in shares at an average price of $55.06.

In terms of the expected financial impact of our credit outsourcing in totality, we expect an unfavorable fiscal 2019 year-over-year impact on operating profit of $152 million to $159 million, which is slightly higher than our previous estimate due to better than expected sales performance in the second quarter. For fiscal 2020, we continue to expect year-over-year impact on operating income ranging from zero to a benefit of $5 million.

So with that, let me now move to review financial considerations associated with our transformational plan. We continue to expect the Path to Brilliance plan to result in net cost savings of $200 million to $225 million over three years. In fiscal 2019, the transformation plan is expected to deliver net cost savings of $85 million to $100 million with further incremental cost reductions of $115 million to $125 million by the end of the three-year program. Year-to-date, we have realized approximately one-third of our fiscal 2019 cost savings goal. We expect the remaining fiscal 2019 cost savings to be somewhat evenly split between the third and fourth quarter.

Moving on to cash flow. Year-to-date adjusted free cash flow, excluding the proceeds from the credit transaction was a negative $49 million, reflecting lower operating income and investment in inventory to refocus our product assortment, particularly in bridal including larger and more premium diamonds and adding more solitaires in fancy shapes. Inventory was somewhat offset by higher payables. Capital expenditures decline by $50 million year-to-date as we lowered our store count.

Turning to guidance. We are modestly raising our fiscal 2019 guidance to reflect the improved performance in the second quarter. Our fiscal 2019 total revenue guidance is now $6.2 billion to $6.3 billion and we now expect same-store sales to be down 1.5% to flat for the year.

Our updated non-GAAP EPS guidance of $4.05 to $4.40 reflects our second quarter results, the completed share repurchase, and incremental investments in advertising versus our original plan. This guidance range also includes higher sales commission due to sales performance of our original plan and at the high end some additional short-term incentive compensation. In addition, our non-GAAP EPS guidance embeds a normalized tax rate of 8% to 10%.

Copyright © 2001-2018 FactSet CallStreet, LLC

Importantly, as Gina noted earlier, we continue to expect a significant portion of our revenue and the vast majority of our operating profit to be delivered in the fourth quarter. We are remaining appropriately cautious in our outlook as many of our Path to Brilliance initiatives will be launched later in the year.

Our GAAP EPS guidance of a loss of $7.47 to $7.09 embeds the performance for the first half of the year and includes impairment and restructuring charges as well as a loss on the Zale's non-prime receivables. For further details, I refer you to our press release issued this morning.

For the third quarter, we expect total sales of $1.15 billion to $1.17 billion, same-store sales of down 1.5% to flat and a non-GAAP EPS loss of $1.23 to $1.08. As a reminder, the third quarter is our smallest revenue dollar quarter of the year and, as a result, revenue and expense drivers can have a larger impact on growth rate and margin rate.

Our third quarter same-store sales outlook incorporate our projections for banner mix, continuing incremental year-over-year clearance sales, continuing headwinds in beads and some continuing impacts from the October 2017 credit outsourcing transition.

Additionally, a Zales promotion event that ran in the third quarter last year will be moved to the fourth quarter this year, unfavorably impacting third quarter same-store sales by approximately 60 basis points. As the fourth quarter is a larger revenue quarter, the movement on this promotion will have a smaller impact on fourth quarter same-store sales.

All in, we expect our gross margin rate to improve on a year-over-year basis in the third quarter. Gross margin rate in the third quarter will continue to be unfavorably impacted by the addition of James Allen, the discontinuation of credit insurance and the adoption of the new revenue recognition accounting standard and will be positively impacted as we no longer recognize bad debt expense.

SG&A in the third quarter is expected to reflect a significant year-over-year increase due to the following three items: first, higher advertising expense due to timing of holiday campaigns; second, higher year-over-year incentive compensation expense at levels similar to the second quarter; and third, the impact of cost related to our credit outsourcing including the first full quarter of non-prime outsourcing fees.

Also note that the year-over-year increases in incentive compensation are expected to be more heavily impact the fourth quarter, given the level of revenue and profit generation in the fourth quarter. As previously mentioned, we estimate the credit outsourcing to reduce operating income by $40 million to $45 million.

