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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Signet Jewelers Fourth Quarter Fiscal 2021 Earnings Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please also note, today's event is being recorded.

At this time, I'd like to turn the conference call over to Vinnie Sinisi, SVP of Investor Relations and Treasury. Sir, please go ahead.

Vincent J. Sinisi
SVP-Investor Relations & Treasury, Signet Jewelers Ltd.

Thanks very much, Jamie. And good morning, everyone. Welcome to our fourth quarter earnings conference call. On the call today are Signet's CEO, Gina Drosos; and CFO, Joan Hilson.

During today's presentation, we'll make certain forward-looking statements. Any statements that are not historical facts are subject to a number of risk and uncertainties, and actual results may differ materially. We urge you to read the risk factors, cautionary language, and other disclosures on our Annual Report on 10-K, Quarterly Reports on 10-Q, and Current Reports on Form 8-K. 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'll discuss certain non-GAAP financial measures. For further discussion of the non-GAAP financial measures, as well as reconciliations of non-GAAP to GAAP that's most directly comparable, investors should review the news release we posted on our website at www.signetjewelers.com/investors.

Also, please note that we plan to hold a virtual investor event on April 12. Registration details will be announced soon. And with that, I'll turn the call over to Gina.

Virginia C. Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd.

Thank you, Vinnie, and thank you all for joining us today. Let me begin by sharing our results for the fourth quarter, and then core elements of our strategic path going forward.

I want to say, first and foremost, how incredibly proud I am of our Signet team and to thank them not only for their achievements this past year, but also for the amazing dedication and agility they've demonstrated throughout our three-year Path to Brilliance journey. We've put our culture of agility and efficiency to the test time and again, and Signet people have demonstrated that we're continuing to transform this company and are well-positioned to deliver sustainable long-term growth.

Q4 is a good illustration of the capabilities we're continuing to build. Same store sales grew 7%, with over 70% growth in eCommerce sales. We delivered non-GAAP operating income of more than $293 million, up nearly 9% versus a year ago. While COVID created significant headwinds in the first half, we regained momentum and delivered a strong second half with 9.9% same store sales growth. Both our bridal and fashion businesses continued to be healthy, and our strong eCommerce performance complemented the reopening of our stores.

Our ability to pivot successfully through the pandemic and to deliver the back half performance that our team delivered is rewarding, especially as I look back at what we've achieved in the past three years. In 2016 and 2017, the company was loosing share to smaller specialty jewelry stores, to non-specialty retailers, and to online and pure-play digital retailers. The industry was changing fast and customer expectations for quality, service, value and personal engagement were constantly increasing.

An especially big change was how quickly people were growing comfortable with eCommerce and digital technology in the jewelry category, a trend that accelerated dramatically this past year. As we launched Path to Brilliance, we committed to make clear strategic choices and cultural changes that would build a strong foundation, enabling us to pivot to growth.

When I look back over the last three years and compare it to where we are today, I see three very significant differences. First, our culture is stronger. We're more agile, more innovative, more efficient, and truly unified behind an inspiring purpose. Second, we're much more data-driven today than we were then, with deeper insight that enables us to create highly personalized customer experiences, and move with greater speed and precision.

And third, we have a broader and stronger set of core strengths that creates sustainable and growable competitive advantages.

Each of these differences is reflected in the results achieved over the first three years of our transformation. We eliminated $300 million in expenses, benefiting gross margin and SG&A above our initial goal of $200 million to $225 million. We reduced our store footprint by more than 20%, decreasing our exposure to low-performing malls and achieving higher-than-expected sales transference in our new Connected Commerce model.

Meanwhile, we grew our eCommerce sales to 23% penetration, above our initial goal of 15% and more than four times the eCommerce penetration that existed before we started Path to Brilliance. This transformation has been fueled by our strategic choices – Customer First, OmniChannel, and Culture of Agility and Efficiency – and by the investments we made behind those priorities in technology, productivity, and culture.

To best understand why we're now capable of delivering sustainable long-term growth, and why the next phase of our strategy is right, it's important to look at what these investments have delivered over the past three years. I'll start with the significant and strategic investments we've made in technology.

