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Signet Jewelers Ltd. (SIG)

Q3 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Signet Jewelers Third Quarter Fiscal 2022 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, today's 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.

Thanks very much, Rocco, and good morning, everybody. Welcome to our third quarter earnings conference call. On the call 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 risks and uncertainties, and actual results may differ materially. We urge you to read risk factors, cautionary language, and other disclosures on your Annual Report on 10-K, Quarterly Reports on 10-Q, Current Reports on 8-Ks. Except as required by law, we undertake no obligation to revise, or publicly update forward-looking statements in light of new information or future events.

During the call, we'll discuss certain non-GAAP financial measures. For further discussion on those non-GAAP measures, as well as reconciliations of them to the most directly comparable 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 who are on the call with us today. Our performance in Q3 reflects the continuing progress of our Inspiring Brilliance transformation and the innovation, agility, and passion of our entire organization. I continue to be inspired by our team quarter-after-quarter, and I am proud to work at their side every day.

As we look back at this past quarter and our year-to-date, I want to leave you with one core message, our Inspiring Brilliance transformation is working, making Signet a much healthier and more agile company today than we were a few years ago. We believe our top and bottom line growth is sustainable and we're growing share while also investing in important new capabilities and customer experiences at a rate that is currently unrivaled in our category.

We still have important work to do to complete this phase of Signet's transformation but we have the strategic clarity, structural advantages, operating discipline, and high-performing team to continue driving growth ahead of the jewelry sector. We saw this in Q3. Our team delivered the strongest most profitable third quarter in Signet history, a quarter that has often been challenging because there's no broad scale gift-giving occasion.

We've been taking steps to mitigate our dependence on big holiday cycles and move to a more always-on approach. This is evidenced in our investments in consistent marketing and customer engagement throughout the year, our year-round bridal cycle, and our efforts to increasingly support early holiday shopping in October. This approach is paying off. We delivered a same store sales increase of almost 19% to the third quarter last year, with notable growth acceleration in October.

The overall jewelry category was strong this quarter, but we believe we're gaining market share. We're achieving this growth by leveraging five structural advantages that we've built throughout our transformation. Number one, our distinctive portfolio of banners; two, our Connected Commerce presence; three, data analytics capability; four, financial flexibility; and five, scale.

We've built these strategic advantages through a series of investments and innovation that we continue to build upon. For example, we've made significant progress differentiating our banner value propositions with distinctive marketing campaigns and unique product assortments, delivering 14% sales growth in bridal and over 30% growth in fashion.

We've invested in Connected Commerce capabilities that now exist in virtually every part of our business. This is reflected in capabilities such as seamless virtual and in-store consulting, asynchronous chat, product visualization, buy online pick up in store, ship from store, curbside delivery, same-day delivery, and more.We've streamlined our fleet, enabling us to serve customers across channels while also leveraging fixed costs as we drive the top line.

We've eliminated consumer credit risk from our balance sheet, enabling us to focus entirely on jewelry retail leadership while offering a broader array of payment options that continue to gain traction. By leveraging third-party expertise and focusing on what we do best, our financial services transformation is increasingly an enabler of customer acquisition and satisfaction.

We've also eliminated costs the customer doesn't see or care about. Our expected cumulative four-year savings is now over $400 million through the end of fiscal 2022. One example of how we're doing this is our data-driven labor model that enables us to dynamically plan staffing needs store-by-store, hour-by-hour, delivering a 75% improvement in productivity compared to this time two years ago.

And we've improved inventory turns 50% by defining our product assortment more precisely by banner and by providing a much broader range of fulfillment options. We are becoming the consumer-inspired, data-driven jewelry leader and innovator that we aim to be.

Given the very uncertain environment today, we're mindful of the challenges still ahead of us. That said, Joan and I would like to use our review of Q3 and our look ahead at Q4 to show how the advantages we've created are driving our performance and growth, and positioning us for a strong holiday this year and beyond within all the factors we can control.

Let's look first at how we're leaning into holiday earlier than ever. Our research indicates that roughly 25% of shoppers finished their holiday shopping before Black Friday this year, up from 17% a year ago. This trend is being driven by concerns about out-of-stocks, which we anticipated and planned for.

