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# Signet Jewelers Ltd. (SIG)

## Q2 2022 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning, and welcome to the Signet Jewelers Second Quarter Fiscal 2022 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I would now like to turn the conference over to Vinnie Sinisi, Senior Vice President-Investor Relations, and Treasury. Please go ahead, sir.

## Vincent J. Sinisi

*Senioir Vice President- Investor Relations & Treasury, Signet Jewelers Ltd.*

Great. Thanks very much, Jason. And good morning, everyone. Welcome to our second quarter earnings conference call. On the call today are Signet's CEO, Gina Drosos; and Chief Financial and Strategy Officer, Joan Hilson.

During today's presentation, we'll make certain forward-looking statements. Any statements that are not historical facts are subject to a number of risk and uncertainties, and actual results may differ materially. We urge you to read risk factors, cautionary language, and other disclosures on our Annual Report on 10-K, Quarterlies on 10-Q, and Current Reports on 8-K. Except as required by law, we undertake no obligation to revise, or publicly update forward-looking statements in light of new information or future events.

During the call, we will discuss certain non-GAAP financial measures. For further discussion of those as well as reconciliations of them to GAAP measures, investors should review the news release we posted on our site at www.signetjewelers.com/investors.

And with that, I'll turn the call over to Gina.

### Virginia C. Drosos

*Chief Executive Officer & Director, Signet Jewelers Ltd.*

Thank you, Vinnie, and thanks to all of you on the call with us today. First, let me begin by sending our thoughts and prayers to our colleagues, and partners who were in the wake of Ida. We hope you and your loved ones are all safe and sound.

Now, on the quarter. Our performance this quarter reflects continued momentum in our Inspiring Brilliance transformation to maximize jewelry category strength and capture market share over the last year. Specifically, we are advancing and better integrating our banner value propositions, product newness, always-on marketing, and Connected Commerce experiences. Our team continues to accelerate our transformation, and delight new and loyal customers through their passion, dedication, and expanding capabilities and talents. Thank you to the Signet team. It's an honor to work alongside them.

There are three key messages that I'd like to leave you with today. First, we outperformed expectations and are raising our fiscal 2022 guidance. Data-driven insights and our bespoke research capabilities enabled our team to quickly identify, and make the most of changing consumer trends.

Second, our Inspiring Brilliance strategies are working in an integrated manner. Our continued refinement of our banner value propositions are serving distinct customers with differentiated product assortments and experiences. Our Connected Commerce strategy is increasingly enabling more consumers to shop with us whenever, however, and wherever they want.

And third, we are continuing to strengthen our culture of innovation and agility. And our team members are embracing new capabilities with excellence. By investing in our people, and attracting the best talent across industries, our people and culture are becoming an even stronger competitive advantage.

Now, let me share some highlights from the second quarter. We delivered total sales of $1.8 billion this quarter. That's a same-store sales improvement of 97.4% compared to last year. We are pleased with this performance, but are also mindful that we didn't meaningfully reopen our stores until about two-thirds of the way through the second quarter last year.

A better indicator of our performance is the comparison to two years ago, when our fleet was fully operational. On that basis, this quarter represents same-store sales growth of 38.1%. Total revenue was nearly $425 million higher than two years ago, despite having roughly 450 fewer stores, a 16% reduction in store count. This performance points to the importance of both Connected Commerce and our store footprint optimization.

As we continue to transform our operating model, we delivered non-GAAP operating margin of 12.5% this quarter, representing an 860 basis point improvement compared to this time two years ago. As a result of the strong momentum, our view of the back half is more positive than it was a few months ago, particularly for the third quarter. We are seeing a delay in the anticipated shift of spending toward travel and experiences, which we believe is primarily related to the COVID Delta variant. While we continue to put the health and safety of both our employees and customers first, we don't anticipate significant store closures in the back half of the fiscal year. These factors are why we're raising our guidance today, reflecting second quarter outperformance and third quarter momentum, while remaining cautious given potential macro headwinds.

To explain our second quarter performance, it's important to point out how our Inspiring Brilliance strategies are enabling our team to stay agile and create competitive opportunities. While category tailwinds existed in Q2, it was our differentiated assortments that resonated with customers, our Connected Commerce capabilities that increased conversion and our always-on targeted marketing that all worked in combination to deliver strong growth this quarter.