We placed a huge priority on data analytics, with a deep commitment to become a more data-driven company. We developed and hired top talent. We started building the tech infrastructure required for a digitally enabled business. And we acquired James Allen, which strengthened our digital and eCommerce capabilities substantially. This emphasis on data analytics and digital technology has impacted nearly every aspect of our business. For example, we now have a much more granular understanding of customer behavior across banners and at every customer touch point, increasingly in real-time.

We reduced our inventory by nearly 11% over the past three years by implementing inventory disciplines, life cycle management, and new technology tools, generating meaningful increases in cash flow and improving working capital efficiency; all this while our merchants significantly strengthened our core assortment and new product pipeline.

We've moved our banner websites onto a unified platform, enabling a much more seamless customer experience that's improving conversion and increasing transaction values. This gives us the ability to innovate and to add new functionality much faster.

And we've dramatically improved the effectiveness and efficiency of our marketing mix. This is a particularly important point, so I'll share just one brief example. Kay Jewelers, the largest advertiser among our banners, has cut its TV spend in half over the past three years, while more than doubling digital marketing. This change in mix has been data-driven. We know, with the precision we didn't have three years ago, which media provide the best incremental return to make media spend more efficient. This capability, combined with our scale, is a meaningful competitive advantage. We've shifted significantly toward digital, which enables customized communication, but we're still able to command a leading TV presence in the jewelry industry at the same time, which builds awareness and brand equity. It's a very effective combination.

These examples illustrate what I'm most encouraged about, and we're just getting started. We're continuing to invest in both technology and talent, and our business is becoming more customer focused and data-driven quarter-by-quarter, holiday-by-holiday.

The second area of focus was improving productivity, which is now an ongoing priority across our business. In fact, productivity is becoming a mindset that guides how we innovate and execute in everything we do. I'll give you a few quick examples.

First, costs. We've cut more than $300 million in operating costs that customers don't care about over the past three years, and we've reinvested a meaningful portion of those savings into growth-focused areas that customers do care about. The technology examples I've just shared are good illustration. We were able to make these highly strategic investments because we improved our cost structure and created new flexibility to invest.

Second, cash. Our diligent focus on cash conservation has enabled us to pay down more than $1.3 billion in debt, which included the full paydown of our revolver. As a result, we're ending the year in a position of strong liquidity with $1.2 billion in cash.

Third, stores. We made significant progress optimizing our store footprint. While we've closed more than a fifth of our locations over the past three years, we've also opened and repositioned stores in the right trade areas and in line with our portfolio banner strategy. As a result, we've dramatically reduced our exposure to lower-traffic malls and increased our off-mall footprint.

We've also been improving the customer experience, integrating digital and physical, not as an isolated channel play but as part of a tightly integrated, data-driven OmniChannel approach. We're already seeing the early benefits of these moves. We achieved higher total revenue in the second half of fiscal 2021, up 4.4%, despite 395 permanent store closures. And we've delivered brick and mortar same store sales growth in North America for two quarters in a row.

I'd also like to highlight the improvements we've made in our culture. This company attracts passionate, skilled, experienced talent at every position. The challenge we faced three years ago was to unleash all the potential our people had within them. The culture had become too siloed, transactional, and risk-averse. We've worked hard to create conditions for a new culture to flourish, a culture characterized by freedom to try new things, to take risks, fail fast and learn, to move with speed and agility, and to be empowered to cut costs relentlessly if they don't benefit customers.

We've also invested in our people with moves such as our commitment to a $15 minimum wage for all US employees and our deployment of Love Takes Care appreciation bonus awards for full and part-time employees, a gesture of our gratitude for their commitment in the face of unprecedented challenges.

People are thriving in this more invigorating culture. We see it in our performance but we also see it in employee comments. In a recent internal survey, for example, more than 90% of employees expressed understanding of our business strategy, and more than 80% said they are proud to work at Signet and believe Signet will emerge stronger from the pandemic.

For three years in a row, Signet has been the only specialty jeweler recognized on Bloomberg's Gender-Equality Index. And just this year, based on employee input, Signet was recognized as a certified Great Place To Work company.

Our priorities and investments in technology, productivity and culture were foundational. Signet is a much stronger company today than it was three years ago, strategically, financially, and organizationally. And as a result, we're better positioned to lead our industry and deliver consistent long-term growth, which the next phase of our growth strategy, Inspiring Brilliance, is designed to achieve.