We took action months ago to ensure that our holiday assortment would be stronger and available earlier than ever before. We pulled forward our pre-market qualification of new merchandise, strengthened our core assortments, leaned into trends identified in our research, and placed orders a month or more earlier than we typically do.

We also prepared for continuing increases in digital sales and Connected Commerce this holiday. At this time last year, our jewelry consultants were providing new experiences like curbside pick up and virtual consultations to provide our customers a safe and convenient shopping experience.

This year, we've improved the customer experience, allowing customers to select curbside service online during checkout and stay connected to the store throughout the process from purchase to receipt to pick up; and we've expanded curbside delivery to more than 800 stores. We're offering ship from store at 1,850 stores, five times more than last year, and we're offering buy online pick up in store at 2,100 locations.

In addition, we've enhanced our distribution capabilities, particularly by building in a layer of surge capacity to fulfill customer eCommerce orders on our busiest days. This is a good demonstration of the ongoing transformation at scale we're striving for.

Last year, we increased our eCommerce supply chain capability fivefold. This year, we're building on that foundation, increasing the capacity of our distribution centers again nearly 25% more than last year and adding a nationwide fleet of local distribution centers with our ship from store capability.

We're working to extend these distribution advantages even further in the coming year. We're building an AI-driven digital simulation of our entire supply chain. This digital twin will enhance our planning with scenarios that identify potential issues before they occur, giving us insights that enable us to provide faster delivery while driving cost efficiency.

We're also improving our employee experience to maximize our advantages in talent and staffing. We increased our hourly wage this year, significantly expanded benefits to respond to the changing needs of our team members, and have continued to invest in training, development, and career growth.

In addition, we continue to leverage the power of our purpose, Inspiring Love, and our innovative, agile culture to strengthen our team's pride, motivation, and performance. These and other efforts are making a difference. We've seen a 60% decrease in new employee turnover during their first two months, at a time when turnover continues to top the headlines across retail.

This is important because tenure matters in the jewelry category where expertise and personal relationships lead to lifetime value. In fact, a jewelry consultant with at least one year of tenure achieves, on average, 60% more sales than a new team member. All of these readiness efforts are driven by the structural advantages I mentioned a moment ago and will help us deliver a strong holiday.

I'd now like to highlight the meaningful progress we made this quarter within each of our four Where to Play strategies: winning in our biggest businesses, expanding Accessible Luxury and Value, accelerating services, and leading digital commerce.

Winning in our big businesses is our foundational strategy. The story here is that the clearer our banner value propositions become, the faster we grow. We've gained real traction with this strategy over three consecutive quarters now.

For example, Kay and Zales are appealing to increasingly differentiated consumer segments. While both appeal to bridal customers, almost 30% of new Zales customers are on a self-purchase journey, up 400 basis points compared to two years ago; and 64% of new Kay customers are on a milestone or gifting journey to celebrate special moments in the lives of those they love, which is 700 points higher than two years ago.

We plan our assortments with these journeys as our compass. We're able to introduce newness with much better success rates because our customers are more precisely defined and because our assortments are more relevant to the journey our customers are on.

The success of the Monique Lhuillier launch at Kay is a clear example. Monique is an acclaimed fashion designer known for her captivating bridal gowns. Her brand is all about celebrating life's most special moments. She's partnering with Kay because she considers Kay to be an authority in both the bridal experience and the celebration of milestone moments. We just launched this line at the end of September and it has already delivered more than $2 million in merchandise sales, ahead of expectations.

Our second strategy, expanding the Accessible Luxury and Value tiers at the mid-market, is also an important driver of growth because it's bringing new customers into our banners. Accessible Luxury is appealing because it's a growing higher price point mezzanine segment that sits between luxury and the mid-market. We've built a portfolio that is attracting a diverse mix of highly valuable customers.

Jared offers exclusive designer lines, concierge level service, custom design studios, and a rich assortment of diamonds and fine jewelry for bridal, fashion, and gifting. James Allen is our digital bridal megastore, the company that continues to pioneer the way that customers shop for engagement rings online, setting new standards for custom design and selection with over 300,000 natural and lab-created diamonds.