Recall that the Inspiring Brilliance phase of our transformation is built on four Where to Play strategies: winning in our biggest businesses, accelerating services, expanding accessible luxury and value, and leading in digital commerce. As we aim to in our biggest businesses, we focused on leaning into four consumer trends that our data identified early and our team worked to quickly execute against.

The first of these trends is strong consumer confidence. While this index took a step back in August, it was heightened throughout our second quarter, and remained similar to levels earlier this year. Confidence is highest among millennials and higher income customers. Our recent research also shows that 80% of US consumers believe they are the same or better off economically today than they were before the pandemic. We've responded by providing additions to our assortment that offer higher quality pieces at higher price points.

The second trend is gifting at higher price points, as customers continue to celebrate those closest to them. We identified this trend early and leaned into it at Valentine's Day and again at Mother's Day. In the week leading up to Mother's Day, we drove brick-and-mortar same-store sales growth of more than 30% to two years ago with average transaction value up 18%. Similarly, growth in eCommerce over the same time period was more than 90%, showing that our Connected Commerce experience is resonating both in-store and online.

The third trend is higher self-purchasing among both women and men. Customers are seeking ways to express themselves by spending discretionary dollars on better quality pieces that both hold their value over time, and reflect their personal style. A great example of our response to this trend is our new Serena line being launched this week at the US Open, and now available at sales. This in the 60-piece collection is a testament to Serena's self-love and strength, and has been met with strong initial customer response.

Another good example is our decision to expand the fashion assortment available through James Allen. While stationed a relatively small portion of its overall sales, James Allen's second quarter fashion sales were up more than three-fold to this time two years ago.

The fourth trend I would like to highlight is the rising tide of engagements. Our research indicates 15% of committed couples or approximately 2.3 million couples plan to get engaged this calendar year, which is up high single digits to a typical pre-pandemic year. As a company, we have tremendous expertise in providing customers with education and counsel both in-store and online, which builds trust on such an important decision. Customers are responding. As we saw October sales of our bridal category increase over $150 million, or 25% this quarter to two years ago.

While our strategies are working together to respond to these trends, I think the continued refinement of our banner differentiation shines brightest here. Recall that while our banners are well positioned to serve any customer journey, each of them is the best positioned to serve a specific one. For example, our data analytics on Kay shows that new customers are 700 basis points more likely to be on a milestone gifting or holiday purchase journey, aligning with Kay's target of the generous sentimentalist. Meanwhile, Zales continues to refine their approach to attract the bold statement maker, and we can measure our progress. Zales' new customers in the first half of the year are 400 basis points more likely to be on a self-purchase journey than two years ago.

One of the ways that we've driven this differentiation is through the continued refinement of our assortment. This includes engagement rings at Kay with larger center stones and more fancy cuts, higher quality diamonds and metals available through the Chosen line at Jared, or our increasing assortment of diamond pieces at Pagoda.

Alongside our efforts to provide a differentiated and consumer-inspired assortment is our focus on a healthy inventory position. Through a series of integrated initiatives, we've driven a 40% improvement to our overall inventory turn, since we began our transformation. First, we've improved the design, and testing phase of our merchandise cycle, so that we can lean into trends faster, and at a scale that is unmatched in our category.

Second, we are rationalizing our SKUs dynamically with data-driven precision to focus on assortments that resonate most thereby reducing buildups of sell-down or clearance merchandise. These efforts enable us to lower inventory levels, while giving customers higher access to newness. A clear example here is Kay. New or highest turn inventory penetration at Kay is now 50% higher than it was two years ago.

I'd also note that we've applied this playbook to our memo inventory as well, a decision that has led to more effective purchasing, and has bolstered our vendor relationships. Given potential macroeconomic headwinds, these improvements to our inventory, and merchandise strategies are important to helping us remain agile.