Our non-GAAP EPS guidance of a loss of $1.23 to $1.08 excludes expected restructuring charges of $5 million related to our Path to Brilliance plan and embeds a normalized tax rate. GAAP EPS guidance including these charges is a loss of $0.81 to $0.70, which reflects an embedded estimate of the tax benefit generated by restructuring charges as well as the third quarter tax impact of charges taken in preceding quarters.

Moving on to leverage. We continue to expect to exceed the high end of our 3 to 3.5 times target leverage ratio in fiscal 2019 as we begin our transformation, but expect to be back within that range before the end of the three year transformational plan.

To close up my comments, we are encouraged by the signs of stabilization we have seen year-to-date and are confident that Signet is on the right path to return to sustainable profitable growth over the long term.

Copyright © 2001-2018 FactSet CallStreet, LLC

With that, I'll pass the call back to Gina.

Virginia C. Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd.

Thanks, Michele. Before we proceed with our Q&A session, I would like to finish my prepared remarks by discussing the announcement we made today regarding my colleague, Signet's CFO, Michele Santana. Michele will be leaving Signet after eight years with the company and I want to publicly thank her for the positive and the lasting impact she's had on Signet and the partnership we have shared since my appointment as CEO.

Michele played an instrumental role in many significant Signet milestones, including the completion of our credit outsourcing transaction, the acquisitions of Zales, Ultra and R2Net, and the launch of our Path to Brilliance transformation plan. With the completion of these major milestones reflected in our year-to-date results this morning, Michele felt that now is the right time to announce her intention to leave Signet and pursue new opportunities.

We are committed to an orderly transition. Michele will remain CFO until her successor is appointed and then serve in an advisory capacity to ensure a smooth transition. We have commenced the search for a new CFO with the assistance of an executive recruitment firm and expect to name Michelle's successor by the end of fiscal 2019. This is a critical hire to lead our financial operations as we progress through our Path to Brilliance transformation plan. Once again, I'd like to thank Michele for her many contributions and her ongoing commitment to Signet.

This is a remarkable time for our company. We are well-positioned as we continue to implement our Path to Brilliance transformation and we have a very strong team in place and are fully committed to delivering great results for our customers and our shareholders.

And now with that, we are ready to start our Q&A.

Copyright © 2001-2018 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Rick Patel with Needham & Company. Your line is open.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Thank you. Good morning, everyone, and congrats on the progress. I'm hoping you can talk about the opportunity to improve operating profit over the next couple of years. After the efficiency savings this year, you're still going to have another $120 million left to go. And so given the year-over-year impact of credit won't be a major headwind in fiscal 2020, what would prevent operating profit from growing by $120 million over the next two years? I recognize that comps are the biggest driver here, but hoping you can give some color on the offsetting investments you may need to make given so much of the heavy lifting that's being done this year.

Michele Santana
CFO & Principal Accounting Officer, Signet Jewelers Ltd.

A

So Rick, why don't I take that question? So as you imagine, we're not providing a margin target in terms of longer term out, but do expect both our top and bottom line financial performance to have gradual and incremental improvement over time as we continue to implement our Path to Brilliance initiative. And as we talk about our Path to Brilliance initiative, it does embed reinvestments that we'll be making back into the business to support and drive our future performance.

So we'll continue to test and learn see how our initiatives take hold, how the market responds to the initiatives to really drive the top-line growth, and also to enhance the operating margin as we move forward.

Virginia C. Drosos
Chief Executive Officer & Director, Signet Jewelers Ltd.

A

I'll just mention two other things related to our key strategies for Path to Brilliance. On the Customer First strategy, as we strengthen our brand equities and get our volume equations right across our business, we think that gives us some room to continue to improve on operating margin front. And the second is cost savings. We're really working on that not only from a very well defined plans for this year, but also in building a cost conscious and entrepreneurial culture within the company, so that we're consistently driving all cost that customers don't see or care about to be able to reinvest in that top line growth.

Michele Santana
CFO & Principal Accounting Officer, Signet Jewelers Ltd.

