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Signet Jewelers Ltd. (SIG)

Q4 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Signet Jewelers Limited Fourth Quarter and Fiscal Year 2018 Results 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, March 14, 2018, at 8:00 a.m. 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 fourth quarter earnings conference call. On the call today are Signet's CEO, Gina Drosos; and CFO, Michele Santana. The presentation slides that we will be referencing are available under the Investors section of our website, signetjewelers.com.

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. And we also draw your attention to slide number 2 in today's presentation for additional information about forward-looking statements. And additionally, we ask that you limit your questions to two, so that we are able to take as many questions as possible.

So with that, I'll turn it over to Gina.

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Virginia C. Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd.

Thank you, James. Good morning, everyone, and thank you for joining today's call. Today, Michele and I will discuss Signet's fourth quarter and full-year results, including the issues that developed following our credit outsourcing transaction and related operational challenges. We will also discuss Signet's comprehensive three-year company-wide plan to reinvigorate Signet and transform the company to be a share-gaining OmniChannel jewelry category leader. We will then open the line for your questions.

As a member of the Signet board since 2012, I developed an appreciation for the fundamental strength of Signet's business, outstanding team members and attractive market opportunities. Since becoming CEO seven months ago, I have taken a look at the business through a new lens, diving deeply into our operating plan details, demand creation capabilities, and cost structure.

As a result, I have gained a much greater insight into Signet's operations and enhanced my understanding of the opportunities for Signet moving forward and what needs to be done to position the company for improved performance.

It is clear that Signet is working from a strong foundation. The company continues to be the market share leader in North America in a large, growing and highly fragmented category with the opportunity for additional share gains as we leverage our scale in innovation, marketing and procurement.

We have a good balance between a steady bridal business, a fashion, gifting and self-purchasing business and the design, repair and maintenance business, which continues to drive traffic to our stores after a purchase has been made.

Additionally, our bridal and anniversary businesses involve big-ticket items that are purchased [ph] infrequently (03:37) and often after careful deliberation with the assistance of a knowledgeable trusted sales professional. And overall, our store footprint is highly strategically placed as we improve our eCommerce and especially our mobile capabilities, the jewelry category gives us an opportunity to use our stores as a key advantage to provide customers with a superior OmniChannel experience.

We plan to build on this foundation as we aspire to be the preferred authority and destination for jewelry products for bridal occasions, fashion and gift occasions, custom design and jewelry repair and maintenance services. But before we can fully achieve this objective, we have some immediate challenges to address. These include the operational issues associated with the outsourcing of our prime credit business and the need to transform our business to invest in growth initiatives while lowering our cost structure and repositioning our real estate portfolio.

As you know, we completed the first phase of our credit outsourcing plan in October when we sold Kay and Jared's prime receivables to ADS for $950 million and outsourced servicing of our non-prime receivables to Genesis.

Today, we are pleased to announce the final phase with the signing of a multiyear agreement with investment funds managed by CarVal Investors to purchase our book of non-prime receivables. Michele will cover these transactions in more detail shortly. When it closes, this credit transaction will complete Signet's transition to a fully outsourced credit structure, while maintaining a full spectrum of category-leading, financing and leasing options for customers.

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Together, these transactions are expected to significantly reduce consumer credit risk on our balance sheet, reduce our working capital needs and enable us to focus squarely on our core retail business. Importantly, these transactions also enable us to continue to return significant capital to shareholders.

At the completion of Signet's transition to a fully outsourced credit model, we expect that the credit transactions will have generated more than $1.3 billion in proceeds, which are being used for debt repayment and significant share repurchases. From a combination of available cash and proceeds from the credit transactions subject to market conditions, we expect to repurchase approximately one-quarter of Signet's shares outstanding.

For all of these reasons, I am confident that these transactions will prove to be very beneficial to the company over the long term. However, the transition of the credit function to an outsourced model has led to operational issues that significantly impacted our same-store sales. We are making steady progress fixing these issues and have seen some signs of improvement in credit participation and application volumes in February versus fourth quarter trends, although still below prior-year levels. We do continue to expect the transition to be a headwind during fiscal year 2019 as we work through change management in the stores.

The credit transition was not the only challenge we faced last year. As I conducted my deep dive review of our operations and strategy, it became clear that there are some additional operational issues that require attention. We did not invest fast enough in OmniChannel initiatives, particularly mobile and have been too slow to capture our fair share of the online channel, both in terms of traffic and conversion. We have less effective product innovation success and did not invest enough in differentiated products. As product life cycles have shortened, our innovation pipeline has not been robust enough to offset the natural decline of some of our larger selections.

Our banner brand equities have become less relevant and our in-store experience and communication platforms need updating. Across banners, we have relied too heavily on the promotional lever, which has incentivized customers to buy on deal and created a value perception problem in non-heavy promotional periods. And employee morale has suffered as we have experienced organizational change, head count reductions, negative press and complications from the outsourcing of credit.

These company operational issues have been exacerbated by several changes in the retail environment, which we have been slow to respond to, including declining mall traffic and shifts in customer buying behavior.

The good news is many of our problems are fixable. We can and we will correct them. There are significant operational improvement opportunities at our disposal. Capturing these opportunities allows us to stabilize and then start improving our results, while planning for and investing in the future. We are disappointed in our fiscal 2019 outlook, but feel it is important to have this year as a transition year to kick off our transformation plan.

Signet Path to Brilliance is a three-year comprehensive transformation plan to reposition the company to be a share-gaining OmniChannel jewelry category leader. The plan is designed to increase our cost competitiveness by driving out costs customers do not see or care about, while enabling growth investments in our three key strategic priorities of Customer First, OmniChannel and building a Culture of Agility and Efficiency.

The growth priorities of the transformation plan are number one, as part of our Customer First strategic priority, we are aggressively addressing customer relevance and value. Although Signet remains the category leader, we have not been leading category growth and have lost market share. We must become more customer-focused.

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There is a need to clearly differentiate our banners and drive higher brand equity, shift our advertising and media mix to become more relevant, use analytics for actionable insights and provide a clear and compelling value proposition.