Services is our second Where to Play strategy, and we're making good progress here as well. We see an opportunity to grow services into a billion-dollar business. Not only do services carry higher margins, they are strategic as they drive trust and long-term relationships. Trust is key when a customer hands us a treasured piece of jewelry to repair, or when they ask us to safely pierce a part of their body, or when they act on the counsel of our jewelry consultants to choose and customize the perfect engagement ring. Every time we earn a customer's trust, we take a step towards building a relationship that will last a lifetime, and we're working to provide services at every relevant touch point in the customer's purchase journey.

For example, in July, we took another step in the transformation of our financial services. We now have long-term agreements with strategic credit partners, which lower our cost and provide customers with a broader and more flexible range of payment options.

Customization is also an increasingly important service. In a recent survey, 36% of retail consumers expressed interest in customizing their products, and services, and 20% indicated that they're willing to pay a premium. Over 80% of bridal customers expressed interest in some level of customization for their engagement and wedding rings. These insights are reflected in the performance of our Jared's foundry experience. Stores with foundries delivered roughly 10% higher sales than Jared locations without them this quarter. This unique offering combines on site jewelers with computer assisted design software, and 3D printing to provide an experience that customers cannot get at most other jewelry stores. With roughly 50 foundry locations today, we will continue investing in its rollout as we plan to have more than 70 Jareds with foundry experience this fiscal year.

Our third Where to Play strategy is expanding the mid-market, by growing accessible luxury and value through the continued differentiation of our banner portfolio. As an example, take Kay and Jared. Kay is our broadest reaching banner positioned squarely in the mid-market. We've been pushing Jared towards the high-end of the mid-market or what we refer to as accessible luxury. The traction of the strategy is proving out in our results. In the second quarter, Jared's average transaction value was 86% higher than Kay's, up from roughly 31% differential this time two years ago. This differentiation allows our scaled banner portfolio to reach more customers with their ideal assortment and value. And we are following this playbook across our portfolio, including our UK banners as we work to further differentiate between Ernest Jones and H.Samuel.

On the value end of the mid-market, we've continued to roll out of our rebranding task to Banter by Piercing Pagoda that we began in 100 stores at the end of April, based on promising results we expanded to bring the total to 200 stores on August 2. At the same time, we launched Banter.com. This new mobile-first site represents an exciting opportunity, because the target customer is digitally savvy and most likely to shop from their mobile device, but our eCommerce penetration has historically been among the lowest of our banners. Results of this new site are still very early, but encouraging. Online traffic has doubled, and interaction times on the site have increased 25%. Importantly, we're seeing lift from both new customers and existing Pagoda customers, unlocking new levels of customer acquisition and growth.

Our fourth and final Where to Play strategy is leading digital commerce in the jewelry industry. I want to put particular emphasis on this, because it is so fundamental to our strategy, if winning in our biggest businesses is our foundation, then leading in Connected Commerce is our accelerator. The two together combined with services and mid-market expansion are multipliers. Connected Commerce is not brick-and-mortar or eCommerce or digital, it's the and. The integration of customer experiences, leveraging in-store and online and mobile and ubiquitous delivery has both the mindset and capability.

It's data-driven and channel-agnostic, and it is seamless. It brings our people and our technology together in a more powerful way. In fact, our Connected Commerce capabilities are adding more opportunities to meet our customers through video calls, buy online, pickup in store services and more.

Customers are also growing more comfortable buying jewelry online. We recognized that the pandemic was a factor in this shift as 78% of consumers have said that the pandemic made them realize that shopping online is better and easier than their previous perception. We continue aiming to be at the forefront of this trend by working to provide an innovative digital shopping experience. Of engaged couples in 2021, roughly 30% said they bought their engagement ring online, which is more than double the amount in calendar 2019.

Customers are also looking for convenience capabilities like virtual consulting, buy online pickup in store and ship from store are changing the way that many customers shop with us. In Kay, more than 25% of online orders this quarter utilized at least one of these capabilities. And in Jared, it was over 30% of online orders.

Last quarter, we implemented Google Business Messenger and Apple Business Chat as additional ways for customers to reach our virtual jewelry consultants. This is important, because we know that when our virtual consultants establish a human connection through this conversation or help customers book an in-store appointment, we drive higher rates of conversion. For example, within Ernest Jones, 20% of our in-store business is now the result of appointments that were made online. Of those appointments, over 70% result in a sale that averages four times what a walk-in customer spends. We continue to believe that blending physical and virtual experiences will be a core customer expectation for fine jewelry and a Signet competitive advantage in the years to come.

