10-Jan-2018

Signet Jewelers Ltd. (SIG)

December 2017 Sales and Revenue Call

Copyright © 2001-2018 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

James M. Grant
Vice President-Investor Relations, Signet Jewelers Ltd.

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

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.

OTHER PARTICIPANTS

Kara Szafraniec
Analyst, Northcoast Research Partners LLC

Lorraine Corrine Hutchinson
Analyst, Bank of America Merrll Lynch

Lindsay Drucker-Mann
Analyst, Goldman Sachs & Co. LLC

Rick Patel
Analyst, Needham & Co.

Bilun Boyner
Analyst, RBC Capital Markets LLC

Simeon Avram Siegel
Analyst, Nomura/Instinet

Laura E. Starr
Analyst, Nuveen Asset Management LLC

Scott D. Krasik
Analyst, The Buckingham Research Group, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Signet Jewelers Holiday Sales Conference Call. During the call, all participants will be in a listen-only mode. After the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time. [Operator Instructions] Please note that this call is being recorded today, January 10, 2018, at 8:30 AM Eastern Time.

I would now like to turn the meeting over to your host for today's call, James Grant, VP of Investor Relations. Please go ahead, James.

James M. Grant
Vice President-Investor Relations, Signet Jewelers Ltd.

Good morning and welcome to our Holiday Season sales results call. Today's call addresses a limited amount of holiday sales, seasonal, financial information that is sales, EPS and tax only. On our call today are Gina Drosos, CEO; Michele Santana, CFO; and Seb Hobbs, President and Chief Customer Officer. The presentation deck we will be referencing is available under the Investors Section of our website, signetjewelers.com.

During today's presentation, we will in places discuss Signet's business outlook and make certain forward-looking statements. Any statements that are not historical facts are subject to a number of risks and uncertainties, and actual results may differ materially. We urge you to read the risk factors, cautionary language, and other disclosures in our Annual Report on Form 10-K. We also draw your attention to slide number 2 in today's presentation for additional information about forward-looking statements.

Copyright © 2001-2018 FactSet CallStreet, LLC

And now, I will turn the call over to Gina.

Virginia C. Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd.

Thank you, James, and Happy New Year to everyone joining us this morning. On today's call, I will provide an overview of Signet's Holiday Season performance, then turn it over to Michele for more details on our holiday sales, guidance, and the anticipated impact of U.S. tax reform, as well as an update on the credit transition, we'll then take your questions.

Starting on slide 3, Our Holiday Season same-store sales declined 5.3%, reflecting positive progress on our strategic priorities, offset primarily by the negative impact of the credit outsourcing transition as evidenced by the mixed performance across our banners and channels.

As we've communicated previously, we are keenly focused on addressing our challenges and transforming Signet into a market-leading omni-channel retailer, positioned for growth through strong execution on our strategic priorities.

These include first, a resolute focus on the customer in all aspects of our business, including product assortment, marketing, promotions and communications, through customer-inspired innovation and data analytics. Second, building a unique omni-channel shopping experience, by enhancing our digital capabilities and seamlessly integrating in-store and online channels. And third, implementing a culture of agility, and efficiency to deliver operational excellence, and increased productivity of our investments and resources.

Our results for the Holiday Season demonstrates that our initiatives are beginning to take hold. Signet eCommerce sales grew 48%, reflecting enhancements we implemented to our Sterling website and continued double-digit growth in R2Net, as well as stronger social media presence and effective digital marketing.

Our Zale division was unencumbered by credit issues. Here, our enhanced assortments in both bridal and fashion categories supported by targeted marketing and promotional strategies led to comp sales growth of 4%.

The encouraging progress on our strategic priorities was significantly tempered, however, by the softness experienced at our Sterling banner stores, primarily driven by the credit outsourcing transition which accounted for roughly two-thirds of overall declines.