A

Yeah, and maybe just one other follow-up point, Rick. Just when we think about the fixed cost nature of our business, it does mean that there's significant operating leverage both up and down dependent on what our revenue growth is. And I think that's something we're going to be able to better access longer term, our same-store sales outlook after the key holiday season and that operating margin outlook rate as well.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Copyright © 2001-2018 FactSet CallStreet, LLC

Thank you. I also have a question on lab-produced jewelry. So we've seen a growing number of products in your assortment with lab-produced gemstones like sapphires and rubies. Curious to know how customers have responded your plans to scale that further and also plans to potentially expand that into diamonds.

Virginia C. Drosos
Chief Executive Officer & Director, Signet Jewelers Ltd.

A

So I'll talk to that one. Rick, as you probably know, we don't carry lab-grown diamonds in any of our banners today. But we have a very Customer First mindset on this. And we want to focus on delivering the products and experiences that customers want. So we are very closely monitoring and assessing the demand for this emerging category.

What our research shows is that customers prefer natural diamonds for those really important purchases, bridal purchase, special birthday, graduations those kinds of things. But there could be some growing interest in the fashion jewelry space for synthetic diamonds. So we'll make sure that Signet is well positioned to participate in that space if the growth and the economics of it are attractive and if customers point us in that direction.

Rick B. Patel
Analyst, Needham & Co. LLC

Q

Thanks very much.

Operator: The next question comes from the line of Oliver Chen with Cowen and Company. Your line is open.

Oliver Chen
Analyst, Cowen & Co. LLC

Q

Hi. Thank you. You made a lot of progress at the Kay banner so far. What are your thoughts on what it will take to get sustainable positive comps at Kay? And it was also interesting, advertising, your decision around advertising, what was driving that? And are there any banner-specific details on how you will spend that money and what medium as well? That'd be great. Thank you.

Virginia C. Drosos
Chief Executive Officer & Director, Signet Jewelers Ltd.

A

Sure. Thanks, Oliver. So I think across all of our banners, the key things that we expect to positively impact our business, especially as we move into that all-important fourth quarter, are these new banner positionings. We have, I think, done a very disciplined job on understanding our customers, really making sure to differentiate our target audiences, broadening the appeal collectively of our banners by creating more differentiation between them.

And as I mentioned in my prepared remarks, we've tested those positionings and have seen both higher purchase intent for all of our banners, including Kay, as well as more differentiation and opportunity to broaden our appeal to women and to millennial consumers. So I think that's an important piece.

The other piece that I point to are the efforts in data science and analytics that we've put behind creating more personalized marketing. I mentioned the always-on bridal campaign for Kay. The facts of the matter are only 2% of people in the country will get engaged in the next year. And while broad scale marketing can be effective in helping people to understand our brand equity and the new and exciting merchandise that we carry, targeting them on their journey at those right touch points is what really matters.

Copyright © 2001-2018 FactSet CallStreet, LLC

And so as we have moved more of our effort to the right search terms, the right targeted social programs, that kind of thing, we're seeing an improvement in Kay. And we back that up with putting more premium diamonds, larger karat sizes, more fancy stones, more solitaires because those are trending in the Kay and we saw a very positive response.

So, I'd say the big picture is that to what are those key things customers care about and the brand equity, the value equation, the right product. We're single mindedly focused on making sure we get that right for our Kay customers, and then differently for our Zales and our Jared and our Pagoda customers.

Michele Santana
CFO & Principal Accounting Officer, Signet Jewelers Ltd.

A

And Oliver, the other thing I would just add quickly to that is keep in mind we'll be lapping the credit outsourcing in the prior year, which impacted Kay more heavily than the other banners as well.

Oliver Chen
Analyst, Cowen & Co. LLC

Q

Okay. And Michele, best regards and great to work with you. On the operational issues related to credit improving, you did mention that you're monitoring that and you've made some nice improvements there. But what are you looking for in monitoring, because the holiday selling season is very significant and that's an issue where you'll watch the impact with interaction between sales and customers?

And another question we're receiving this morning is in relation to clearance sales. In terms of clearance sales, how are you incorporating that in your guidance and how is that impacting earnings per share in terms of gross margin dollars? Thank you.

Virginia C. Drosos
Chief Executive Officer & Director, Signet Jewelers Ltd.

A

So, why don't I start on the credit piece and then, Michele, you can kind of pick up. I think overall there kind of two things I'd say on credit. One is that our goal is to offer a comprehensive program for our customers, so that wherever they are on their life journey, they can be able to celebrate life and express love with their loved ones in the right way.