Now, a few words on the potential headwinds ahead. Our research indicates that younger and vaccinated customers, those aged 18 to 49 and particularly those with young children are more concerned about COVID variants than older customers. This growing concern may impact shopping behaviors among younger people. So we're preparing to meet them wherever and however they want to shop with us across our Connected Commerce ecosystem, including online, curbside pickup, same day concierge delivery.

That said, we also know that these customers are relatively more comfortable being in malls and shopping centers than on plains, in concert venues and at spas. So as traveling experiences take a backseat, we're advancing our flexible fulfillment options, while also meeting customers' desires to celebrate those closer to them with gifts of significance and lasting value.

Inflation is the other concern that we're seeing in our research. As prices for essentials increase and as stimulus programs wane, naturally customers' discretionary income decreases. However, within jewelry, this trend still plays to our competitive strengths and to our optimized assortments. Customers, particularly higher income and engagement customers, will continue to spend discretionary dollars focused on purchases with lasting values. With our scale and trusted network of vendors, we're able to offer product assortments that provide excellent value across a variety of price points, which also align with our margin goals.

In summary, our ability to capitalize on category momentum with increasingly strong execution of our Inspiring Brilliance strategies as well as remaining agile in the time of uncertainty is a reflection of our culture and our people. In a recent survey, 85% of our team members said they are proud to work at Signet, illustrating the dedication and commitment to performance within our company. We're unlocking incredible discretionary effort among our team, while also attracting top talent from within the retail industry and beyond.

All of this creates a powerful cycle, capabilities that translate into positive customer experiences, continuing innovation, productivity execution and talent advancements. And it's the strength of our organization and improving agility of our culture that drives my confidence in our near and long-term performance more than any other factor.

On that note, I'll turn this over to Joan, who will share her insights into what's working and what's ahead. Joan?

## Joan Holstein Hilson

*Chief Financial Officer, Signet Jewelers Ltd.*

Thank you, Gina, and hello, everyone. The team delivered strong results this quarter working to maximize the jewelry category strength with our new capabilities. As I talk through our performance, there are three key messages to highlight. First, we expanded operating margin by leveraging fixed cost, growing merchandise margin and achieving higher labor productivity and additional cost savings.

Second, we are raising guidance to reflect our Q2 beat and a stronger Q3, given current business momentum and the delay of the anticipated shift to experience related spending, which we believe is primarily due to the Delta variant. We are maintaining a conservative view of the fourth quarter due to macro uncertainty related to COVID-19 variants, and the impact of government support policies on consumer spend.

And third, aligned with our capital priorities, we have expanded our authorized repurchases to $225 million to reflect our confidence in our longer-term growth opportunities and the strength of our balance sheet and cash flow.

Now, turning to the quarter, our total sales of $1.8 billion reflect growth of more than 100% over last year. We continue to overcome lower levels of retail industry foot traffic through higher conversion, higher average transaction values and Connected Commerce capabilities. I'd also note that this quarter reflects the return of brick-and-mortar business for our UK banners.

Moving on to gross margin, we delivered approximately $780 million this quarter or 40% of sales. This is a 650 basis point improvement compared to the second quarter two years ago. Leveraging of fixed costs contributed more than 400 basis points of the improvement. The remaining factors were driven by sustained cost savings and merchandise margin expansion. A favorable merchandise mix complemented by increasing levels of service revenue, enhanced discount control and targeted promotions drove the expansion. This combination of drivers is an example of the strategy we detailed at our virtual investor event earlier this year.

SG&A was approximately $503 million or 28% of sales. This rate reflects a 210 basis point improvement to two years ago. Our data-driven labor model continues to be one of the largest factors in our cost efficiency. It's worth noting that this model continues to make use of flexible store hours by removing unproductive store operating hours, where possible. In other words, though overall traffic is down, we're increasing traffic per store hour. This model has delivered a sales per labor hour improvement of more than 70% to this time two years ago, while also contributing to our decrease in employee turnover compared to the same time period.