So, let's turn now to the road ahead. Our overarching objective is to lead innovation that helps grow the jewelry industry, while also increasing our share of the market. In other words, to make the pie bigger and get a bigger slice of the pie. To do this, we're making clear choices about where to play and how to win.

Let me start with our where to play strategies. First, we will win in our biggest businesses. We have the leading retail jewelry brands in their respective markets: Kay Jewelers in the US, H.Samuel in the UK, and Peoples in Canada. Our bridal, gifting, and self-purchase businesses are strong and growing. We'll continue to win in these big core businesses with even sharper focus on data-driven marketing, proven levels of newness, and strengthened core assortment. And we'll continue the work we've done to align our banners with the customers they serve best.

Second, we'll accelerate services, making it the glue that builds lifetime bonds with our customers. We will expand and improve existing services such as care, repair, and extended service agreements; deepen relationships with new piercing and financial services; and build on our fast-growing marketplaces in ways that create even more opportunities to serve customers, such as access to new jewelry designers, rental services, and subscription offerings.

Third, we'll expand Accessible Luxury and Value. Our scaled position in the mid-tier jewelry market gives us the opportunity to stretch the traditional definition of the top of the mid-market with greater focus on Accessible Luxury, and stretch the bottom with greater focus on Value. These moves will help us gain share from independents, mass market retailers, and online retailers.

And fourth, we're committed to lead digital commerce in jewelry. We'll serve our customers to ensure we're there whenever, wherever, and however they want to engage us. This means increasing the percentage of our business coming through eCommerce, increasing our share of jewelry eCommerce purchases, and increasing our presence in social commerce with bespoke experiences and influencers. We're confident in these strategic where to play choices. They leverage our scale, play to our strengths, and are difficult for competitors to match.

Given the journey we've been on, we're also confident in the evolution of our three how to win capabilities – from foundational to inspirational, from Customer First to Consumer-Inspired, from OmniChannel to Connected Commerce – and the continued enhancement of our culture to one of innovation and agility.

Let's look first at Consumer-Inspired. When we began the Path to Brilliance journey, we focused on strengthening our relationships with existing customers. Now, we're growing our customer base with Consumer-Inspired insights and innovation. This is leading to stronger differentiation among our banners. In fact, with more bespoke product portfolios and personalized marketing, Kay and Zales delivered their strongest fourth quarter combined same store sales growth since the Zales acquisition.

Jared's Foundry concept is a good example. We looked at converging trends, the growing demand for personalization and customization, technologies like 3D printing that open up new design and production possibilities, and the desire of many customers to enjoy luxury experiences that were previously unaffordable to many mid-market customers. Foundry concept emerged from our insights on these trends. We're leveraging our existing network of 1,400 skilled jewelry artisans and apprentices; leveraging our scale to access metals, diamonds, and stones; and leveraging CAD and 3D printing design technologies in our stores and virtually to create an immersive experience.

Customers are bringing unique and creative visions and literally co-creating jewelry they've imagined hand-inhand with our skilled artisans. We're expanding this concept to more than 50 Jared stores and online. It's a highly differentiated offering that capitalizes on our mix of personalized services and scale.

Next is Connected Commerce. We've been introducing new technology tools, such as conversational messaging, enhanced tech search, virtual try-on, and virtual consulting for some time. In fact, we added hundreds of new search, browse, and checkout features in the second half of the fiscal year. But what's different now and going forward is how we're connecting them to create a seamless customer experience across technologies and touch points.

The way we've integrated virtual try-on into a more holistic experience is a great illustration of Connected Commerce at work. Customers use visual search to find a fantastic ring from Zales or Kay or Jared on Instagram or Pinterest. They upload a photo and use virtual try-on to see how the ring looks on their unique skin tone and finger size. From there, they easily book an appointment in-store or with one of our more than 700 virtual consultants. And when they're ready, they can buy in-store or buy online and pick up in-store or ship directly to their homes.

Our Connected Commerce technology enhances the customer experience, celebrates customer diversity, unlocks our inventory nationally, and helps drive sales and higher spend while also reducing returns. In fact, this connected approach I just described – using visual search, try-on, virtual appointments and messaging – is gaining traction and increasing conversion, accounting for more than $125 million in revenue in the back half. We're testing these connected tools on a wide range of SKUs right now and expect to roll them out more broadly across banners this spring.