And so you know that we offer a full suite of financial products for them to choose from whether that is using their own credit card, our Kay or Jared, Zales cards or whether that is using our leasing program, which we've just added in. So that I think is overall what we're really aiming to do. Now our application rates and things like that will continue to be influenced over time by mall traffic trends and where customers are generally in the economy. But I think we've got a category leading suite that we can offer them.

The second piece is how are we doing on fixing the operational issues that we saw when we did the transition last fall. And those operational issues really fell into two buckets. One were technical issues, and the other were training kind of changes. We really more dramatically, even than we had anticipated, changed the process about how we offer credit to our customers.

On the technical side we have made all of those changes and we've seen good results from that. We have tested those inside and out. We feel like we are positioned well as we go into a busier time of year. And on the training and process changes, we have really gone from the bottom up on that, getting feedback from our associates and then developing new programs and training plans that help us make that a very seamless process for them in-

Copyright © 2001-2018 FactSet CallStreet, LLC

store and with our customers. So that's the part that we're really focused on here in the third quarter getting ready for holiday, is making sure that we have everyone trained and feeling really comfortable with how to offer credit out in our stores.

Michele Santana
CFO & Principal Accounting Officer, Signet Jewelers Ltd.

A

And then if I address your question in clearance, I guess a couple points on that front. So, as we mentioned on the call, as part of our merchandising strategy, we continue to work to increase the newness and we're refocusing our product portfolio tied in conjunction with our banner repositionings that we're doing as well. And there's always a certain level of clearance that we have in our business. But we did make a decision to add incremental clearance in order to accelerate the strategy and ensure that we're bringing up store space for the newness. So we did clear certain product-related styles, colors, brands as part of the second quarter. And we also – I mentioned in prepared remarks, that we expect to have some higher incremental clearance sales in the third quarter.

When you think about that impact in terms of margin, in the prepared remarks, I mentioned that our non-GAAP gross margin rate was 34.5%, up 180 basis points over last year. And what we saw is our transformation cost savings related to a number of initiatives really helped to offset then the sales deleverage as well as that higher mix of clearance sales. So it's embedded in that non-GAAP margin rate. And then as we think about our guidance, clearly, when we talk about a higher level in Q3, that's factored into our guidance as well as our full year. Generally, when we think about fourth quarter, typically clearance is a smaller percentage of the total product mix for us.

Oliver Chen
Analyst, Cowen & Co. LLC

Q

Thanks for that clarity and best regards.

Michele Santana
CFO & Principal Accounting Officer, Signet Jewelers Ltd.

A

Okay. Thanks, Oliver.

Operator: Your next question comes from the line of Brian Tunick with Royal Bank of Canada. Your line is open.

Bilun Boyner
Analyst, RBC Capital Markets LLC

Q

Good morning. Thanks for taking our question. This is Bilun on for Brian. I guess, two questions for us. The first one is a clarification or a follow-up from Oliver's question now. So I'm trying to understand the margin impact of the incremental promotions you called out this quarter. I know you mentioned that 440-basis point impact from restructuring charges related to an inventory charge. Is that at all related to the incremental promotions or how would the merchandise margins would look like if you only included the impact of promotions in the gross margin not the charges maybe, but just the promotions that you ran that drove – I think you called our 240 basis points of comp this quarter?

Michele Santana
CFO & Principal Accounting Officer, Signet Jewelers Ltd.

A

Copyright © 2001-2018 FactSet CallStreet, LLC

Yeah. So let me try to clarify because I want to make sure it's understood on the two components. So the prepared remarks and I talked about our GAAP gross margin rate and when we look on a GAAP basis our gross margin rate was down 260 basis points over last year. And that was reflecting 440 basis points for an inventory charge that we took of $63 million that relates to products that we are discontinuing. So that is separate from when we talk about the higher level of clearance sales. So non-GAAP the 440 basis points is the inventory write-down.

And then, when we think about what we refer to as our non-GAAP gross margin, which was up 180 basis points, was excluding the inventory write down, but includes the higher level of clearance, that was up over 180 basis points. And as I said on the prepared remarks, we really didn't see an impact from a higher mix of clearance, given the transformation cost savings that we saw. And then, you're correct. We did call out that as part of same-store sales we saw a 240-basis point positive impact related to the higher level of clearance. So hopefully, that helps to clarify what's rolling through the gross margins.