Non-GAAP operating profit was $223 million compared to an operating loss of $41.7 million in the prior year. Second quarter non-GAAP diluted EPS was $3.57, including a discrete tax benefit of $0.80 per share. This is due to a release of a valuation allowance against deferred tax assets as our performance have significantly improved since it was a reported. This compares to prior year non-GAAP diluted loss per share of $1.13 and diluted EPS of $0.51 two years ago.

Turning to the balance sheet, we made significant progress in strengthening our financial health this quarter, and I would like to offer some additional perspective. Starting with inventory, we're improving the health of our inventory both in productivity and margin capture as well as broadening the accessibility of our inventory to customers. This has resulted in both a 40% improvement to inventory turn and a reduction in overall inventory levels.

To achieve this, we took three key strategic actions. We reduced the level of end-of-life and slow turning product through strategic promotion. We are also leveraging flexible fulfillment capabilities such as ship from store and buy online pickup in store, driving increased inventory access and visibility for our customers and team members. We've leaned into our consumer insights, improved design and test cycle to ensure that the new product that we bring in is better aligned with our banner value propositions, thereby reducing the amount of inventory that reaches the sell-down or clearance stage of product lifecycle.

Moving on to liquidity, we have financial flexibility to continue investing in our long-term growth recently enhanced by the extension of our ABL facility. Alongside this, we removed customer credit risk from our balance sheet with the recently announced agreements with financial services partners. We're in a net cash position, including both our long-term debt and preferred share obligations, positioning us well to deliver on our capital priorities.

Our first priority is to invest in the business. This primarily includes investment in digital capabilities, technology and banner value propositions. This also includes the evaluation of acquisition opportunities that align with our Inspiring Brilliance strategy such as Rocksbox which we announced earlier this year.

Our second priority is to focus on our debt with a goal of reducing our adjusted debt-to-EBITDA leverage ratio to below 3 times. I'd note that the recent extension of our ABL facility through July 2026 provides us an additional option to address our 2024 senior note and preferred share obligations.

Our third priority is returning capital to shareholders. Last quarter, we reinstated our common dividend and as we announced today, we've expanded our current authorization of share repurchases to $225 million, which will evaluate on an opportunistic basis.

Now, I would like to discuss our fiscal 2022 financial guidance. We are raising our full-year guidance to reflect the Q2 beat and current business momentum. Factored into our view of Q3 is a delay in the anticipated shift to experiences related spending, primarily a result of the Delta variant. We're maintaining a conservative view of the fourth quarter due to macro uncertainty related to COVID-19 variants and the impact of government support policies on consumer spend.

Building on last year, our back half strategy includes always-on marketing, earlier receipt of holiday assortment and a promotional cadence designed to drive earlier holiday shopping into the third quarter to create less reliance on the fourth quarter.

We expect third quarter sales in the range of $1.26 billion to $1.31 billion with same-store sales in the range of down 3% to up 1%, and non-GAAP EBIT of $10 million to $25 million. Within Q3 guidance, we've embedded higher marketing and store staff expenses to last year as well as the favorable impact from our recently enhanced credit agreements. Implied in our guidance is fourth quarter negative same-store sales in the range of low-to-mid single digits.

For the fiscal year, we now expect total sales to be in the range of $6.8 billion to $6.95 billion with same-store sales in the range of 30% to 33%, and non-GAAP EBIT of $618 million to $673 million. Our guidance assumes no significant level of store closures, resulting from COVID variants and as we've already begun acting on our holiday strategy, we assume no meaningful impact of sourcing or fulfillment arising from inflation of pricing, environment changes.

As we continue to optimize our footprint, we remain on track to open up to 100 locations and close at least 100. We've opened 37 locations so far this year and closed 33, including 10 mall closures that were then reopened in off-mall locations. Recall, over the past 18 months, we've evolved our real estate strategy from strict fleet rationalization to fleet optimization. This quarter has shown the benefits of this approach as our mall and off-mall locations drove similar performance levels.

Lastly, recall that I mentioned expected capital expenditures in the range of $190 million to $200 million. This represents a narrowing of our previous range of $175 million to $200 million as we continue fulfilling Connected Commerce. Further, as we've identified incremental cost savings within gross margin and other indirect spend, we're raising our expected cost savings for the year from a range of $75 million to $95 million to a range of $85 million to $105 million.