We're in the process of completing new brand positioning work, which is intended to clearly differentiate our banners with Kay, Zales and Jared effectively targeted to different customer segments with unique benefit propositions, reducing overlap, improving banner differentiation and increasing customer relevance will enable more effective merchandising, in-store experience and marketing.

The new banner positionings are built on deep data analytics and will be tested this year. We are also continuing to shift our media mix to digital to reach customers where they are with greater targeting, personalization and efficiency. Linear TV will remain a competitive advantage for our brands, but will no longer represent the majority of our spend. We are augmenting our wealth of consumer data with access to new data to allow us to move beyond demographic and behavior marketing, which is focused on a limited number of customer characteristics to predictive modeling and trigger moment marketing, where hundreds or even thousands of characteristics are used in combination to find the shoppers most likely to respond.

We are also investing in data science expertise and new analytics tools to measure marketing impact at the individual level, setting the stage for in-flight optimization of campaigns to drive engagement by providing the information customers want next. Whether that's diamond education, or fashion inspiration, we can personalize content to meet their needs. Disney Enchanted is a great early example of this, where we targeted Disney fans through activities reaching almost 600,000 customers at a very low cost, helping drive the strength of Zale's sales.

Finally, we are beginning to utilize the latest digital identification technology, enabling us to take the customer along their journey, even if they switch devices, search for information on different websites or go in-store.

To optimize our customer value equation, we are closely evaluating our pricing structure. Our historical model has been high/low at Kay and Zales with a reliance on promotions, which has made purchasing confusing for customers. We are evaluating our promotional spend as well as conducting pricing studies with the goal of applying learnings to address price perception issues and identify areas where we have gaps.

At Jared, we have a less promotional model, but are benchmarking our value equation and merchandise assortment. Any changes will be made thoughtfully with the goal of providing superior customer value and experience, while carefully managing the trade-off between sales growth and margins.

Innovation is also a top Customer First priority to drive traffic and conversion in-store and online. We think of innovation in two broad buckets, core and disruptive, and across several vectors including product, experience, digital and delivery innovation. We are driving our renewed focus on core innovation within our newly formed banner teams and functions, which I'll discuss in a few minutes. These efforts are important in driving growth and are lower risk and faster to execute.

Our goal is to increase relevance and move quickly in this area, given that customer habits have changed in the life cycle of products are shorter, requiring more continuous newness. For example, we have implemented new and faster idea screening approaches and vendor summits to increase effectiveness and new product design and launch.

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To drive disruptive innovation, Signet is launching a new Innovation Engine. Our Innovation Engine team is responsible for idea generation, qualification, piloting and ultimately, rolling out the best ideas across new product breakthroughs, experiences and business models.

Our goal over time is to drive a higher mix of disruptive innovations, which have the potential of being more incremental to sales. For example, this team is currently piloting and optimizing a new digital innovation program in Jared stores where we are making over 100,000 diamonds available to the customers through a virtual diamond vault, leveraging R2Net visualization and diamond market technology.

Number two, OmniChannel and eCommerce initiatives. Our aim is to develop best-in-class mobile shopping and a fully connected in-store and online experience. We want our websites to be an easy, informative and delightful experience for our customers, so we have already begun using R2Net technology across our websites to deliver product leading visualization, try-on, and custom design capabilities.

In addition, to give a better sense of scale, we are starting to show every product we can on a model. The early results of which is a double-digit increase in conversion. We are being disciplined about improving our on-site research capabilities and modernizing and speeding up checkout pages, all of which we know enhance customer delight.

We know that our customers have multiple digital touch points before they arrive on our websites and that they usually research online before they then go into a store. So we are strengthening our capability to track this digital journey. New analytical tools will enable us to maximize our marketing spend by targeting the message, not only to the right customers, but also at the right time through the right digital platform.

Number three, as part of our focus on building a more agile and efficient culture, I'd also like to highlight some important organizational changes we've made to drive stronger employee engagement. We have reorganized to increase accountability and focus on results for each of our major North America banners with a general manager and a dedicated multifunctional team working on Kay, Jared, Zales and Piercing Pagoda. This moves us away from a Zales versus Sterling Division structure to a North America structure.

Functional leaders and their teams within marketing, store operations and merchandising will support all banners, delivering innovation informed by customer insight, effectively allocating Signet's resources and ensuring shared best practice. This structure is designed to emphasize accountability, enable innovation, strengthen collaboration and accelerate decision-making.

Along with these organizational changes, we are also placing greater emphasis in our annual incentive plans on top line sales growth within each banner and at the corporate level. Of course, in an organization like Signet, where customer interaction happens on the frontline, it is critical that we attract, grow and engage our employees to deliver an extraordinary experience for our customers.

We are highly focused on reigniting employee engagement through training and development opportunities, and we are providing a onetime special cash award to non-exempt employees below manager level in fiscal 2019 as we kick off our transformation efforts as well as a three-year transformation incentive program for all employees.

The growth drivers I have just discussed will be funded by a more than $200 million net cost reduction program related to strategic sourcing, logistics, information technology spend, third-party contracts and corporate expenses. We have spent considerable time evaluating cost reduction plans over the past four months with the

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help of several expert consulting teams and are confident our implementation will deliver these substantial savings.

In addition, as part of becoming more agile and efficient, we must optimize our real estate footprint. Our stores are a competitive advantage and billboards for our brands. As such, we must reinvent and reinvigorate them to continue to provide a compelling customer experience.

Over the next three years, our store footprint must evolve, and we are approaching this evolution in a thoughtful manner. Decisions regarding store rationalization will be economically driven based on the cash financial outlook for each store, the remaining life on leases as well as competitive assessment.

In fiscal 2019, we expect to close over 200 stores. Most of the fiscal 2019 store closings will occur after the holiday season. New store openings are expected to be limited and will be focused on already proven off-mall formats and desirable markets.

As we move out into fiscal 2020 and beyond, we will be testing more new store concepts, monitoring sales retention success and being opportunistic with what the real estate market provides in terms of rent reductions or store relocations. We expect overall store count at the end of the transformation plan to be lower than fiscal 2019 year-end levels.