Bilun Boyner
Analyst, RBC Capital Markets LLC

Q

Okay. Yes. This is very, very helpful. Thank you for that. And then the second question is on the category growth. Clearly, your results are showing a very nice improvement here and the industry data we get also looks more encouraging. So would you say at this point maybe the worst is behind us in terms of jewelry store closures out there and the promotional environment?

And I know, last three years is part of the reason for lackluster, I would say, industry sales was sort of a lack of a broad based fashion trend to drive sales. But beyond your own product introductions planned for the second half, are you seeing any exciting trends emerging maybe into the holidays?

Virginia C. Drosos
Chief Executive Officer & Director, Signet Jewelers Ltd.

A

So let me see if I can answer those questions kind of in the order you asked them. So, number one, overall, we see a healthy jewelry category. We continue to see growth in the low single digits. And we continue to see customers of all ages desire jewelry as one of their top three to five items they like to receive for a gift. Millenial consumers commemorate their engagements with diamond rings. All of that is contributing to this low single-digits growth, which has been pretty consistent over time.

I think in terms of closures, you asked a little bit about that, we see increasing closures of independent jewelers and that has been a trend that has gone off and on for the last several years, but most recently, we've seen a little bit of a pickup in that trend.

In terms of promotions in the environment, we always expect a heavy promotional period in the fourth quarter and so I wouldn't expect this year to be any different from that. Usually, department stores participating very actively in that. What we're really focused on is understanding our overall value equation, which is the combination of great irresistible product, and so we're really focusing on newness and consumer-driven innovation in the product area. We're focused on exceptional service. No one understands diamonds and jewelry better than our sales associates out in the stores in providing exceptional service, and then doing that with the right value equation, the right pricing and promotion combination that delights them in those purchases. So that's kind of what we would expect in the promotional environment.

And then in terms of trends, definitely, we're seeing some very interesting trends and this is an area where we see Signet as a leader, is in that consumer understanding and really being able to get out in front of trends in the

Copyright © 2001-2018 FactSet CallStreet, LLC

category. One of those has been gold. Gold chains, as Michele mentioned, have been a big driver of our business. Heavier chains have been trending and took us to a level of double-digit growth in our Pagoda business, which was great to see along with charms, children's jewelry, some other areas.

We carry unique designs for Disney in our Zales stores and we've seen some nice growth on that for both bridal and for fashion jewelry. And those are really just plain beautiful jewelry designs. You understand it's Disney if you know that going in. But a Pocahontas ring, for example, that has a very slight feather design on the side is just something very interesting and fun for people to wear that commemorates something meaningful for them.

And then we've seen in the bridal category solitaires continuing to trend. That's one of the reasons why we've increased for all of our stores the level of our premium and larger karat stones, and we've seen fancy shapes continue to be something that's very important, so shapes other than round whether that's an emerald cut, a pear, a marquee cut, these are things that make rings more personal and distinctive for our customers. And so Kay, Zales, Jared, Pagoda are really all over making sure we have a great assortment of those items.

Bilun Boyner
Analyst, RBC Capital Markets LLC

Q

Thank you very much. Best of luck.

Virginia C. Drosos
Chief Executive Officer & Director, Signet Jewelers Ltd.

A

Thank you.

Operator: Your next question comes from the line of Simeon Siegel with Nomura/Instinet. Your line is open.

Simeon Avram Siegel
Analyst, Nomura/Instinet

Q

Thanks. Hey, guys good morning and congrats on the positive comp and improved results. Just a few quick clarifications if I can, Michele. The products from the $63 million charge, is that still on the books? Was it already sold or are you not planning to sell it? And I guess what were margin assumptions you used to determine that amount?

Recognizing the different promo and clearance shifts, can you just expand or kind of talk to why transactions would be down but the ATV was up? And then the last one, within that $32.5 million of credit outsourcing costs, I'm assuming that's not just the one month of the MDR, so can you just help us think about what that includes? That would be helpful. Thanks.

Michele Santana
CFO & Principal Accounting Officer, Signet Jewelers Ltd.