The last headwind strength I want to touch on is culture of innovation and agility. We're creating a culture that's powered by our purpose, Inspiring Love, and that thrives on innovation and agility. Building on the lightning-fast ways we've made decisions during COVID, we're looking to unlock faster-paced iterative learning to empower agile work teams and to bring design thinking approaches to problem solving. We're working hard to turn innovation, diversity, speed and transformational productivity into signature characteristics of our culture. We saw these characteristics grow during the past year, and especially flourish in the fourth quarter.

The 2020 holiday was a proof point. It was a data-driven holiday fueled by innovation and supported by precise execution on all fronts. For example, we reinvented how we plan labor in our stores, using real-time data analytics to model every store hour-by-hour every day of the holiday season. We were able to predict which stores had the greatest potential to drive sales by staying open later, and which could be closed earlier to maximize the return on our store labor investments.

We scheduled appointments before and after hours and used curbside selling and pick up to accommodate various customer needs, including health requirements. And our new concierge capability maximized the efficiency of store workflow, kept customer wait times down, and enabled faster buy online, pick up in-store services.

We equipped our jewelry consultants with clienteling tools and technology that they can now use no matter where they are – at home, in a store or elsewhere – creating zero distance between them and their best customers.

We reduced customer care volume with an online order-tracking tool that freed up our care teams to focus on customers who were ready to buy, which more than doubled phone and chat-assisted sales.

And finally, on peak days, we used every bit of the fivefold increase in eCommerce distribution capability we built between April and October, resulting in over 98% of eComm orders fulfilled on time as promised.

This is to illustrate that in every part of the company, we were ready with capabilities and distribution that did not exist three years ago. It's how our team delivered a strong holiday and back half in the face of unprecedented challenges.

What I hope you can see is the tight interdependence of these strengths. When we discover insights inspired by consumers, turn those insights into seamless experiences through Connected Commerce, and win with customers through a culture of innovation and agility, we develop competitive advantages that enable sustainable long-term growth. With these strategic choices, we are committing ourselves to be an innovation leader of the jewelry category, which is a vision that inspires the very best in us.

I'll close on this point. Signet exists to inspire love, and our jewelry products and services are designed to help people celebrate life and express their love. The power of love is not an abstraction, it's the heart of our business. It infuses our work with meaning and purpose. It's a standard of responsibility and an enormous motivator of performance. You see, every time we help someone express their love, we make the world a little better. Every time we stand up for love, we make ourselves and those we love a little stronger. And every time the love we inspire inspires love in others, we fulfill our purpose as a company. This is what Inspiring Brilliance means to us.

We want to be and to lead the change that we want to see in our industry and in the world. Our Path to Brilliance journey has been an invigorating experience for all of us, and we are not letting up. Now is our moment to lean in and to keep accelerating the work we've begun. It's a threshold moment as we take Signet from stable to growing to great.

I'll now hand over to Joan, and then we'll be happy to take your questions.

Joan Holstein Hilson

Chief Financial Officer, Signet Jewelers Ltd.

Thank you, Gina. Hello, everyone. We delivered a strong quarter and end to our fiscal year by continuing to execute on two fronts. First, we drove the top line using enhanced OmniChannel capabilities that allowed us to serve our customers on their terms, teamed with strengthened product assortment. Second, we continued to drive operational efficiency in the form of expense control and inventory management. These disciplines allowed us to end the year in a position of financial strength. With $1.2 billion in cash, we're prepared to fuel the next phase of our strategy for long-term sustainable growth.

Fourth quarter total sales grew 1.5% over last year, and same store sales grew 7%. eCommerce sales grew more than 70% to last year. North America delivered 10.4% same store sales growth, driven by continued strength in both bridal and fashion categories. North America eCommerce sales grew 66%. International same store sales declined 28.3%, which had a 3 percentage point negative impact to Signet's same store sales for the quarter. Our UK stores were closed for most of the quarter as a result of governmental lockdowns. That said, our International team delivered strong 115% eCommerce growth, reflecting our OmniChannel focus.

Before we continue down the P&L, I'd like to provide a real estate update, as continued optimization of our physical footprint remains a core priority and complementary to our digital footprint. We permanently closed 395 stores this year. We also repositioned 33 traditional malls into new off-mall locations. Use of our greenfield analysis has provided our team with data-driven insights and a deeper knowledge of how to best optimize the physical and digital platforms in a given trade area.