Our plan is focused on closing our lowest-performing doors. These stores are not losing meaningful operating income, but do not meet our return expectations. We expect a small positive impact on operating profit from closing these stores as well as lower capital expenditures, lower working capital and stronger underlying sales growth. Over time, we expect our remaining store footprint to be more productive and to drive an overall improvement in return on capital invested for Signet.

Strategically, the goal of our real estate transformation is to provide compelling customer experiences with seamless integration between our stores and our eCommerce platforms, resulting in higher sales productivity per store.

Additionally, we are highly focused on sales retention, making sure we maintain customer relationships as we close stores. Approximately, three-quarters of stores expected to close are within the same mall as another Signet banner, and we are currently modeling an approximately 30% sales retention rate. Sales retention is a key objective of our real estate transformation, and we have already been testing and learning with new programs to help us increase our sales retention rate.

This is a comprehensive transformation plan, and we are confident that the activities we have outlined will move the company in the right direction to deliver sustainable, profitable growth. They will take time to fully implement and show up in our financial results.

For fiscal 2019, we expect negative same-store sales as we continue to work through the credit transition and as our innovation in marketing efforts ramp up. Declining same-store sales, along with the change to a credit outsourcing model will negatively impact operating profit, somewhat offset by lower interest expense and a lower share count. We expect to see improved operational and financial performance beginning in fiscal 2020 as our efforts come more fully online.

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We intend to responsibly manage the business for top line growth, drive efficiency and reinvest appropriately to position Signet for sustainable long-term growth and we plan to remain highly disciplined toward capital allocation with the majority of free cash flow being returned to shareholders in the form of dividends and share repurchases.

Finally, before I turn it over to Michele, I am very pleased to announce that we have appointed two new members to our board of directors, Sharon McCollam and Nancy Reardon. Sharon most recently served as Executive Vice President, Chief Administrative and Chief Financial Officer of Best Buy. She is widely recognized as the copilot of Best Buy's successful Renew Blue turnaround strategy and is having overseen Williams-Sonoma's operational transformation. Sharon will be a great asset to Signet as we embark on our own transformation.

Nancy brings a wealth of human resources experience and deep knowledge of the retail, consumer and industrial industries. Having led the major organization culture changes at three Fortune 500 companies, including the Campbell Soup Company, Nancy is well-suited to provide expert oversight to Signet as we execute on our Path to Brilliance transformation.

I am confident that the addition of these outstanding leaders will further strengthen the board of directors and enable and support the successful execution of our transformation. I'm thrilled to welcome them to the Signet team.

And with that, I'll pass the call to Michele for more details on our financial results and guidance.

Michele Santana

Chief Financial Officer, Signet Jewelers Ltd.

Thank you, Gina; and good morning, everyone. I'll start with a review of our fourth quarter results. After that, I'll first move to details around the announcement of Signet's proposed sale of our non-prime accounts receivable; then secondly, discuss some of the financial impacts of our transformation strategy; and lastly, conclude the review of our guidance and capital allocation for fiscal 2019.

Our fourth quarter results came in as expected and reflected the trends we discussed on our holiday call in January; therefore, my comments on the fourth quarter will be relatively brief.

For the fourth quarter, total sales were $2.3 billion, up 1% year-over-year on a total basis and flat on a constant currency basis. This includes the benefit of a 14th week, which added $84 million of sales. In addition, R2Net, which we acquired in September 2017, added $64 million of revenues in the quarter. On a comparable 13-week basis, total sales in the fourth quarter were down 5.1%. Same-store sales, which excluded the impact of the 14th week, decreased 5.2%, including a 90-basis-point benefit from R2Net.

Signet's eCommerce sales were up 56.8% on a 14-week basis or 52.8% on a 13-week basis, and in total, represented 11% of quarterly sales compared to 7% of sales in the prior quarter. Excluding R2Net, eCommerce sales were up 13% on a comparable 13-week basis.

Sales trends by division remains broadly consistent with the results that we shared on our holiday call with continued momentum in the Zale Division being more than offset by weakness in our Kay, Jared and UK banners. The gross margin rate was 40.1% in the quarter, down 160 basis points on a 14-week basis and 39.9% on a 13-week basis. The decline in rate was due to one, deleverage on fixed cost as a result of lower sales primarily in our Sterling Division; two, a lower gross margin rate associated with R2Net; and three, merchandise mix.

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Net debt expense had no material impact on the gross margin rate in the quarter. SG&A expense was 27.7% of sales in the quarter and 27.3% of sales on a 13-week basis. The 14th week added $31 million of expense. Excluding this week, total SG&A expense was lower than prior year by approximately $11 million. Lower expense was realized primarily in advertising and store labor costs. In addition, SG&A was positively impacted by credit outsourcing as we had $21 million in outsourcing cost in the fourth quarter, offset by $25 million related to in-house credit operation savings.

Other operating income declined 130 basis points or $30 million versus prior year due to the sale of our prime accounts receivable portfolio that occurred in the third quarter this year. Signet's operating margin declined 350 basis points, driven by one, deleverage on fixed cost; two, the impact of a Phase 1 credit outsourcing transaction; and three, the addition of R2Net, which carries a lower margin rate. As we expected, the overall impact of the Phase 1 credit transaction was an unfavorable impact of $21 million in the quarter. This was primarily driven by the loss of finance income that I referenced earlier.

GAAP EPS for the quarter was $5.24, including the favorable onetime non-cash benefit related to the revaluation of net deferred tax liabilities related to the U.S. tax reform. Non-GAAP EPS was $4.28 for the quarter, when excluding the $0.96 benefit related to the revaluation of net deferred taxes. This is in line with the guidance range provided on our January holiday call.

So let me briefly touch on comments about our credit portfolio performance for Q4. As discussed previously and in connection with the sale of our prime receivables in the outsourcing of our in-house servicing to Genesis Financial Solutions for non-prime receivables, we adjusted our account servicing, our billing terms and delinquency parameters to a contractual basis.

In addition, at conversion, and in conjunction with the change to contractual aging, we changed our minimum payment structure, lowering the required minimum levels closer to those of other retail credit card programs. The impact of these changes, coupled with the disposal of the prime portfolio results in substantial changes to a number of our core portfolio metrics when compared to the historical ratios.