A

Yeah. So I'll try to remember the questions. As we go through it, remind me if I forget. So starting in terms of the inventory. Basically, what the inventory charge of the $63 million, we wrote the inventory down, so there's a reserve that sits on the balance sheet for that inventory as we move through disposition of it. It basically relates to discontinued collections, various products that we'll no longer be offering in our stores. And again, it's all-in tied in terms of Path to Brilliance as we're bringing in a lot of newness ahead of the holiday season. And for the holiday season, we need to make room in the store.

Copyright © 2001-2018 FactSet CallStreet, LLC

So I'm not going to get into specifics in terms of the margin assumptions related to that write-down charge. But we always know that there is inventory that we are disposing of. There's always value in terms of the gold and the diamond associated with that. Your second question, remind me on your second question.

Simeon Avram Siegel
Analyst, Nomura/Instinet

Q

So the transactions...

Michele Santana
CFO & Principal Accounting Officer, Signet Jewelers Ltd.

A

Transactions, right? ATV and transactions. Yeah. So keep in mind, one of the things that has been impacting on transitions for a period of time that I think, I believe, we've continued to call out and it's a hurt to the transitions, but it's also a help to the ATV of the beads. And so our Charmed Memories, other bead programs within our banners, we continue to see that decline. And as we've talked about, we have an exit strategy related to our owned bead brand. So that's the primary driver that you're seeing there.

And then you had a question in terms of the credit outsourcing and the cost that we saw in the quarter. So that's the combination of our credit outsourcing, closed the transaction in June, so the fees associated with that. And then it's all considering the whole – when you take the total amount, it's the bad debt expense removals, bad debt expense removals, the financial charge income and the outsourcing associated with that. I think that all came to a net $39 million.

Simeon Avram Siegel
Analyst, Nomura/Instinet

Q

So the $32.5 million, I just want to confirm, that's not just one month of the MDR, right? That there's more in there?

Michele Santana
CFO & Principal Accounting Officer, Signet Jewelers Ltd.

A

You know what, let me go back and revisit. There should be more than just one month, because we closed within June. So, it will be a little bit more than a month.

Simeon Avram Siegel
Analyst, Nomura/Instinet

Q

Okay. Great. All right. Thanks a lot, guys. Best of luck for the rest of the year.

Michele Santana
CFO & Principal Accounting Officer, Signet Jewelers Ltd.

A

Thanks, Simeon.

Virginia C. Drosos
Chief Executive Officer & Director, Signet Jewelers Ltd.

A

Thank you.

Operator: Your next question comes from the line of Ike Boruchow with Wells Fargo. Your line is open.

Copyright © 2001-2018 FactSet CallStreet, LLC

Tom Nikic
Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning, everyone. This is actually Tom Nikic on for Ike. I got a quick question about the Jared banner. I know you said that there was a – I think it was a 195 basis point benefit from a promo shift. But even excluding that, there was a pretty substantial acceleration from Q1 to Q2, which you didn't really see at Kay.

And so I was wondering, if there's any reason why Kay would be more affected by the credit disruption than Jared would? And if maybe some of those – more of those clearance promos that increased the comp flow through Jared rather than Kay. I'm just trying to get a sense on the difference between those two banners? Thanks.

Virginia C. Drosos
Chief Executive Officer & Director, Signet Jewelers Ltd.

A

Sure. So to directly answer your question on credit, yes, as we've said since we did the outsourcing last fall, Kay is disproportionately affected by our credit transition issue. A higher percentage of our Jared shoppers are using their own credit cards, American Express, Visas, MasterCard, Discover, and so that makes the impacts on Kay greater.

But the bigger thing that was driving Jared's business was response to changes that we made in our product merchandise and our value equation. So, I mentioned that under our Customer First strategy, we have gone back and done very detailed shopping journey understanding with our customers. And we understand that when they're coming into buy a bridal engagement ring, particularly loose stone, they're doing a lot of online comparison.

So they're on jamesallen.com, they're on bluenile.com, looking at pricing as they're standing in the Jared store getting ready to make a purchase. And so we have really tried to make sure that we are benchmarking across all different competitive sets to offer a superior product line and better service at what is a great value for customers. So we rebalanced some of our offering. We brought in higher quality stones into our Jared stores, because we found that premium merchandise was more what our Jared shoppers are looking for and that newness and refocusing is beginning to show some promise.