And Diamonds Direct, our newest banner, is our highly personalized bridal destination. They offer customers high-touch bridal experiences with a highly productive operating model unlike any other in the jewelry category.

This portfolio is designed not only to give Accessible Luxury customers a wide range of options but also to compete even more effectively with independent jewelers who make up more than 65% of the specialty jewelry category; and it's beginning to work as the integrated mix we've envisioned.

Jared's average transaction value this quarter was up 35% versus the third quarter two years ago, through increased custom design and higher quality merchandise that includes larger stones and precious metals like platinum. James Allen had 50% more customer transactions this quarter than two years ago. Again, demonstrating our ability to attract and close highly discriminating bridal customers online.

And Diamonds Direct, offers customers a differentiated Accessible Luxury experience, which is currently generating a median annualized revenue of approximately $18.5 million per store over the last 12 months. We're confident we can learn from their model while also bringing Signet's best practices and our scale to their approach.

We see similar opportunity on the Value end of the mid-tier. Banter by Piercing Pagoda is generating higher sales and resonating with customers we want to attract to our portfolio – young, social media-savvy, and highly expressive Gen Z consumers and confident creative consumers of all ages. We're all growing banter.com, which has relatively low digital penetration with significant upside remaining. We're continuing to accelerate the expansion of the Banter concept based on these early positive results.

Accelerating Services is our third growth strategy. Providing services is the glue that builds lifetime relationships across every banner, while also supporting our margin goals. We remain confident that our Services strategy is $1 billion opportunity on Signet's path to $9 billion in total revenue. Extended service agreements are a good example of the progress we're making with this strategy.

One of the largest factors driving ESA growth is interaction with the salesperson. This happens naturally in-store but we're focused on enabling this kind of interaction for purchases made online. We've empowered our virtual consultants to sell ESAs, and have launched a series of educational videos that engage customers and discuss the benefits of our programs.

In addition, we've simplified our ESA offerings which, along with these other improvements, has helped us nearly triple our attachment rate online compared to this time two years ago, and has lifted our overall attachment rate across channels by 60 basis points.

Another example is our launch of a new loyalty program, our Vault Rewards is currently being piloted at a number of Jared stores; and after making refinements based on what we're learning, we expect to extend it across all our banners. This is a program that customers have expressed a desire for. It currently includes exclusive discounts, a Rocksbox trial membership, and unlimited jewelry cleaning. These programs are a great way to reward customer loyalty, stay connected, and provide additional data on how to better customize our assortment and services.

Leading digital commerce is our fourth strategy. Digital is our accelerator, especially for our biggest businesses. The story in digital is data. This is becoming a real structural advantage for us, one of the biggest interventions we've made since we began our transformation.

Our data analytics capabilities enable us to operate with increasing precision. For example, building on the insights of our initial real estate greenfield analysis, we're now taking a Connected Commerce approach to the next phase of this work.

We didn't have capabilities like ship from store during our original analysis and no real way to capture each store's eCommerce halo but now we do, and we're building on our trade area data with customer eCommerce trends, location data like GPS tracking, and macro-level data, including traffic draw, tenant adjacencies, and customer demographics from more than 30,000 retail venues in the US.

We're analyzing customer needs down to an even more precise level to determine where Connected Commerce opportunity exists and how we can drive market share growth on a more localized basis. For example, we're now analyzing opportunities beyond just trade areas. We're micro-targeting customers using populations of 3,000 or fewer people. This focused level of data at scale is a significant advantage in the jewelry category and will serve us for years to come.

We're also leveraging our analytics capability to optimize the way we introduce product assortments, a good example being our expansion of lab-created diamonds. Our merchandise teams have used our data to build and tier our LCD assortment in a way that doesn't compete with natural stones.

For example, customers who come into our stores this holiday with a certain piece in mind will, in some cases, be able to choose a lab-created piece in a similar style that offers higher clarity or even higher carat weight. We're also offering an exclusive LCD cut through Zales, called the Vera Wang TRUE line; and we're offering an LCD option of Kay's LEO cut through the LEO Legacy line.