Over the past three months, we've been working tirelessly to fix every identifiable issue. As anticipated, we have largely resolved the system disruptions that primarily occurred during the first four weeks following conversions. Some of the transitional issues such as insufficient change management and operating process changes, primarily at the store level are taking longer to stabilize. This had a disproportionate effect on sales at Kay stores, and in the bridal category, both of which have a higher mix of in-house credit sales.

To give you an example, around 75% of Kay customers that purchase engagement rings, which is a subset of bridal along with the anniversary have historically elected to use Kay in-house credit. These customers on average tend to spend about $300 to $350 more on an engagement ring than cash and bank card customers.

This last Holiday Season in Kay, the number of engagement transactions was down low single-digit, but the credit transition issues drove a sales mix away from in-house credit, which led to lower average transaction value, and a double-digit decline in total engagement ring sales dollars.

Copyright © 2001-2018 FactSet CallStreet, LLC

Conversely Zales, which didn't experience any credit issues, saw engagement rings sales up on a comp basis in both number and value of transactions during the Holiday Season. So, the impact of the credit transition in Sterling is clearly extensive, and it will take time to move past, but we are seeing positive indicators including a return to pre-conversion application volumes and approval rates. We remain committed to addressing the transition issues one-by-one with a strong sense of urgency and making credit the positive experience our associates and customers have come to expect.

Aside from credit, we saw green shoots at both Kay and Jared during the holidays, which I'll discuss on the next slide.

This Holiday Season, we focused on bringing freshness to our product assortment, which delivered gains in both bridal and fashion. The addition of more solitaires and fancy cut diamonds as well as the new Enchanted Disney collections and line extensions in Vera Wang Love, helped to bolster bridal comp sales at Zales. While overall bridal sales at Sterling declined, new items outperformed in non-branded bridal as well as branded collections such as Neil Lane and Kay. In Jared, new fancy cuts introduced to our Chosen collection performed very well. Our enhanced assortment and focused communications around these items drove solid performance in fashion as well.

In fact, our fashion assortment this year contained over 50% new items this year versus last year and sales from this new merchandise was up double digits in our North America banners during the holidays.

Merchandise capitalizing on key trends such as stacking and layering diamond fashion bracelets and yellow gold, all delivered strong results.

Looking at branded collections, Vera Wang Love and Enchanted Disney fashion were top performers. Another area we expanded on this year were price points under $1,000, which delivered double-digit growth at Zales and good performance in Kay, relative to the overall portfolio. While we made progress during the holidays, we are just beginning to grow our participation in the fashion category. We plan to continue strengthening our assortment and our marketing initiatives targeted toward fashion purchasers to lead in this growing market segment as well.

From a communications perspective, our efforts to enhance our digital presence and deliver a more engaging omni-channel customer experience proved successful. As we said before, we made important strategic changes to our marketing plan. Moving from a broad-based advertising approach to a more targeted and personalized communications to drive more efficient integrated messaging. These decisions have enabled us to reduce our overall marketing spend and shift marketing dollars to higher ROI digital channels.

During the holidays, we increased our digital marketing spend by 35% compared to last year to 29% of total spend, while reducing our overall advertising investments by about 10%. Our investments in search engine marketing and optimization and social media drove significant traffic to kay.com and jared.com. While our omni-channel enhancements such as performance improvement in personalized content considerably improved customer engagement. This drove eCommerce sales up double digits for both banners.

For example, our visibility and performance on search engines was elevated through improved website content and position in search rankings. As a result, search traffic to our websites increased almost 20% supporting the double-digit growth in eCommerce.

In addition, the data management platform we implemented in Q3, allowed us to better target shoppers online driving higher media efficiencies. We also started delivering personalized content on our Sterling websites

Copyright © 2001-2018 FactSet CallStreet, LLC

compared to a very small percentage last year. This drove increased customer engagement as evidenced by higher product views and conversion rates on our websites.

Our social media initiatives were also highly effective. As a result of our enhanced presence in all popular social media channels and our robust influencer campaign, we reached over 1 billion impressions, up 55% year-over-year and click-throughs to our North America banner websites increased 146%.