Our reserve as a percentage of total AR is now approximately 15% for the retained non-prime portfolio compared to pre-conversion levels of 7% to 8% for the consolidated prime and non-prime receivables.

Likewise, our collection rate after lowering the minimum required payment for the retained non-prime receivables was approximately 7% compared to the prior-year fourth quarter rate of 10%. In addition to the impact of the lower minimum payments, the collection rate was adversely impacted in November and part of December by a previously discussed disruption at conversion. However, our bad debt expense remained consistent with pre-conversion trends.

And closing out my quarter and fiscal 2018 comments, cash flow was an area of strength in fiscal 2018 with $751 million of free cash flow when excluding proceeds of $952 million from the sale of the prime receivables to ADS. This compares to $400 million in fiscal 2017. The higher cash generation was due to lower inventory and a favorable impact on working capital related to accounts receivable.

So let me move now to discuss the sale of our non-prime receivable portfolio and the overall impact on our business model of not only the sale, but also the Phase 1 transaction.

Today, we announced an agreement to sell Signet's non-prime receivables to investment funds managed by CarVal Investors and enter a five-year committed forward flow purchase program for future origination.

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Upon closing, this will complete Signet's transition to a fully outsourced credit structure. Under the terms of the agreement, the non-prime accounts receivable will be sold at a price expressed as a percentage of the par value of the accounts receivable of 72%, which is net of estimated servicing expenses for the receivables.

Historically, Signet has carried these receivables at approximately 85% of par value. The current sales price represents approximately 85% of Signet's historical carrying value. The estimated par value of receivables at closing is $585 million to $635 million. The final amount of receivables sold will be dependent upon sales levels and other portfolio activity between now and closing, which we expect to occur in the second quarter.

Additionally, there will be a 5% holdback of the receivables purchase price at closing, which may be paid out at the end of two years, depending on the performance of these receivables in that period.

As I said, closing is expected in Signet's fiscal second quarter and this timing is embedded in our fiscal 2019 guidance. Signet expects to receive $401 million to $435 million in proceeds at closing and incurred $7 million of transaction cost. Net proceeds from the transaction will be used for share repurchases in fiscal 2019, subject to market conditions.

We expect to book a pre-tax loss or charge associated with the sale of the non-prime receivable of approximately $165 million to $170 million, which is inclusive of a lump sum payment of $45 million to $55 million of servicing expenses related to these receivables as well as transaction cost of $7 million in fiscal 2019.

Approximately, $140 million of the total loss will be recognized in the first quarter upon reclassifying the receivables to assets held for sale and the remainder of the amount will be recognized in the second quarter. This loss is included in our GAAP EPS guidance and excluded in our non-GAAP EPS guidance.

With respect to future non-prime receivable originations post-closing, Signet will remain the account issuer. Two business days thereafter, CarVal is obligated to purchase these receivables from Signet at a discount to par pursuant to a five-year agreement. The discount is a key calculated on the credit sale amount, inclusive of servicing and will be recorded as incremental SG&A expense in our fiscal 2019 and beyond P&L.

From a customer experience perspective, servicing for the non-prime receivables will continue to be handled by Genesis. There are no customer or store facing systems integration activities required by Signet to close this transaction and we do not expect any changes to the current credit application process as a result of closing Phase 2. For further details on this transaction, I reference you to the Form 8-K we filed this morning.

Now that I've provided an overview of the Phase 2 transaction, I would like to take a step back and review the expected financial impact of our credit outsourcing in totality. From a financial perspective, as Gina mentioned, the company will ultimately have received over $1.3 billion due to the combined sale of the prime and non-prime portfolio.

While the outsourcing of our credit portfolio lowers our operating profit, it also reduces share count and interest expense as proceeds from the sale transactions have been and are expected to be used to pay down debt and repurchase shares. Additionally, the transactions will free up meaningful working capital.

From a P&L perspective, after the completion of the second transaction, Signet will no longer earn finance or late charge income on those accounts and no longer incur bad debt expense. Signet will continue to pay some minimal fees directly to Genesis for new account originations while all other servicing costs are included in the

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discount on forward receivable sold. The discount on forward receivables will be partially offset by the elimination of the cost related to our former in-house credit operations.

Slide 11 depicts the net impact of all these items and is posted on our website for your reference. I also encourage you to see page 14 in the release this morning that provides additional details with the slide.

In fiscal 2018, there was a reduction in operating income of $21 million in the fourth quarter, solely reflecting the impact of the initial credit outsourcing of prime receivables ADS and servicing of non-prime receivables to Genesis. Our fiscal 2019 guidance embeds approximately $118 million to $133 million incremental year-over-year reduction in operating income reflecting a combination of the following: an additional eight months of impact of the prime portfolio outsourcing; five months of servicing cost on a non-prime portfolio receivable; and seven months of the impact from the future discount rates associated with new credit sales that CarVal will purchase, which embeds servicing cost.

For fiscal 2020, we expect a small year-over-year impact on operating income ranging from zero to a benefit of $5 million. The fiscal 2020 estimate is based on assumed discount rate for the CarVal arrangement and could change if the discount rate were to reset higher or lower under certain review provisions in the agreement.

So with that, let me now move to review financial considerations associated with our transformational plan. Our transformational plan, which we are calling the Signet Path to Brilliance, is expected 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.

Total preliminary pre-tax charges are anticipated to be $170 million to $190 million over three years with $125 million to $135 million of charges in fiscal 2019. Preliminary cash charges are anticipated to be $105 million to $120 million over the three years; of which, $60 million to $65 million are expected to be paid in fiscal 2019.

Lastly, moving on to guidance and capital allocation. This year, we are providing revenue dollar guidance to help you model total sales, given the number of store closures we had in fiscal 2018. Total revenues are expected to be $5.9 billion to $6.1 billion and same-store sales are being guided down low-to mid-single-digits for fiscal 2019.

Keep in mind, we had an extra week in fiscal 2018, which provided $84 million in revenue. We also closed stores in fiscal 2018 that had revenue of $150 million. Both of these amounts should be removed from the 2018 base when working through your models.