Our data-based approach is ensuring that LCD is additive. It is increasing selections, appealing to different customers, and driving incremental sales. In these and so many other ways, we're building and leveraging a culture of agility and innovation that is driving growth in every part of our business.

What I hope you can sense is that the momentum we've been building is intentional and disciplined, and reinforces our conviction that Signet is a healthy and agile company. The strategic clarity and structural advantages we've created, combined with the disciplined execution that our team is providing quarter-after-quarter is building momentum and driving top line growth, margin expansion, and liquidity that we believe is sustainable over the long term.

We continue to work hard at our transformation efforts and we know there are many uncertainties in today's environment, but we're energized by the impact we're having in our customers' lives and we're proud of what we're achieving and delivering together.

We also take pride in what our company stands for, and I want to close on this point. Just as we're building momentum in our business, so are we building momentum in our leadership as a purpose-inspired company and we're doing this from the inside out with our highly engaged team.

A year ago, we announced on our Q3 earnings call that Signet was, for the first time, named a certified Great Place to Work company. Today we're pleased to announce that not only was Signet re-certified as a Great Place to Work this year based on our strong employee Trust Index Survey results but that all of our scores improved year-over-year.

For us, our partnership with the Great Place to Work Institute gives us the ability to continuously advance our employee experience by listening to our team, taking action to improve, and benchmarking ourselves against other great companies.

Significantly, this year, 90% of our team shared that they feel a sense of pride in what we're accomplishing; and 82% believe wholeheartedly that Signet is a Great Place to Work. We can confidently assure you that our Signet team is fully-engaged and passionate about delivering for our customers this holiday.

Additionally, this quarter, we paid close attention to the UN conference on climate change that concluded just a few weeks ago. As a member of the UN Global Compact, we are fully committed to enhancing our business practices to meet evolving expectations from our investors, employees, and customers.

We have established our own Signet climate action and sustainability committee (sic) [Corporate Citizenship and Sustainability Committee] (00:23:44), a cross-functional team tasked with preparing Signet for the future with our own net zero strategy as we articulated in our Corporate Sustainability Goals released earlier this year.

These quarterly milestones advancing Signet's commitment to corporate citizenship and sustainability matter because consumers are increasingly seeking out companies that share their values. On that note, I'll turn this over to Joan who will provide deeper insight into what's driving our growth and where we're headed this fiscal year. Joan?

Joan Holstein Hilson

Chief Financial & Strategy Officer, Signet Jewelers Ltd.

Thanks, Gina. Hello everyone. There are three important messages that I'd like to leave you with today. First, we delivered cost leverage on top line growth again this quarter, as a result of our strengthened operating structure. Second, we achieved a trailing 12-month leverage ratio of 2.1 times; we returned value to shareholders through dividends and share repurchases and continued to invest in long-term growth. Third, we're raising fiscal 2022 guidance to reflect enhanced Connected Commerce capabilities and business momentum, which continued through Black Friday and Cyber Monday weekend.

Also included in today's update is higher expected cost savings. In Q3, we achieved total sales of $1.5 billion, growth of approximately $237 million over last year. Compared to two years ago, sales are up $350 million with few – with 423 fewer stores. While retail foot traffic remains down to pre-pandemic levels, our team effectively used enhanced Connected Commerce capabilities to drive increased conversion and higher average transaction value.

Substantially all merchandise categories and banners demonstrated growth, supported by a roughly 50% increase in advertising to strategically drive earlier shopping and reduce reliance on traditional fourth quarter profitability. We delivered approximately $576 million of quarter-end gross margin or 37.4% of sales. This is a 380-basis-point improvement to last year and a 630-basis-point improvement to two years ago.

Leveraging of fixed costs contributed roughly two-thirds of the improvement in both years, driven by fleet optimization efforts. Additionally, the remainder of gross margin improvement relates to merchandise margin and was driven by fundamental changes in our operating model. These significant changes include enhanced discount controls and reduced promotions, as well as strategic inventory initiatives that I'll discuss in a moment.