Notably, Kay, Snapchat World Lens launched in November with a first in the jewelry category. And in terms of engagement and time was among the top performers in retail during the fourth quarter. While we're seeing good returns from our digital investments, TV and traditional advertising also continue to be key drivers of our brands voice. We will continue to innovate our marketing approach and to integrate our messaging across digital, TV and traditional channels to achieve the optimal mix and maximize the effectiveness of our industry-leading marketing efforts.

On promotions, we've seen great success at Zale supported by consistent cohesive messaging across omni-channel platforms. Focused promotions on selected giving assortments also delivered strong results. Promotional events at Kay and Jared were less effective, as overall store performance was impacted by credit transition issues.

Finally, the integration of R2Net remains on track, and we're poised to capitalize on the various synergies we have quickly implemented, including the Segoma diamond photography center in Akron, which already began production. New Kay Ring Try-On App, the launch of 24/7 live chats for diamond consultation in our Jared designer ring platform.

In summary, while we were not pleased with our overall holiday performance, we have begun to see positive results from our strategic initiatives as evidenced by the performance of our eCommerce platforms and the Zale division this Holiday Season. This was offset primarily by the negative impact of the credit transition, which was reflected in our revised guidance we communicated in November. With the majority of the year now behind us, we've updated our guidance for fiscal 2018 to incorporate the impact of U.S. tax reform, which is expected to be a significant benefit for Signet. Excluding the benefit of tax reform, we expect our fiscal 2018 EPS to be in the range of $6.17 to $6.22 within our previous guidance range.

Before I turn it over to Michele to provide more details, I'd like to reiterate that the progress we achieved during the Holiday Season demonstrates that our strategic initiatives are beginning to take hold. We are early in our journey, but as we make progress on our strategic priorities to put the customer first, to develop an exceptional omni-channel experience, and to create a culture of agility and efficiency. And as we improve our credit experience for both store associates and customers, we are confident that we will be well-positioned to lead the growth in the jewelry industry.

Michele?

Michele Santana

Chief Financial Officer, Signet Jewelers Ltd.

Thanks, Gina. And again, Happy New Year to you all. My comments today will be limited to the holiday sales results. I will also provide an update on our guidance along with some limited remarks on the impact of U.S. tax reform.

Copyright © 2001-2018 FactSet CallStreet, LLC

Signet's Holiday Season same-store sales declined 5.3%. Total sales for this period decreased 3.1% to $1,882 million. Signet's eCommerce sales were $211 million, were up nearly 48%, and when excluding the R2Net acquisition, we're still up a little over 12%. In total, eCommerce represented about 11% of our holiday sales compared to 7% in the prior year.

As for Signet's holiday sales by division, the Sterling division's same-store sales decreased 8.5%, and that was driven principally by Kay in-store results. The average transaction value for Sterling increased by 2.2%, and was up similar at each banner, but the number of transactions for the division fell 11.2%, which led the overall comp decline. The decline was driven primarily by the in-house credit transition, which had a material negative effect on transactions for both bridal and fashion collections, particularly at higher price points, which often use financing.

In addition, the comp decline was driven by underperformance in low transaction value, high transaction volume categories such as beads and Diamonds in Rhythm.

The Zale division's same-store sales increased 4%, driven by similar gains across all three major banners Zales, Peoples and Piercing Pagoda. The average transaction value increased 6%, while the number of transactions were roughly flat. The comp increase was driven by select collections and categories such as Vera Wang Love, Enchanted Disney, stacking and layering and jewelry repair.

The UK division's same-store sales decreased 10.3% with consistent declines across store banners. The average transaction value increased 6.2% driven by higher sales of select prestige watch collection, while the number of transactions declined 15.7%, due to underperformance in diamond jewelry, beads and key traffic driving items.

On the next slide, is a closer look at the in-house credit transition. Sterling credit sales were down of $102 million or 14.4% over prior year Holiday Season, partially offsetting this credit sales decline were lease sales of about $13 million. Lower credit sales drove lower credit penetration down 360 basis points over last year to about 55.5% for the Holiday Season. Credit sales from both new credit customers and existing accounts were down with both groups contributing about equally to the overall decline.