Before we open the call for Q&A, I would like to take a moment to thank our Signet team. Our team continues to be a driving force for this company as their commitment to our strategies delivered strong performance this quarter. It is an exciting time for Signet as we continue through our transformation, and I'm proud to work alongside such a devoted team.

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

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] Our first question comes from Ike Boruchow from Wells Fargo Securities. Please go ahead.

**William A. Warmington**
*Analyst, Wells Fargo Securities LLC*

Q

Hi. Good morning. This is Will on for Ike. I just want to ask about gross margin. You said you had another 600 basis points over pre-pandemic levels. Can you just talk a little bit about the sustainability into the back half of these levels? I mean, do you expect it to revert to more normal levels in the back half or how should we think about gross margin?

**Joan Holstein Hilson**
*Chief Financial Officer, Signet Jewelers Ltd.*

A

So, I'll take that, Will. The gross margin in the second quarter was really driven by several things. One is consistently we're seeing that our assortment and the response to our assortment is very strong and is broad-based. We've targeted our markdowns and our promotions very specifically rather than broad-based. So, that's also helping the margin expansion. And thirdly, discount controls, enhanced controls is expanding our merch margin.

And then I would say that the occupancy cost and the leverage of fixed – leveraging of that fixed cost, but also the reduction of occupancy costs related to our store closures is also helping that gross margin expansion. And so, as we said in my remarks regarding the third quarter and essentially the back half, we're positioning ourselves for flexibility with targeted promotions as well with the uncertainty particularly in the fourth quarter as the competitive environment and the consumer shopping behavior.

**William A. Warmington**
*Analyst, Wells Fargo Securities LLC*

Q

Great. Thank you. I just – if I could squeeze in one more, service business, can you just give us some idea of where that business is from revenue perspective? I know you're targeting them a $1 billion over the long term, but can you just give us a sense of where that revenue is now?

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

A

Hey, Will. It's Gina. I will take that one. So, no, we don't record out our services revenue separately. What I can say is that services have been a meaningful part of Signet's business even pre-transformation. We have more of the 1,400 jewelers on staff who do everything from ring sizing to repairs to fully custom design work. And what we're doing now is really expanding those capabilities and building a better end-to-end customer experience. Same on our warranty programs, where we're expanding those offerings, testing and learning on simpler and better options for customers, same on customizations where we're really shining a light on that service with our general foundries. So, a lot of these capabilities have been part of the company, but a bit underutilized and now we're really bringing them to life with consumer insights driving how we do that.

**William A. Warmington**
*Analyst, Wells Fargo Securities LLC*

Q

Great. Thank you. I will pass it along. Thanks.

**Operator**: The next question comes from Paul Lejuez from Citigroup Global Markets. Please go ahead.

Q

Hey, everyone. This is [indiscernible] (00:37:59) on for Paul. Good morning and thanks for taking my question. Just wanted to ask – in your prepared remarks, you've mentioned you're trying to pull forward holiday sales in the third quarter and potentially promoting there. I guess can you reconcile that with some of the momentum that you are seeing going into the third quarter and then are you promoting in the third quarter over 2019 levels or I guess just why try and pull forward those holiday sales in this period?

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

A

So, from a macro standpoint, we have for the last several years been looking to reduce our reliance on fourth quarter performance and that's another consumer-driven insight. We now look at three different types of holiday shoppers. We know that early savvy shoppers who are more typically women, more typically looking for value, more typically a lower transaction value are shopping earlier and earlier. For them this year, we believe that Christmas and holiday begins in September. And so, we are ready with merchandise and with the right kinds of promotional cadence targeted to them.

We know that engagements are something that most people start thinking about in the October timeframe. And so, we think a lot about where we're in our engagement business and bridal. We also know that there are very late shoppers. They think they're early if they're shopping on December 23 because its two days to go. But we know that we've got to have all the right capabilities in place to serve them, especially on the 24th after eCom cut-off. So, we're really targeting all of our promotional cadence, the merchandise that we bring in and these Connected Commerce services to meet differentiated consumer needs in this whole September through December timeframe. So, this idea of spreading our holiday sales into Q3 and starting it early is here to stay for us. We did it successfully last year and we'll continue to do it.