Moving on, SG&A was approximately $471 million or 30.6% of sales. This rate is 70 basis points higher versus a year ago from investments in both advertising and labor as we anniversaried the reopening of stores after the COVID shutdown. Compared to two years ago, we leveraged 300 basis points reflecting changes in our cost structure.

These changes include cost savings from new credit agreements, a more efficient labor model, and continued cost discipline across the organization. These improvements help to fund increased advertising, as well as investments in our Connected Commerce capabilities.

Non-GAAP operating profit was $105 million, compared to $46.8 million last year, and a loss of $29.3 million two years ago. Third quarter non-GAAP diluted EPS of $1.43 compares to the prior year of $0.11 and a non-GAAP loss per share of $0.76 two years ago.

Looking deeper into our financial health, overall liquidity of $2.7 billion includes $1.5 billion of cash at quarter end. Working capital efficiency improved approximately 40% to last year net of cash through strategic reduction of inventory, collaboration with vendors on payment terms, and the sale of our in-house receivables.

Turning to inventory, we ended the quarter at $2.1 billion. Even with a 15% increase in holiday receipts compared to last year, inventory was down $26 million and sell-down and clearance inventory was lower by roughly 14 points. These improvements were driven by strategic inventory initiatives, including new flexible fulfillment capabilities, lifecycle disciplines that include SKU rationalization, and data-driven allocation of product. The cumulative result of these actions was a 50% improvement in inventory turns to last year.

Alongside the fundamental improvement in owned inventory, we've been partnering with our vendors to eliminate slower-turning consignment inventory, and strategically shift focus to just-in-time core products and data-driven testing of newer collections. As a result, consignment inventory was lower by $315 million, which has effectively doubled its productivity over the last two years.

Moving on to capital, the $2.7 billion of liquidity at quarter end supports our capital priorities. Our first priority remains investing in growth opportunities, including our Connected Commerce and technology advancements, continued differentiation of our banners, as well as the recent acquisition of Diamonds Direct. We continue to expect capital expenditures in the range of $190 million to $200 million for fiscal 2022.

Our second priority is ensuring liquidity through a strong cash position to provide financial flexibility. Recall, we extended our ABL Facility through calendar 2026, providing enhanced flexibility to address calendar 2024 maturities of Senior Notes and preferred share obligations. As mentioned earlier, the trailing 12-month adjusted leverage ratio of 2.1 times is nearly half that of pre-pandemic levels.

Our third priority is returning capital to shareholders. We reinstated our common dividend earlier this year and at – and this quarter, we repurchased for approximately $41 million. We have roughly $185 million remaining under the current share repurchase authorization.

Now, I'd like to discuss our fiscal 2022 financial guidance. We are raising our full year guidance to reflect business momentum, as well as the acquisition of Diamonds Direct. We expect fourth quarter total sales in the range of $2.4 billion to $2.48 billion and same store sales in the range of 6% to 9%. We believe the momentum in our business is, in part, due to earlier shopping behavior that pulled forward a portion of traditional post-Thanksgiving business.

While we've managed the factors within our control, our guidance also considers headwinds outside of our control, as we move closer to peak holiday selling. These headwinds include: disruptions emerging from COVID variants, government mandates, and consumer behavior changes toward experience-related spending. That said, it remains difficult to predict the magnitude and timing of these expected changes in consumer behavior.

We expect non-GAAP EBIT of $280 million to $317 million. Compared to Q4 of last year, guidance includes higher marketing, incremental store labor costs which include additional holiday incentives, higher domestic transportation costs, and provides for promotional flexibility. Lastly, we have raised cost savings expectations for fiscal 2022 to $100 million to $115 million.

Now, turning to real estate. For fiscal 2022, we expect approximately 75 closures across the fleet and 85 openings primarily in highly productive Banter by Piercing Pagoda format. This update to our guidance is a result of stronger-than-expected performance in select locations, favorable lease economics on short-term extensions, and a shift in [ph] project (00:33:21) timing.