In addition, we will be adopting the new revenue recognition accounting standard this year, which will reclassify certain items as revenue that were previously recorded as reductions to expenses. This is expected to result in approximately $100 million of revenue included in total sales dollar guidance with no impact on profit as this is simply a geography change on the P&L. The offsetting expense is 70% cost of goods sold and 30% SG&A.

Our same-store sales guidance of negative low to mid-single-digits assumes a positive momentum we saw on our sales banner in the fourth quarter to continue and to be offset by negative sales growth in our Kay and Jared banners. Please note that our same-store sales excludes revenue recognition changes.

We continue to work on change management initiatives from our credit outsourcing transition as well as address the challenges Gina mentioned earlier around product innovation, improving our eCommerce capabilities and

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working on the consumer value equation. As our initiatives and plans begin to take hold, we do anticipate to see gradual signs of improvement in same-store sales trends as we head to the fourth quarter.

Now moving on to operating profit. Fiscal 2019 operating profit will be negatively impacted by deleverage of fixed cost due to lower sales, the impact of the credit transactions discussed earlier in my comments, and a $50 million year-over-year increase related to compensation, primarily driven by the restoration of our short-term incentive compensation that did not pay out in fiscal 2018. These headwinds are somewhat offset by expected net cost savings of $85 million to $100 million related to our transformation plan.

As many of you know, our business model has a large fixed cost component, which impacts our margins in a declining sales environment. As the transformation plan begins to take hold, this leverage should become a benefit to margins with same-store sales trends improve from current levels.

Now going back to credit for just a moment, and as a reminder, we will recognize a total pre-tax charge related to our Phase 2 transaction of $165 million to $170 million and we anticipate a pre-tax charge of $125 million to $135 million related to the transformational plan.

Our GAAP EPS guidance of zero to $0.60 includes the charges and they are excluded from our non-GAAP EPS guidance of $3.75 to $4.25. In addition, the GAAP EPS guidance includes an estimated tax benefit of $62 million to $67 million, driven by the anticipated charges that I just discussed. Our non-GAAP EPS guidance embeds a tax rate of 8% to 10%.

In addition, we have provided both common basic shares and diluted shares as part of our guidance. For purposes of calculating both GAAP and non-GAAP EPS, we expect to use the basic share count for the first, second and third quarters as well as the full year due to the projected level of net income. For the fourth quarter only, diluted share count should be used in modeling EPS.

While we are not providing quarterly guidance, please note the following items for modeling purposes. The cost savings related to the transformation plan are second half-weighted while reinvestments are more evenly spread across the year. The revenue impact related to credit transition execution is expected to be more pronounced in the first half of the year.

Lastly, beginning in the fourth quarter of fiscal 2019, we will be modifying our segment reporting to align with the organizational structure that Gina outlined earlier. We will be moving to a segment reporting structure with a new North America Division, encompassing the legacy Sterling and Zale Divisions and continuing with the UK Division. We will continue to provide revenues and same-store sales by banner, consistent with our current practice.

For simplicity, we will also not be using slides in our future conference calls and for fiscal 2019, we will be issuing a holiday release only and will not be hosting a call.

Finally, turning to capital allocation and cash return. We announced this morning that we will increase our fiscal 2009 quarterly dividend by 20%. We expect to repurchase approximately $475 million in shares in fiscal 2019 funded primarily by the sale of non-prime receivables as well as cash on hand.

With respect to leverage, we anticipate to exceed the high-end of our 3 times 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. Signet plans to remain highly disciplined toward capital allocation with the majority of

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free cash flow being reinvested in strategic growth and/or return to shareholders in the form of dividends and buybacks.

And with that, I'll pass the call back to Gina for closing comments.

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

Thanks, Michele. Fiscal year 2019 will be a transition year as we invest in the business and continue to take actions to position Signet for sustainable profitable growth. We must reinvigorate and rejuvenate this great company for our customers, suppliers, employees, and importantly, our shareholders.

Before we turn to Q&A, I would like to thank James Grant for his six years of excellent service to Signet Jewelers. Randi Abada has recently joined our team as the Senior Vice President of Corporate Finance, Strategy and Investor Relations. Randi has over a decade of buy-side equity research experience and has also held senior corporate finance roles at consumer companies, and we are thrilled to have her on board. We are appreciative that James will stay on until the end of April to ensure a seamless transition of the Investor Relations function.

I'd now like to ask the operator to please open the lines for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from the line of Simeon Siegel with Nomura Instinet. Your line is open.

Simeon Avram Siegel
Analyst, Nomura / Instinet

Q

Thanks. Good morning, guys. Gina, can you speak to the transaction growth at Zales versus the drop at Sterling? How do you view the industry landscape right now? Why do you think Zales beat them all and Sterling missed, I think, even beyond credit? And where do you think those shoppers might be going? So any color there would be helpful.

And then, Michele, obviously, increasing the dividend shows confidence in your cash flow. Can you just speak to what you expect cash generation to look like going forward with credit behind you? Thanks.

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

A

So thanks, Simeon. As I said previously, we were able to get a number of our strategic initiatives in place faster at Zales than our other businesses. So, for example, Zales has been operating in our new banner accountability organization model since August with a dedicated multifunctional team and has had faster, more banner-focused decision-making.

What this really allows them to do is to improve our product assortment at Zales more quickly. So Disney, Vera Wang and solitaires performed very well. This shift toward fashion, more fashion jewelry purchasing is something that we really captured at Zales in a way that drove our top line improvements.

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The third thing is that our eCommerce started to improve post our hybrids implementation, which had caused a temporary dip in search and conversion especially on mobile.

And then finally, as you also noted, Zales is not impacted by the credit transition having had their credit transitioned for a while now.

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.
A

And, Simeon, in terms of your question on the cash flow and as I called out in my comments on that for sure was a point of strength for us in our fiscal 2018. And as we think about moving forward in the transaction between Phase 1 and Phase 2, the sale of the $1.8 billion of total receivables for sure reduces the total invested capital and it will also help improve our return on invested capital profile as we move forward, and as I said on the call, will also provide meaningful working capital reductions, which will also help to drive free cash flow enhancements.