In addition to our store closures, we identified opportunities for new stores, leading to the opening of 20 Piercing Pagoda stores in fiscal 2021. Moving forward, we plan to close over 100 stores in fiscal 2022, as well as open up to 100 locations primarily in highly efficient Piercing Pagoda kiosks. We continue our testing of a variety of formats, such as Kay-Zale and Jared-James Allen combination stores, as well as pop-up stores.

To continue along the P&L, we delivered gross margin this quarter of approximately $870 million or 39.8% of sales. This is 210 basis points below last year, excluding restructuring charges, due to a combination of strategic promotion relating to inventory optimization and reduced levels of service revenue related to lower store traffic.

SG&A was approximately $574 million, down about $60 million to last year, driving a 320 basis point rate improvement. The improvement was driven by structural cost savings and reduced labor levels.

Non-GAAP operating profit was $293.8 million, up over $23 million to last year and excludes $1.9 million in asset impairment and restructuring charges related to the Path to Brilliance transformation plan. Fourth quarter nonGAAP EPS was $4.15, up from $3.67 in the prior year.

Turning now to the balance sheet. We continue to focus on inventory life cycle management and strategic [ph] clearance efforts (00:30:28), all of which contributed to a nearly $300-million reduction in our inventory to this time last year. The flexible fulfillment capabilities that we have in place are helping to minimize stranded inventory and to drive a higher fulfillment rate on customer orders.

Our focus on cash conservation and expense control has been a clear priority for us. You'll remember that we also extended our payment terms with vendors and negotiated rent deferrals with landlords. These efforts, in combination with our sales performance, are largely what contributed to our strong ending cash balance of approximately $1.2 billion. This quarter, we paid down the remaining balance of our revolver; as well as paid off the $100 million FILO loan.

Turning to cost savings. Having now reached the three-year mark of our Path to Brilliance transformation, we eliminated $300 million of cumulative costs, well above the goal we initially set three years ago. These efforts were largely derived from efficiencies in labor, store operating and inventory-related costs, and direct sourcing.

Turning to financial services. Recall, that we have been originating accounts since the second quarter, and we ended this fiscal year with $72 million of receivables on our balance sheet, net of allowances. Those accounts are performing better than expected. In January of 2021, we signed an agreement with investors in which they will now buy newly originated subprime accounts through June of this year. We are currently evaluating available options to determine the most effective way to structure our providers and services to best meet the needs of our customers.

Now, I'd like to discuss our fiscal 2022 financial guidance. We expect stronger sales performance in the first half of the fiscal year. As the vaccine rollout progresses, there could be a shift of consumer discretionary spending away from the jewelry category toward experience-oriented categories, the magnitude and timing of which is difficult to predict.

Further, we expect categories with pent-up demand to be promotional in order to capture discretionary spend. As such, we're planning for increased marketing expenses to continue to fuel momentum in the front half, as well as proactively manage against changes in consumer spending as the year progresses.

While our transformational initiatives continue to gain traction, we're conservatively planning for same store sales to be negative in the second half of the fiscal year. We have targeted further cost savings this year expected to benefit both SG&A and gross margin in the range of $50 million to $75 million to help mitigate increased levels of investment, with a cost savings goal of $175 million to $200 million over the next three years.

We'll continue executing on our strategic priorities, which we see contributing to an accelerated first quarter that includes total sales in the range of $1.42 billion to $1.46 billion, and non-GAAP EBIT of $40 million to $60 million.

Our preliminary Q1 same store sales through March 14 were up approximately 16%, and we expect first quarter same store sales to be in the range of 80% to 84%, as we anniversary temporary store closings from last year.

For the fiscal year, we expect total sales to be in the range of $5.85 billion to $6 billion, with same store sales in the range of 14% to 17%, and non-GAAP EBIT of $290 million to $324 million. You'll recall that we cut capital expenditures to $83 million this past year to focus on cash conservation in response to the pandemic. For FY 2022, capital expenditures are planned to be $150 million to $175 million with a focus on digital and technology investments to further strengthen our competitive advantage and long-term positioning.

We've also made the strategic decision to target a debt leverage ratio of below 3 times EBITDAR over time. Our long-term capital priorities remain to invest in the business, pay down debt, and return capital to our shareholders. A large amount of uncertainty still exists, and we'll continue managing the factors under our control, as well as anticipating and reacting to changes in consumer behavior as the year progresses. Depending on the timing and extent of potential changes in spending, future results could differ materially from current guidance.