Looking deeper at our store footprint, we remain focused on optimizing our fleet through data-driven analytics. This includes the transition of traditional malls formats to highly productive off-mall locations. Over the past two years, we've increased the off-mall penetration within the Kay banner by 4 points. Now, with nearly half of Kay locations in off-mall formats, we're seeing growth at these locations outpace traditional mall formats and carry more favorable economics. Additionally, this strategy to off-mall has the reduced our exposure to declining malls by approximately 8 points in our biggest banners.

Now, I'd like to address operating margin. We're often asked, given current jewelry category strength, about the sustainability of our operating margin performance. We believe our margin performance is sustainable in a normal environment because of fundamental changes that have created a healthier and more agile operating model.

I'd like to reiterate the following fundamental changes in our business. Data analytics informed critical decisions and we will continue to mature and build on these competencies. Banner portfolio differentiation is driving growth and includes an increased focus on higher margin services. Inventory management improved significantly through the implementation of capabilities, such as flexible fulfillment, lifecycle and price management, SKU rationalization, as well as strategic use of consignment inventory. Fleet optimization remains a critical part of our margin expansion, and we will continue to refine our trade area analysis.

Cost savings will continue to help fund long-term growth initiatives, including always-on marketing and investments in digital capabilities, technology harmonization, and talent. Fully outsourced financial services transitions expertise to third parties, removes consumer credit risk from our balance sheet, and provides customers with a broader and more modern range of payment options. Liquidity and working capital management improved our financial strength and flexibility to continue investing in strategic initiatives, while also returning capital to shareholders.

We still have important work to do to continue Signet's transformation. That said, we've made fundamental changes that have built structural advantages and created strong operating discipline, and we have a high performing team to continue growth within the jewelry category.

Before we open the call for Q&A, I'd like to thank our team for their agility, innovation, and commitment to our Inspiring Brilliance strategy; and I look forward to what we will continue to build together. I'd like to wish everyone a safe and happy holiday season.

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] . Today's first question comes from Mauricio Serna with UBS. Please go ahead.

Mauricio Serna
Analyst, UBS Securities LLC

Q

Great. Thanks and congratulations on the results. I wanted to ask first about the market share trends. You comment that you believe you're gaining market share. Maybe you could give us maybe a little bit more details on how is your growth compared to the industry that gives you that confidence that you're gaining market share?

And also, if you could provide us maybe a little bit more details on Diamonds Direct, the business? You talked about in your previous release about the upper – EBITDA and sales expected for this fiscal year or calendar year. So, I wanted to know a little bit more about how do the margins compare to your overall business on a gross margin and SG&A basis? Thank you.

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

A

Well, hi, Mauricio. Thanks so much for your questions. Starting with market share, as we've repeatedly said and I think everyone knows, the data in the jewelry industry is far from perfect but what we do is we aggregate a number of annual projections from industry experts like Euromonitor, Mintel, Mastercard, IBIS, NRF; and what all of those are showing us is that we believe that expected jewelry category growth for this year is in the range of around 30%. So, a very strong year for the jewelry category. The high end of our guidance today implies more than 43% growth in total sales, and that reflects our belief that we will outpace the industry and gain market share.

I think, notably, part of the jewelry category that's growing the fastest is luxury that competes with the tier above where Signet plays today. And what that says to me is that the work we're doing differentiating our banners and trying to broaden the mid-market segment that we play in with Accessible Luxury, as I discussed in my remarks, including the Diamonds Direct acquisition, including all of the work we've done to build a higher quality merchandise assortment and custom capabilities at Jared, and of course the continuing work that James Allen does to really pioneer creating the optimal online bridal buying experience, these things are important because they're giving us access to new customers that are coming into the mid-market.

So, these are all things that are part of our Inspiring Brilliance strategy – differentiating our banners; bringing Connected Commerce capabilities; serving customers whenever, wherever they want to shop; and that's one of the things that gives us confidence that the strategy is working.

I'll start on Diamonds Direct, and then turn it over to Joan for more detail. But the first thing I would say is, we're very excited to welcome the Diamonds Direct team into our family. Every single person that we have been working with in Diamonds Direct is smart, talented, and just as focused on purpose as our company is. Inspiring Love, while may be articulated in different ways in the past, is very much part of the ethos of Diamonds Direct just like it is part of Signet, and so I think the cultural fit of our two companies is fantastic.