During the course of a Holiday Season, application volume and approval rates gradually returned to be more in-line with pre-conversion levels, but we are still seeing transition-related issues that continued to negatively impact our credit sales. These issues are primarily related to changes to our in-store credit operating processes. For many years, our store team members were seamlessly utilizing credit to support the selling process and we're deeply familiar with the application and payment process, procedures, benefits to customers, and how to communicate them.

With the outsourcing transition, some aspects of these credit operations have changed, such as the in-store selling procedure, the level of visibility that our team members have to select information, store manager tracking tools, and others. Frankly, we significantly underestimated the impact these changes would have on in-store behaviors. We are 100% focused on addressing each of these in making credit the seamless experience it was for both our team members and customers.

Some of the concrete actions that we are taking include the following: First, we're looking to make several adjustments to the in-store process and credit programs to eliminate redundant steps, like information gathering and processing faster and more efficient and drive greater integration and information sharing with our partners.

Second, we intend to implement more real-time and detailed reporting, which is extremely important for our store team members to be able to communicate the offers and benefits available to our customers. And we're also

Copyright © 2001-2018 FactSet CallStreet, LLC

increasing our credit communications to both team members and customers. We are implementing a number of marketing and promotional strategies to recreate excitement around credit. And we're continuing to train and educate our store associates on the tools and information available to them, as well as on the new process and procedures, so they can continue to utilize credit as a sales enabler with excellence.

We are optimistic that these actions will deliver improvement to our credit performance, and therefore overall sales. However, it will take time before the impact of the transition fully normalizes.

Looking at Zale US Jewelry, during the Holiday Season, credit sales were up $1.6 million or 0.8% over prior year. Our credit penetration rate was 43.4%, down 30 basis points when compared to the prior year holiday period. And finally, these sales added $8.7 million to the Holiday Season.

Turning to the next slide, on Signet's financial guidance. We narrowed the range of our EPS expectations for the fourth quarter and full year, as approximately 85% or so of our business is typically done by the time of the quarter. We have also shared our preliminary estimates on the favorable impact from the recently passed U.S. tax reform, which I'll elaborate on in a moment.

Quarterly same-store sales are expected to decline down mid-single-digit percentage as we've renewed the high-end of our previous expectation. Full year comps should also [ph] lay (00:20:44p down in the mid-single-digit range as previously anticipated. As for earnings per share, due to our holiday results, we eliminated the higher end of our previously guided range, and we've narrowed the range. With adding the anticipated benefits from tax reform, our EPS expectations are materially higher for both the quarter and full year.

As it relates to U.S. tax reforms, we will receive a significant benefit within our fiscal year 2018, as the tax rules are effective January 1, 2018. There were a number of benefits we will see as follows: Lower corporate tax rate for U.S. profits at 21% versus the current 35% federal tax rate. Prior to U.S. tax reform, our annual effective tax rate is estimated to be 18%, and that is down from the previously guided rate of 22% due to lower U.S. profits than forecasted.

Inclusive of U.S. tax reforms, we anticipate an overall effective tax rate of about 14% to 15% for fiscal year 2018, and our updated guidance includes the benefit of about $0.28 EPS related to this part of the U.S. tax reform.

Now, excluded from our guidance is an estimated one-time non-cash benefit of $35 million to $45 million or $0.50 to $0.67 incremental EPS benefit attributable to the reevaluation of deferred tax assets and liabilities. While we will record this benefit in the fourth quarter of fiscal year 2018, we are excluding this from guidance until we completed our more specific analysis of the revaluation of our net deferred tax liabilities that includes inventory, fixed assets, and intangibles.

We intend to use the benefits as a result of U.S. tax reforms to invest in customer-facing growth investments and returning capital to shareholders in the form of dividends and share repurchases, and we will provide more details on this at our year-end earnings call.