Simeon Avram Siegel
Analyst, Nomura / Instinet
Q

Any color on what that would look like embedded within the guidance this year?

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.
A

No, we're not guiding the actual free cash flow number. I think we gave the pieces in parts on what we anticipate the sales proceeds to be. And then, in addition, the other color I'd point you to is we did provide the capital expenditures. And you can see that range of $165 million to $185 million is lower from the prior period as we continue to focus on IT and also we'll have reduction in new store investments. So that will also help to drive and enhance free cash flow.

Simeon Avram Siegel
Analyst, Nomura / Instinet
Q

Great. Thanks. Best of luck for the year.

Michele Santana
Chief Financial 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.

Ike Boruchow
Analyst, Wells Fargo Securities LLC
Q

Hi. Good morning, everyone. Michele, just two questions for you. Can you confirm that the Phase 2 transaction is EPS-accretive? It seems to be a little dilutive on my rough math, but I'll admit the numbers are a little bit confusing on my end. So just any help there would be great.

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Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.
A

Yeah, Ike. In terms of the EPS accretion, as you would imagine, there's going to be a number of assumptions and there's time to go when we close and get the actual proceeds. It's going to be dependent in terms of level of receivables. And then, when we think about those proceeds, obviously, what the share price would be at the time we do our share repurchases. So I think it's premature for me to comment accretion or dilution.

Ike Boruchow
Analyst, Wells Fargo Securities LLC
Q

Okay. Then as a follow-up, can you give us any more detail on maybe explicitly what discount rate is being used on the credit sales to your partner just to get to the numbers you laid out, the $118 million to $133 million, so there has to be something embedded in there. I'm not sure if you can share that or give us color.

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.
A

Yeah. Well, you're definitely right, there is a discount rate embedded in the numbers we provided. We're not going to share what that [ph] MDR (53:10) we refer to as the merchant discount rate, what that rate is just for competitive reasons, sensitivity of the information, but what we have provided in the release and which is why we also provided the view for FY 2020, so you can understand in a more normalized annualized basis what we anticipate the impact to SG&A expenses to be.

Ike Boruchow
Analyst, Wells Fargo Securities LLC
Q

Got it. Thank you.

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.
A

Thanks, Ike.

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

Oliver Chen
Analyst, Cowen & Co. LLC
Q

Good morning, Gina and Michele. Thank you. Regarding the consumer value equation, a lot of our research at Cowen has focused on this value and value for price and pricing. What do you think needs to be done? And how will that manifest in the Brilliance plan in terms of how we model the comp on AUR versus transaction and timing? Because this re-orientating towards value can be quite complex and some things maybe easier versus longer.

And our second question is just about banner differentiation. You've been on a journey regarding this in the past, so what's different about what you're seeing? And how should we interpret the new studies versus the former studies and where you want to go with banner differentiation? Thank you.

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

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Great. Well, thanks, Oliver. So let me start with the customer value equation first. So obviously, our value equation is comprised of a number of different things. The price of our product, the assortment, the service that we provide in store, the education, the seamless OmniChannel experience that we provide because we know that fine jewelry shoppers are online, in-store and back again. So there are a lot of components of that. But a couple of things I mentioned in my remarks that we're doing uniquely now are, first, is that we're doing some pricing studies to carefully evaluate and benchmark versus key competition as well as evaluating our promotional spend.

So I also mentioned that we've become a bit too promotional, we believe, at certain times of the year and this is creating confusion for consumers and also creating an environment, which damages brand equity and – instead of building it up. So we're taking a look at both of those elements to see what is the right kind of value equation for us to have. And that may vary across our different banners, given the answer to your second question, which is banner segmentation.

So you're absolutely right. Several years ago, we had Bain come in and do a study about the market and who are the shoppers within the market. And then, we aligned each of our brand banners up against one of those consumer groups.

But having done a lot of branding work throughout my career and repositioning brands for growth, it's more complicated than that. And so we've brought some deep data analytics to bear, in addition to that, to show us, which consumers are already buying in which banners, which are the consumer groups that are growing the most and what are the significant benefit promises that those consumers really want to see.

And then, we've been doing work on what each of our brand banners can stand for and how we might target these new consumer groups in a different and more personalized, more individualized way.

So that's the work that's been going on over the last six months since I came, and I've seen some work on it very recently. I think it's coming along very well. And we're getting ready to get some of that into execution and testing, which we'll be doing over the coming months, so that we can really better differentiate our customer groups and reduce the overlap.

The great thing is that, that carries over to other things as well. It carries over to new store concepts, new service concepts, our merchandise mix. As we talked before, we've gotten into a situation of sameness across our banners over the last couple of years where the merchandise looked very similar across our banners. And with the benefit of a fresh look at the segmentation, we can now pull that a part of it and differentiate the merchandise that particular customer groups want to see in our banners better than we had before.

Oliver Chen
Analyst, Cowen & Co. LLC

Q

Okay. And, Gina, I know you've done some interesting work with millennials and Gen Z. How does that manifest in terms of the store experience and how you see that evolving? And what the on-demand capital-light customer service and mix service model may mean for how you're thinking your store experience should evolve just to make sure that you capture the share of new generations and acquire new customers and maintain existing?

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

A

Well, it's a great question. So thanks for asking that one. Obviously, our customers are beyond millennials, because people are buying birthday gifts, anniversary gifts, female self-purchasing, all of that, but a large portion of our sales, especially on bridal are focused with millennials. So we've done particular research in that group.

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And I give you three examples of things that we're focusing on that we believe will delight millennial shoppers. One is OmniChannel. So the seamless integration of online and in-store experience. There are a couple of things that we've brought to life that I'm excited about. These are small test and learn activities, but everything we're testing, we're learning about and I think we're seeing strong growth results. And so we'll see that impact our business more broadly as we roll it out.

A few examples of that are bringing our R2Net technology and product visualization to our website. Another one is allowing customers to check our inventory in any store from online before they go to the store. Just in the fourth quarter, we had 1.7 million customers check our website for online inventory, and that's a new service that we just started offering. I talked about adding appointment booking to our website and we had over 3,800 appointments booked online during the fourth quarter. So immediately customers are responding to that.