Tom Nikic
Analyst, Wells Fargo Securities LLC

Q

All right. Thanks very much. Best of you luck.

A

Thank you.

Operator: Your next question comes from the line of Josh Herrity with Telsey Advisory Group. Your line is open.

Joshua Herrity
Analyst, Telsey Advisory Group LLC

Q

Great. Good morning. Thank you for taking the question. I wanted to follow-up on some of the front line store staffing, store level staffing. You highlighted increased sales commissions as sales have been trending ahead of plan. I was just curious if you're seeing any increased levels of turnover at the store level or other wage pressures as the market tightens to some degree, especially as you look to improve I think stability in the customer

Copyright © 2001-2018 FactSet CallStreet, LLC

experience after implementing a lot of operational changes in the field organization over the past year? Thank you.

Virginia C. Drosos
Chief Executive Officer & Director, Signet Jewelers Ltd.
A

No. It's really related more, as Michele said in her remarks, to the commissions. In fact, we've had an ongoing program over the last number of months to reduce unnecessary tasks in our stores to really free up our consultants to spend more time with our customers and less time on pricing changes, merchandising changes, reporting, things like that. And we're seeing some really positive benefits on that not only on employee engagement, but also in terms of efficiency we think in our store staffing, which is something we can do going forward.

Michele Santana
CFO & Principal Accounting Officer, Signet Jewelers Ltd.
A

And it's Michele. I want to go back before we take the next question and just try to clarify Simeon's question on the $32.6 million that are rolling through SG&A related to credit outsourcing. I just want to make sure that it's clear that if you go back to Q1, I believe we had about $24 million of credit outsourcing cost when you exclude the offset in savings.

So, the increase that we're seeing over the quarter is the combination we talked last quarter of promo fan mix and there's a cost associated with that then combined with the month and a half or so that we saw finalizing the outsourcing of the non-prime receivable. So I just wanted to come back and clarify the increase from Q2 to Q1.

Operator: And your last question comes from the line of Paul Lejuez with Citi. Your line is open.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.
Q

Hi. Thanks, guys. Can we just go back to the inventory charge for a second, Michele? How much of that was related to product that was already sold in the second quarter versus products that will be sold in future quarters?

Michele Santana
CFO & Principal Accounting Officer, Signet Jewelers Ltd.
A

Yeah. So in terms of the inventory charge, that really is going to be – they're discontinued inventory items that we're pulling from the stores to make room for store space. So it is separate from how we look at the levels of clearance that we saw within the second quarter.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.
Q

But was that inventory that was sold and benefited sales in the second quarter or would that benefit sales in future quarters or is it destroyed?

Michele Santana
CFO & Principal Accounting Officer, Signet Jewelers Ltd.
A

Yeah. So there's no impact in terms of the products that were already sold. So it's not related to Q2 products that we sold. It's inventory that we're discontinuing that we're pulling from the stores to make space for the new products. And then we evaluate the disposition method, because there's still – as you would expect, there's still

Copyright © 2001-2018 FactSet CallStreet, LLC

value in the inventory items where you can pop the stones, the diamonds or the gold, et cetera. But it will be moved out of stores and disposed of in different methods.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Got you. And then just what was the merchandising margin rate this quarter and the second quarter, including the clearance sales?

Michele Santana
CFO & Principal Accounting Officer, Signet Jewelers Ltd.

A

Yeah. So we don't disclose our merchandise margin rate. We provided the gross margin rate, which, when you exclude the inventory charge, we said was up 180 basis point. And in the prepared remarks, we've provided the drivers of those, the most significant being 350 basis points, since we're no longer recognizing bad debt expense. And then, we also did make a comment that our transformational cost savings that falls into gross margin that helped to offset sales deleverage as well as the higher mix of clearance sales.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Got you. Thanks. Good luck.

Michele Santana
CFO & Principal Accounting Officer, Signet Jewelers Ltd.

A

All right. Thank you.

Virginia C. Drosos
Chief Executive Officer & Director, Signet Jewelers Ltd.

A

Thank you.

Operator: And there are no further questions at this time. And this will conclude today's conference call. You may now disconnect.

Copyright © 2001-2018 FactSet CallStreet, LLC

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2018 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.