Lastly, please note that the Q4 full year share count guidance, which includes the preferred shares as if converted and this was not warranted last quarter.

That concludes our prepared remarks, and now Gina, and I will take your questions.

Copyright © 2001-2018 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Kara Szafraniec from Northcoast Research. Your line is open.

Kara Szafraniec
Analyst, Northcoast Research Partners LLC

Q

Hi. Good morning, everyone. I had a quick question about the changes that you guys had outlined at the store level related to the credit transition. Have you guys began making those changes already in-store? And hopefully maybe you could give us a timeline for when a full rollout of these changes should be expected?

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.

A

Yes, certainly. So, yes, we absolutely have been very focused on making changes, and we'll continue to make changes, as we mentioned in our prepared remarks as we move forward. Some of the concrete actions that we have taken very much include looking at the in-store process, and credit card ramp, as I mentioned to eliminate the redundant steps, and we'll continue to work with our partners, as we further drive into focusing on those areas.

We talked about more real-time and detailed reporting, so a lot of that work has started and there is for sure more to come. We definitely are all hands on as we go through and analyzing each of these changes, and working towards returning out to a more seamless process. But, as I mentioned on the call, this is going to take time to move us past the impact of the transition in its entirety.

Kara Szafraniec
Analyst, Northcoast Research Partners LLC

Q

Okay. Great. And then just a follow-up on Progressive, wondering how Progressive performed in the quarter versus your expectations? And maybe can you give us some color on how close you guys were to accessing that [ph] stretched goal (00:24:52) accessing half of the 45% of customers that had previously been turned away? Thank you.

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.

A

Sure. So, in terms of our leasing, I mentioned on the call, in our Sterling division, our lease purchase sales were approximately $13 million, and about $9 million in Zale. So, we felt really good in terms of where our leasing sales are landed, and ultimately offset with some of the expectation that we had, as we previously discussed about the 7% tier of our credit that we would start to gradually pull away with underwriting. So, it did meet the expectations on that front. So, year-to-date, we're a little over $26 million in leasing sales.

Operator: Your next question comes from Lorraine Hutchinson from Signet (sic) [Bank of America] (00:25:38). Your line is open.

Lorraine Corrine Hutchinson
Analyst, Bank of America Merrll Lynch

Q

Copyright © 2001-2018 FactSet CallStreet, LLC

Hi. It's Lorraine Hutchinson from BOA. Thank you. When you look at your guidance on a pre-tax basis, so before getting the 22% down to 18% tax rate benefit, it is lower. Can you just talk a little bit about which margin line items came in below your expectations for 4Q?

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.

A

You know what, certainly, really the comments are limited to sales for the Holiday Season, so I am not going to do a deep dive in into the P&L line items for guidance.

In terms of the first question on the tax rate with 18%, that it looks then we would have been outside the guidance range, we would actually be at the low-end of the guidance range. Again, there's puts and takes, you got to look at it holistically. The reason that our effective tax rate had declined from the 22% to the 18% was due to the lower profit. So has that not occurred, we would have been back at the 20% tax rate.

Operator: Your next question comes from Lindsay Drucker-Mann from Goldman Sachs. Your line is open.

Lindsay Drucker-Mann
Analyst, Goldman Sachs & Co. LLC

Q

Thanks. Good morning, everyone. I wanted to first ask, do you have any metrics around for the prime book that ADS is running, whether credit penetration rate, application volumes or approval rates changed versus maybe the run rate in the prior year, so we're seeing any difference in how borrowers who're part of the ADS portfolio are getting approved?

And then secondly, perhaps you could comment on to the degree that the processing issues are going to carry over into 2018, how we should think about that as an impact to sales or extended service plan revenues for next year?

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.

A

Sure. So in terms of your first question, which it sounds like you're really trying to ask if there was a change in credit lending standards, on the ADS side? And overall, no. In the prepared remarks I said that over the holiday selling season, we gradually did see a return to our pre-conversion, approval rate levels and application volume levels. The decline that we saw in credit sales was really due to the combination of the technical issues, and the operating process changes that affected the new applicants and existing credit customers.