I talked a bit about personalized content. When someone has visited our website before, we should be able to make their second, third and fourth experience much more customized and personalized. Last year, for holiday, we were doing that about 3% of the time. In the fourth quarter this year, it was about 34% of the time. So a significant increase there.

Another example in visualization is showing our product on models, which is, I think, a pretty exciting opportunity. When we showed jewelry on a hand, a wrist, and neck of a model, we were delivering double-digit conversion increases, above what we were doing in the way we're visualizing products previously. So we're bringing a lot of excellent small test and learn projects into our OmniChannel experience and they're working, and we're learning and so we'll begin to start rolling those out. So OmniChannel is a big one.

Service is a second one. So how we approach millennial consumers from a selling method in our stores makes a difference. So even things like wish-lists that can exist online and in-store, the level of information education we provide, the way we provide that, we're modifying.

And then a third one is location. We're looking at some urban store concepts. We have very interesting mind-opening fact, 43% of consumers who get engaged have kids already. And so this is indicative of a different relationship journey that a lot of millennial consumers have. And so how do we make it easier for them than having to bring the kids to the mall and sit for two hours at a counter, how do we provide bridal concierge services and things like that that can delight them. So these are three things, OmniChannel service and the location in which we provide our jewelry to our customers.

Oliver Chen
Analyst, Cowen & Co. LLC

Q

Very creative. Thank you very much.

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

Rick Patel
Analyst, Needham & Co.

Q

Thank you. Good morning, everyone. Just a quick clarification. I wanted to be crystal clear that your non-GAAP EPS guidance excludes the $475 million of buybacks. And assuming that it does exclude it, how should we think about the timing of when those repurchases will happen?

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And then, secondly, Michele, I was hoping to get more color on the comment you made about how this transaction would impact SG&A as Signet originates future receivables and sells them to CarVal? Just what exactly the SG&A impact would represent? And any thoughts on quantifying that?

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.

A

Sure, Rick. Good morning. So first, let me help you with your non-GAAP question. For sure, GAAP and non-GAAP embeds the consideration of approximately $475 million worth of share repurchases. So apologies if that was somehow confusing. But that is in there and we would anticipate that probably aligns when we get – since we'll be using the proceeds from the sale, we'll align with the closing, which we had said we expect to occur in the second quarter.

In terms of giving color on the transaction and understanding the SG&A, I'll give you two reference points, but then I'll give you some color. If you go on to page 14 of the release we put out this morning, we give you the impact for FY 2019 and then we also give you the estimated impact for FY 2020. And there's a couple of paragraphs that speak to the SG&A, the moving parts. As you think about how we guided the impact for 2019, $100 million to $115 million, and then if you look at the impact for FY 2020 as it relates to Phase 2, primarily what's running through SG&A is what we refer to as the discount rate associated with the forward flow of these receivables.

So really that discount rate as we said has two components, it's the discount rate for CarVal, who's going to be funding the receivables for us, but that also embeds the servicing cost for Genesis to service the receivables. So I think if you go back and look at that as well, slide 11 that we had on the presentation, that will give you the estimated impact that you're looking for.

Rick Patel
Analyst, Needham & Co.

Q

Okay. That's helpful. And my second question, as you close 200 doors this year, you noted that existing stores could potentially recapture 30% of those lost sales. Just trying to understand the assumption there and whether that's something you've seen in the past with store closures or whether that's an estimate in your level of confidence in being able to recapture those lost sales?

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.

A

So the 30% is our historical average from stores that we have closed previously, and that's really without having a very robust sales retention program in place. So what we've done is over the last several months, we've been testing and learning on several ideas, which can help us to improve sales retention further. So one of those, for example, is announcing to our store staff and to our customers earlier that we'll be closing a store and helping to redirect them to another Signet banner that's nearby. And remember, about 75% of the time, it can even be across the hall.

We're also being much more robust in using our clienteling to reach out to customers of a closing store and offer them a onetime incentive to shop at our new store. So really guiding them there. And then the third thing is that we're actually transferring some of our sales associates from one store to the other, so they bring their customers with them, or we're creating a buddy system where they literally can walk their customers across the hall or down the mall to introduce them to a new sales associate in a nearby store who can help them.

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So we're moving from an era of just letting it happen, which was the 30% and what we've modeled to an era where we're being very intentional about trying to retain those sales.

Rick Patel
Analyst, Needham & Co.

Q

I understand. Thank you very much.

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

Brian Jay Tunick
Analyst, RBC Capital Markets LLC

Q

Great. Thank you. Two quick ones for Michele and then may be one for Gina. I guess, Michele, on other operating income line for 2019 now, can you maybe give us what you're assuming in your guidance and same thing with interest expense?

And then, Michele, on a quarterly viewpoint, clearly, the first half of the year last year had some nuances with shifts of Mother's Day, and I think you reported a negative 12% comp for Q1. So just want to understand from a quarterly build-out, how should we be thinking about maybe the first half this year with those timing shifts, and then maybe other income and interest expense views.

And then, Gina, curious on your market share, competitive landscape study, maybe talk about bridal versus non-bridal competition and what you see has changed maybe since you've been at the company? Thank you very much.

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.

A

Hi, Brian. So let me start with your first few questions. I think the first one related to the finance charge income for fiscal year 2019, if we can provide any color on what that would look like, and as we say, once we close the Phase 2 transaction, we no longer will have finance charge income reported, but clearly, there will be some level within the first half year prior to closing. We're not separately guiding on that line item. I would reference you back to the number that we provided in terms of the operating impact is inclusive of that change.

Your second question on interest expense, we will anticipate some reduction from our interest expense that we saw in FY 2018 since we paid off the ABS facility of $600 million in the third quarter as part of the Phase 1 transaction. So you would anticipate some reduction. You were probably in the $35 million, $40 million or so of interest expense. And did you have one other question for me, Brian? Or did I hit them all?

Brian Jay Tunick
Analyst, RBC Capital Markets LLC

Q

Yeah. I did. I did. It was really about the timing shift from last year, the Mother's Day shift, Q1, I think, was down 12% last year. Obviously, you're still having, it sounds like credit issues, but should we be viewing the first quarter as an opportunity, the timing shift between Q1 and Q2? Just anything like that on those issues.