Before we open the call for Q&A, I'd like to take a moment to recognize our Signet team. There has been a cultural shift in our company over the past three years as a result of our team members' commitment to our transformation strategy and our purpose. We have momentum and we're excited to enter this next phase of our growth strategy.

And now, I'll turn the call over to the operator to begin the Q&A session.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question today comes from Paul Lejuez from Citigroup. Please go ahead with your question.

Paul Lejuez Q

Analyst, Citigroup Global Markets, Inc.

North American transactions up 10%. Curious if you could talk a little bit about what that looked like, eComm versus stores. Also curious how big buy online, pick up in-store was for the quarter and year, whatever you might be able to share there. And then, separately, I was just curious to hear more about the marketplace business that you spoke about. Where are you now with that initiative and how do you see that evolving over the next year or so? Thanks.

Joan Holstein Hilson A

Chief Financial Officer, Signet Jewelers Ltd.

I'll start, Paul, on some of the [ph] metric (00:37:48) questions that you had. Our eCommerce performance – as we talked about, traffic was up, our conversion was up, our ATV was strong as well online. When you look overall at the stores, what we saw on the lower traffic, our conversion was also very strong and we were able to drive transactions.

So, overall, we feel very good about the team's response to the quarter that we went through in terms of capacities constraints, the uncertainty; and the agility that the team really demonstrated with respect to flexible fulfillment and ship from store opportunities that really helped to mitigate those capacity constraints.

Virginia C. Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd.

A

And Paul, hi, it's Gina. I'll jump in on your buy online, pick up in-store and marketplace questions. We only got buy online, pick up in-store really running in the fourth quarter. And so, it's a nascent capability for us but our team executed brilliantly. We had very high customer satisfaction, very high online on-time fulfillment. In fact, 86% of the orders were picked up in stores within three hours of receiving the order in the month of December. So, our teams were really all over bringing that new capability to life.

And one of the interesting customer dynamics is we typically see a customer, who we call the late inspiration seeker, typically male who buys late in the holiday season, he was an over-user of the buy online, pick up in-store technology. We had more than 6,000 items picked up in our store in the last couple of days before Christmas, primarily men. So, it's really proving out, I think, to be a strong technology for us.

The other one on flexible fulfillment I'll just mention is ship from store. So, we had turned on capability to be able to ship directly to customers from our stores in Zales pre-holiday. We're now turning that on across our other banners, and that's a real inventory opportunity for us. It unlocks stranded clearance inventory, as an example, across our store network; and also allows us to have a very broad eCommerce offering for our customers. So, flexible fulfillment is benefiting us in a couple of ways.

In terms of marketplace, we have a very successful marketplace in our business already with JamesAllen.com. We also have stood up a – more of a wholesale kind of a marketplace to serve independent jewelers, leveraging our scale in diamond-buying, and that is very early but proving to be a good new business for us.

And then we believe that with our scale, we have the opportunity to bring some new capabilities to life. These are not yet – ready to do more dreams than anything, but we're looking into customers' desire for rental jewelry, for subscription jewelry, customers' desire to access new designers that they might not be able to find anywhere else.

And for example, in Zales, we've already begun a process of discovering these new designers who don't have the scale to be in-store, but we can help them with our vendor relationships to develop their product lines and then they can start out in our website, perhaps in a more marketplace-oriented environment. So, we think there's some real upside for us over the next couple of years as we begin to flesh out those ideas and bring those capabilities to life.

Paul Lejuez

Q

Analyst, Citigroup Global Markets, Inc.

Got it. Thank you. Good luck.

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Operator: And our next question comes from Lorraine Hutchinson from Bank of America. Please go ahead with your question.

....

Lorraine Hutchinson

Q

Analyst, BofA Securities, Inc.

Thanks. Good morning. I wanted to ask a question about the long-term margin opportunities. It looks like the guidance penciled out to around a 5% operating margin for this year. Is this a good level that we should use as a base upon which you'll invest to grow market share or do you see any other big levers you can pull to move that margin number higher?

....

Joan Holstein Hilson

A

Chief Financial Officer, Signet Jewelers Ltd.