In terms of your second question about the impact to next year, it's premature for us to speak to that. The comments that we've made is that, when we think about the timing, we're saying it is going to take some time, and as we have our year-end call, we'll give further color and update you our thoughts into 2019.

Operator: Your next question comes from Rick Patel from Needham & Company. Your line is open.

Rick Patel
Analyst, Needham & Co.

Q

Thank you. Good morning, everyone. Can you dig a little bit deeper into the work that's being done to resolve credit? On the call you mentioned insufficient change management and operational change management. Maybe

Copyright © 2001-2018 FactSet CallStreet, LLC

the best way to understand that would be to walk us through an example of some of the problems that you're facing, and the work that's being done in order to fix those two elements?

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.

A

Yes. So, let me give you – try and give you a couple examples of the information that we're talking about. In some situations as we're going through the application process, there are steps that have resulted in our store associates having to collect redundant information. It certainly wasn't designed that way, but where the data resides that was ultimately the outcome, which again it just throws them off of the sales process that they were accustomed to.

A lot of these are just small changes, but the culmination of these changes is overall resulting in the effective change management that we've been describing. It's really – the payment plans, we [ph] cited (00:29:30) that on the call. But payment plans, they understood it in our prior world, and they're just getting trained up on how that works today. There's just an element of a learning curve associated with it. So, it's not one item by itself, but it's been coupled the number of changes that is really – what we really had underestimated the impact this would take.

Operator: Your next question comes from Paul Lejuez from Citi. Your line is open.

Q

Hey guys. It's actually [ph] Jennifer (00:30:05) on for Paul. A couple of questions. First on credit, I'm just trying to understand, how much of the declines of Sterling are due to process issues versus maybe change in the way that ADS is granting credit. Are they – I mean this kind of goes to Lindsay's question, maybe is ADS granting as much credit to customers, as you were granting previously? And then on the credit also you had said new customers and existing accounts contributed about equally to overall declines. I'm trying to understand that, because I would think existing accounts already have credit, so why would we be seeing declines there? Thanks.

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.

A

Sure. So in terms of your first question, which was really the question which Lindsay had, again I'll just repeat my answer. I think the question is you're trying to ask is the credit lending standards were different on ADS? Overall, no. The decline that we saw was really due to the combination of the disruption in the operating process changes that had affected the new applicants and existing credit customers.

In terms of existing credit customers, you're absolutely right, they already have credit with us, so would be then returning back into the store, it's hypothesis in terms of why we would have seen that have an impact that we did. And we're continuing to further evaluate.

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

Bilun Boyner
Analyst, RBC Capital Markets LLC

Q

Hi, good morning, this is Bilun on for Brian. I just wanted to touch on the divergence between Sterling and Zale performance during holidays one more time. I know you mentioned about the two-third of Sterling weakness was

Copyright © 2001-2018 FactSet CallStreet, LLC

due to the credit outsourcing issues. So, I guess if we assume Sterling compound rate excluding the credit impact was probably maybe down low-single-digits, which compares to a plus 4% at Zale. Could you maybe point to top three or four reasons that may be causing the strength at Zale, and how they could possibly translate to Sterling over the next – maybe for next few quarters?

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

A

Sure. So Zale is a good example of where all of our strategic initiatives are beginning to take hold, unencumbered by any credit issues, so none of the same process or in-store selling complications that we're seeing in Sterling. Our improved assortment that we had in the bridal and fashion drove comp sales growth in both of those parts of the business in Zale. We had a significant shift in Zale towards digital and social media marketing, which was very successful and drove very strong traffic to our websites and also engagement with our customers. So truly this whole focus on creating a seamless experience between our retail format and our eCommerce site to create a true omni-channel experience also began coming to life in Zale in a much more significant way.