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.

A

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Yeah. So, of course, the first comment I'm going to say is, we're not going to guide quarterly comps. But when we think about calendar shifts, the way the comp calculation works because of the 53rd week et cetera, it actually becomes normalized for the promotional or for the shift that we saw last year. So I wouldn't say that there's probably any major callouts for Q1 to be thinking of.

Brian Jay Tunick
Analyst, RBC Capital Markets LLC

Q

Okay.

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

A

I'll just build on that to say we are still fixing our credit transition issues in Kay and Jared, and we're just beginning to get some of these strategic initiatives in place. So I would expect us to see a gradual and incremental progress throughout the fiscal year.

Brian Jay Tunick
Analyst, RBC Capital Markets LLC

Q

Okay.

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.

A

And then, let me answer your question on market share and what's changed since I've been here. So in terms of market share, we have done a deep analysis on when we don't get a sale, where does it go? And we're seeing that be different across bridal and fashion, as you correctly pointed out.

So in bridal, when we don't get a sale, it's typically moving online, which as you'll remember, is something the company didn't expect several years ago, but we think we have a competitive advantage to capture more of that over time with our R2Net visualization technology; also, sometimes to independent jewelers who are offering a very personalized relationship with customers.

Again, we think we have an opportunity to provide significantly more assortment to customers. I talked a bit about our Jared test where we're able now, in a number of our stores, to provide a choice of over 100,000 diamonds to customers, which is something that is truly a competitive advantage.

And I think as we're using clienteling better and using the data analytics I talked about to track customers journey, this is another place where we have a competitive advantage in our ability to create individualized relationships with customers both online and in-store in a very integrated way that we believe that independent competition [ph] can't (01:11:27) match.

On the fashion side of the equation, if we lose the sale, it's typically to department stores, which is part of why we're doing the pricing analysis and also an assortment analysis that I mentioned to see what are those products where we may be missing.

One of the things we're excited about are the proprietary brands that we are able to bring. So Vera Wang, as a great example, as we've moved into fashion on that brand, we've had great success. Same with Disney, as we introduced more fashion over the holidays and we saw both of those work very well at Zales.

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So again, we're – small steps. We're testing and learning on these things, but each one, we're seeing some progress and we think we'll see more substantial growth drivers as we grow and scale those.

What's changed since I've been here, I would say the big answer to that is focus. When I think about what are the key growth drivers for us going forward, I think we've got all of our organization now rolling in the same direction that is all about positioning and providing clarity of the market position for Kay, Zales, Jared and running that all the way through our marketing mix, our service mix and our product mix. It is product, it's being more aware of fashion and gifting as a big opportunity, not ever forsaking bridal where we'll always have competitive advantage, but being more attuned to trends on bridal like we were on solitaires for Zales over holiday and like we are now on Kay and Jared for solitaires as we're upping the inventory on those.

The third one, I can't say enough is digital, how we're driving traffic in eCommerce and in stores with all the analytics that we're putting in place, and the fourth is innovation. And we've got our company now set up to be able to deliver that with our new banner accountability structure and some of the new capabilities that we're building.

Operator: And your next question comes from the line of Scott Krasik with Buckingham Research. Your line is open.

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

Q

Hey, everyone. Thanks for taking my questions. One quick one and then two, I guess, tougher ones. First, your original guidance, I think, for selling the Phase 1 was that there would be a $50 million impact to operating cost, and I guess $21 million has been recognized. So has that changed at all?

Michele Santana
Chief Financial Officer, Signet Jewelers Ltd.

A

And so if we go back in terms of we had guided, yeah, in a range, $50 million, $55 million in terms of the Phase 1 transaction on an annualized basis, which included the ADS taking on the prime receivables and also included a servicing element related to the non-prime receivables.

So how we're guiding now is the totality of the transactions combined, which obviously still includes the ADS component and the servicing is still there although it's embedded in the discount rate that we'll be paying to CarVal. So that $50 million, how I'd characterize it is I think you should look at in totality of how we guided the $100 million to $150 million impact for FY 2019.

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

Q

Okay. Thanks. And then, Gina, just could you give us an update on how your employees are dealing with the credit sale process? You don't have to give us a comp for Valentine's Day, but did they handle it better? Did you get that transition from one to the progressive any better? And then, Michele, how do you handle, let's say, the whole subprime market starts to get a little tighter, do you have any flexibility to pay a little bit more to keep the sales going? Or is that totally in CarVal's hands? Thanks.

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

A

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So in terms of the credit transition issues that we experienced, pretty much as soon as we outsourced on Phase 1, I will say, we're making good progress, but we're not there yet. This is much more complex than, I think, we originally realized. But what we've done a great job of over the last number of months is really diagnosing what all the issues are and getting strong resources focused against fixing those. So we're moving as fast as we can. We're beginning to see some good results on that, but this is something that, I think, is going to still impact us, not only in Q1, but for the rest of this fiscal year.

So the project team has put in place a multi-month implementation horizon of new system enhancements that will get us first back to where we were in terms of the level of information and ease of being able to use credit at the store level. And then, secondly, will take us beyond that to actually improve versus what we had before and make credit a much easier process than it ever was in the past.

So one example of that is that our store personnel has been dealing with really three discrete systems, if you will, the ADS prime system, the Genesis non-prime system and then progressive leasing and it has not been a seamless process of one financing offering as we wanted it to be or as we originally expected. We have some IT improvements coming online over the next couple of months, which link all of those together to make it a significantly more seamless process.

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

Q

Okay. All right. And then just on the subprime...

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

A

Yeah. In terms of your question on the subprime, so as we announced this morning with the deal with CarVal, they're obligated to purchase that forward flow. Signet will continue to originate those accounts and will pay the MDR to CarVal over that period of time, and that MDR rate is subject to change periodically. And so we'll have latitude and flexibility to address whatever the market condition might be.

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

Q

Okay. Thanks. Good luck.

Operator: We have no further questions at this time. Thank you, ladies and gentlemen. That concludes today's call. You may now disconnect.

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