Thanks for the question, Lorraine. And as you noted, our guidance range, it pencils out at 5% to 5.4%, which I'd note on the higher end is an improvement to fiscal 2020. But that said, long-term growth remains a focus; and our strategic decisions and continued investments always consider sustainable long-term share and share gains – long-term sustainable growth and share gains.

And assuming – a way to think about this is assuming a near flat to slightly positive top line growth. We can gradually and, over time, expand our margins, largely due to our continued optimization efforts, particularly with our fleet, as well as other cost efforts that we consider within our cost savings program.

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Lorraine Hutchinson

Q

Analyst, BofA Securities, Inc.

Thank you. And then, can you just give a few more comments on the fourth quarter gross margin decline and what your outlook is for the first half of the year on that line item?

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A

Joan Holstein Hilson

Chief Financial Officer, Signet Jewelers Ltd.

Well, we really don't give specific guidance on gross margin in terms of the outlook for this year. But I would just reference you again back to the operating margin that we just spoke about, Lorraine. But in the fourth quarter, the – we had strategic promotion, as I mentioned, and we had very strong sell-down activities and life cycle activities that were strategic, supported our selling strategies and the inventory management that we believe has been a very large piece of our strong cash flow position.

So, we will continue to the efforts that, as Gina just mentioned, with respect to flexible fulfillment, ship from store, minimizing stranded inventory. We're rolling that out in the first quarter, end of first quarter here for Kay and Jared that will also really help with our margin, our merchandise margins. So, we remain diligent, very focused on turning our inventories faster and leveraging the new tools that we've put in place.

Q

Lorraine Hutchinson

Analyst, BofA Securities, Inc.

Thank you.

Operator: And our next question comes from Ike Boruchow from Wells Fargo. Please go ahead with your question.

Q

Good morning. This is [ph] Will (00:44:51) on for Ike. Hey. Can you guys just talk about – a little bit about the payables? It looked like it's – it was pretty – it was a big – it helped your free cash flow – your cash flow from operations this year. Can you just talk a little bit about what caused that spike?

A

Joan Holstein Hilson

Chief Financial Officer, Signet Jewelers Ltd.

Yes. Thanks for the question, Will. I would say that we have had a continued effort throughout the year to manage working capital much more efficiently, and we've worked very closely with our vendor partners and have lengthened our terms. We also had some deferral of rent, which we worked with our landlords on. Now, of course, that will be paid here in FY 2022 but it was a concerted effort for us to manage our working capital more efficiently.

Q

And so, do you expect that to normalize going forward?

A

Joan Holstein Hilson

Chief Financial Officer, Signet Jewelers Ltd.

We have a focus on cash flow generation for fiscal 2022, as I mentioned, and we'll continue to have a focus on inventory, payables, and just overall cash management because, as I said, we've positioned our plans conservatively. We expect negative sales in the back half of this year, and we keep that in mind as we manage our balance sheet.

Q

Got you. That's helpful. And can you just remind us what the profitability profile of eComm is versus brick and mortar?

A

Joan Holstein Hilson

Chief Financial Officer, Signet Jewelers Ltd.

[ph] Will (00:46:26), we haven't really given that guidance per se. What we've said is that it's not materially different. What I'd share, [ph] Will (00:46:34), is that when you think of the activities that Gina mentioned through virtual selling and ship from store, you're going to see a higher concentration and continue to see a higher penetration of eComm sales. And as we move through more of the stranded inventory, we would expect that to impact margins somewhat on eComm. And over time, as that position normalizes, we can expect it to return to what we're seeing today.

Q

That's great. And just – sorry, just one more for me. Can you just – can you talk about any plans for the convertible debt?

A

Joan Holstein Hilson

Chief Financial Officer, Signet Jewelers Ltd.

That remains out there in 2024, and we'll address that as we progress. As I mentioned, our capital priorities are initially, number one, invest in the business; and number two is to pay down debt leverage. You'll recall, as I mentioned on the – in my prepared remarks, that we fully paid down our revolver, as well as our $100 million FILO loan. And what we have remaining are convertible – are the convertible – is the convertible debt, as well as the notes payable or senior notes out there for 2024.

Q

Great. Thank you. I'll pass it along.

Operator: And our next question today comes from Dana Telsey from Telsey Advisory Group. Please go ahead with your question.