In Kay, as I mentioned in my prepared remarks, our best correlation analysis and data to-date, although it's pretty soon after the Holiday Season closed indicates about two-thirds of the issues that we had on our comp sales were related to credit. The other issues were really largely related to Ever Us not performing as strongly as a year ago, it's in a lifecycle of a mature product, and still was very strong, it still is our strongest brands in the portfolio, but just not nearly as strong as last year, and our promotions were a bit less effective in Kay, largely we think due also to the complications surrounding credit.

So, Zale, we think is a very good example of how these strategic initiatives are starting to come to life and beginning to deliver positive sales performance.

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

Simeon Avram Siegel
Analyst, Nomura/Instinet

Q

Great, thanks. Hey, guys. Do you make a data on whether the customer walking out of Kay is being captured by Zales across the hall, any data on how the Zales stores that are located near the Kay stores did versus those that are not? And if so, does that impact your view on store accounts. I mean is there – could the recapture rate behind us that that's worth considering?

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

A

So, we have done very detailed analysis on cannibalization, which we consistently do and we look at timing of promotions and merchandise, et cetera, there's no evidence, that Zale cannibalize Kay during the Holiday Season, so that growth is real on Zales and something that we're excited to continue.

In terms of store counts, we continue to look at traffic in the malls, which were challenged again over the Holiday Season. We're seeing a continued move toward eCommerce growth, in our case our eCommerce growth was up about 50% overall versus a year ago, so substantial growth in that. So, we continue to look at where our most profitable stores across our total line and make sure that we're operating in the right places in the right malls.

Operator: Your next question comes from Laura Starr from Nuveen Asset Management. Your line is open.

Copyright © 2001-2018 FactSet CallStreet, LLC

Laura E. Starr
Analyst, Nuveen Asset Management LLC

Q

Yes, hi. I want to go back to the questions about the processes in the store. Maybe to make it really simple, as one of the issues is that with all these new processes and asking new questions, is it just taking so much more time that it slows it down so much the customer gets frustrated, the customer walks out, is it [ph] part of it (00:36:11) the time it takes to do a transaction versus before, is that significantly different?

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.

A

In terms of – the actual time it takes is not really that different. It's done seamlessly the way it really is designed to do. But to your point, because there's so much newness and where do you have to look for this information, how do you go through the process, I'd say, there is some time, and definitely that was the case when we have mentioned on the call earlier, the first four weeks of conversion where we had more of the system disruption that was for sure the case. It really is the number of changes that that collectively we need to work through with the in-store selling system.

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

A

So, just to build on that, the time that it takes to process transactions and manage that through with the customer, we do believe was longer over the holidays in an issue, but to Michele's point, we think that it's fixable. So that's something that we're working on right now with training and visibility of information.

Operator: Your next question comes from Scott Krasik from Buckingham Research. Your line is open.

Scott D. Krasik
Analyst, The Buckingham Research Group, Inc.

Q

Hey, thanks everyone for taking my question. I want to drill down on a comment you made earlier that your promotions at both Kay and Jared were not as effective, I think you sort of began the more promotional stance in Mother's Day last year. So, I'm just wondering your thoughts there, why that was the case? And then just one quick question on credit, just as you look at what's happening now on the Sterling side, any changes to the actual amounts that are being approved by ADS versus what you were doing before? Thanks.

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

A

So, I'll take your first question on promotions. We really stayed true to the promotion plan that we have outlined in previous calls and that we tested in Mother's Day and Labor Day, and found to be effective in both of our banners. In Zale, it's performed quite well and very consistently with how we would've expected it to perform. And Kay and Jared not as well, although we stuck to that preconceived plan that we had, and it appears from our analysis to-date that that is also in part driven by the issues that we had with credit that we were driving traffic with those promotions which is not the level of conversion in-store that we really need to. So, that's a point of ongoing analysis for us, as we're putting together our plans for fiscal 2019.

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.

A

In terms of your second question overall, no.

Copyright © 2001-2018 FactSet CallStreet, LLC

Operator: And that's all the time we have for questions. Thank you ladies and gentlemen. That concludes today's call. You may now disconnect.

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.