This year is probably a bit more important, given the macro uncertainties in Q4. And so, we're looking to really drive top of the funnel marketing to be part of customers' consideration set in Q3, so that as we move towards holiday, we've already been in contact with the 2.3 million people that we anticipate getting engaged this year, and we're a big part of where they're considering purchasing.

**Joan Holstein Hilson**
*Chief Financial Officer, Signet Jewelers Ltd.*

A

The only thing I would add to that is that the always-on marketing strategy began with Path to Brilliance in fiscal 2020. And so, we've been fine-tuning that, and transitioning our business to support the promotions on holidays that Gina spoke about. And in this year particularly, as we see the momentum and the delay of the anticipated shift that we expect is later in the second quarter, and with the momentum we're seeing in the third quarter, we think it's very important for us to manage into that, and maximize our share in the market with the strategies that we've put in place. Importantly, the holiday receipts being – so much of it being within on the water, as well as really in receipt already also helps us support that strategy importantly. So we're positioned to take advantage of the timing of what we're seeing in the market, and bring to our customer the product newness that they would expect for gift giving as well.

Q

Got it. And if I can just follow up, some of the mitigation efforts that you cited in your release, the supply chain is not expect to disrupt the second half. Were you able to pull forward holiday inventory, or you just feel like you're in a good position heading into the back half?

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

A

This is where the value of our trusted vendor relationship really shines. We took deliberate action with our partners to manage the potential sourcing disruptions this holiday. And at this time, we don't anticipate any material impact. We provided holiday projections very early to allow our vendors time to safely plan for production, and also to have inventory proximity to help us meet demand. In fact, we have more than half of our holiday orders already in hand.

Q

That's great. Thank you very much, and good luck.

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

A

Thank you.

**Operator**: [Operator Instructions] Our next question comes from Dana Telsey from Telsey Advisory Group. Please go ahead.

**Dana Lauren Telsey**
*Analyst, Telsey Advisory Group LLC*

Q

Hey, everyone. Gina, as you talked about inventory rationalization and SKU productivity, where are you on the inventory rationalization pipeline, and where do you see it going by category? And then, Joan, on the incremental cost saving, where is that coming from? Is there opportunity for more on this path? Thank you.

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

A

Thanks, Dana. So, on inventory, we're really pleased with the progress that we've made. 40% increase to our inventory turn during our transformation so far, but we do have an integrated set of actions. We have good team member focus on this. We have yet I think to see the full benefit of new technology that we've invested in, that can help us continue to improve our inventory productivity. So it's a journey that we plan to continue to be on.

It just gives us, I would say, two things, so much more flexibility, and agility, and especially with kind of the uncertain times ahead, we think that's very important. It's better for our vendors when we can be more precise and specific about what we need and when we need it, so we're planning further out with them. And that really – because we're testing and learning, we've done over 300 concepts tests on new product ideas just in the last couple of years, and so now our volume forecasting has statistical significance on that. So we're getting much more precise on being able to predict the performance of new lines that we're bringing in, as well as the data analytics that we've put again our core inventory, which is really helping. So I would say the team is very focused on it and we're looking to continue improvements in that area.

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**Joan Holstein Hilson**
*Chief Financial Officer, Signet Jewelers Ltd.*

A

And then, Dana, with respect to the cost savings, we see that occurring in merchandise related cost and process cost, and which really impact our gross margin, and then we continue to drive down areas of indirect spend in places where the customer doesn't really see, or care about, as well as continuing to drive our store labor productivity models. So we're very focused on continuing to drive these disciplines, and the team has put forth an amazing effort to really drive these cost downs, so that we can continue to invest in our business, and our growth strategy, so very much a team effort.

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**Dana Lauren Telsey**
*Analyst, Telsey Advisory Group LLC*

Q

Thank you.

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**Operator**: This concludes our question-and-answer session. I'd like to turn the conference back over to Gina Drosos for any closing remarks.

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

Thank you again, everyone, for joining us today. Despite continuing macro uncertainties, we've armed our teams with insights and capabilities that allow us to stay agile. And we're heading towards holiday with confidence. Thanks again.

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**Operator**: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.