Q

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Good morning, everyone. As you think about the wage hike – I think that was announced earlier this year – by spring 2022, I believe that you had been paying above minimum wage anyway, what impact does that have? And are there any other puts and takes on the SG&A given the expense reductions that we should be noting going forward?

And then, can you talk about, with the store portfolio, the opening 100 and closing 100, is this what we should expect going forward? And how is the integration of the multi-banner stores progressing? Thank you.

Virginia C. Drosos

A

Chief Executive Officer & Director, Signet Jewelers Ltd.

Hi, Dana, I'll start on that. So, yes, we recently made a commitment to a $15 minimum wage across the US. This is an initiative that we had already begun. So, we started it in fiscal 2021 as a conscious way to improve our employee experience; and we've been addressing this not only in our stores but also our distribution centers and our fulfillment centers.

And you're right that many of our store staff already make above a $15 minimum wage because their wages are the combination of a base wage and a commission wage. So, on average, we're above that $15. But it's tough for people who come in and are starting out and haven't yet built that base of clients. And so, we think this is an opportunity to not only continue to attract great talent, but to continue to elevate the employee experience across all of our customer care, distribution center, and store teams.

The increase, as I said, started in fiscal 2021, and it is reflected in the fiscal 2022 guidance that Joan just gave.

Joan Holstein Hilson

A

Chief Financial Officer, Signet Jewelers Ltd.

Dana, with respect to the SG&A, as we look forward, you'll recall in 2021, we had – we have store closures that labor in those stores will come out. Occupancy rate – occupancy will come down in terms of rent. And then, permanent cost removal savings efforts, as we look forward, will continue to drive operational efficiencies in our stores.

We've managed our store operating hours, and we'll continue to lean into those. I did give guidance for the year of $50 million to $75 million in cost savings. But I also will indicate that we are investing, as Gina mentioned, in technology and digital tools that will continue to further our traction in our OmniChannel journey to Connected Commerce.

And then, again, I mentioned the marketing investment which we think is very important. We're seeing traction, as we noted in our quarter-to-date top line sales. And we think it's important for us to remain positioned to respond to what's going on in the market and just to have that flexibility in our thinking, and that is also included in our guidance.

Virginia C. Drosos

A

Chief Executive Officer & Director, Signet Jewelers Ltd.

Yeah. I'll just – I mean, just to add one thought on the marketing. So we're, through March 14, up 16% same store sales across Signet. That's over 20% in North America. We've really leaned into the momentum that we saw coming out of Valentine's Day, which was very successful for us. We know that only about a third of tax refunds are out there so far. We would potentially benefit from another round of stimulus.

And so, our plan is to use our very targeted marketing to try to attract some of that spending. And then, we've also made sure we have a strong back half of marketing so that we can be proactive in trying to offset losses that we might see as customers potentially turn their spending toward travel and other experiences once the vaccine has achieved herd immunity.

Joan Holstein Hilson
Chief Financial Officer, Signet Jewelers Ltd.

A

And then, with respect to our real estate, Dana, we gave guidance that up to 100 stores and – over 100 stores closing, up to 100 stores opening. And what we really like about what we're seeing in the – is in the Piercing Pagoda, highly efficient kiosk locations; we opened 20 in fiscal 2021 and we're looking to invest in up to 100 in fiscal 2022 and – based on the results that we're seeing in these new openings. With respect to our footprint, as we go forward, we intend to optimize the digital and virtual footprint. We'll continue to evaluate by trade area and continue to refer to our greenfield analysis and update it as results progress.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Thank you.

Operator: And ladies and gentlemen, with that, we'll – we've reached the end of today's question-and-answer session. I'd like to turn the conference call back over to management for any closing remarks.

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

Well, thank you all for your participation on our call today. As we conclude, I just want to reiterate my profound appreciation for our Signet team for their passion, performance and commitment to our purpose and our customers. And I especially want to recognize my exceptional business partner and Signet CFO, Joan Hilson, whose two-year anniversary is today. Her leadership is an amazing catalyst within Signet.

As we complete this phase of Signet's transformation, our entire team is focused on Inspiring Brilliance in everything we do, and we commit ourselves to delivering sustainable long-term growth. Thank you very much.

Operator: Ladies and gentlemen, with that, we'll conclude today's conference call. We do thank you for attending. You may now disconnect your lines.

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