Secondly, the leaders at Diamonds Direct have really created a very special model and that – it actually goes all the way down through the team where it's a scaled kind of bridal experience. I mean, you go into a store and there's so much selection and opportunity to experience bridal in a different way that it's really driven almost a megastore-like concept where the median sales of a Diamonds Direct store are over $18 million. That's a scaled model in jewelry that just doesn't exist in many places, and we think it's something that we can learn from, while we can also help share some of our best practices to make their business model even stronger.

Joan Holstein Hilson
Chief Financial & Strategy Officer, Signet Jewelers Ltd.

A

And Mauricio, to address the Diamonds Direct profitability and the purchase price or just the economics, as we said in our recent release, is that we expect Diamonds Direct to be immediately accretive. We have included a view of – on Diamonds Direct performance within our guidance with our update today.

As you know, we disclosed that the trailing 12-month sales, the purchase price represented a 1.1 times multiple of sales; and on the $490 million purchase price and EBITDA trailing 12-month, a 7.1 times. So, we really feel very strong about the strength of the business, the management of the business, the economics of Diamonds Direct, and really feel that it's a natural fit within our structure, as Gina just mentioned.

Mauricio Serna
Analyst, UBS Securities LLC

Q

Great. Thanks, and just a quick follow-up. One, just how is the holiday season trending so far? I know you mentioned that you feel like a lot of people have done some of their shopping earlier, but just trying to get a sense of how you're seeing like things in Black Friday? And also, regarding the thing that you've mentioned that you have like promotional flexibility, I mean, would that imply that you could become more promotional in the short term if needed? And, I mean, how does that also play out into your expectations, looking into next year with some tougher compares?

Joan Holstein Hilson
Chief Financial & Strategy Officer, Signet Jewelers Ltd.

A

Well, what we can address today is the guidance that we've given, Mauricio, includes, as you noted, our – a flexibility for promotion, should we need it in the fourth quarter. We did note, as you did, that we believe that the momentum, in part, that we've seen that continued through Black Friday and Cyber Monday weekend was, in part, due to that pull forward of earlier customer shopping. Gina noted that 25% of shoppers completed their holiday shopping prior to Thanksgiving this year, and that's up 8 points from the prior year, so that's the basis for our belief that some of the momentum we're seeing today is a result of that pull forward.

We've also – have included in our guidance a view of Diamonds Direct as I noted, but also the idea that there is still some concerns around the macro environment, the unknowns around government mandate, the impact of stimulus, the new COVID variants that are – may impact shopping behavior, and also the potential shift in consumer behavior towards more experience-related.

So, all that in mind, our guidance reflects a strong view of holiday. We're very pleased with that 6% to 9% on comp store sales growth for the quarter and believe that, given where that leaves us for the full year, it's also a very strong performance driven by the team to drive flexibility in our promotion, expand our operating margin.

We'd note that the full year guidance implies a 10.9% operating margin, and that compares to 5.2% two years ago. So, the teams have really put into place the operating model changes that I detailed in my remarks and we really believe that that's the strength that we can build upon go-forward and continues to sustain the momentum in our operating margin performance.

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

I'd just add that, within the factors we can control, we are staffed and stocked and ready to serve our customers.

Vincent J. Sinisi
Senioir Vice President- Investor Relations & Treasury, Signet Jewelers Ltd.
A

Thanks, Mauricio.

Mauricio Serna
Analyst, UBS Securities LLC
Q

Thank you very much.

Vincent J. Sinisi
Senioir Vice President- Investor Relations & Treasury, Signet Jewelers Ltd.
A

Rocco, we'll take the next question.

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

Lorraine Hutchinson
Analyst, BofA Securities, Inc.
Q

Thank you. Good morning. There's a lot of puts and takes on the SG&A line with the cost cuts, the lower credit costs, and now perhaps some higher labor and marketing costs. As Signet has historically been in the 28% to 29% of sales range for many years, is that a level that you think you can get back to in the coming years and can you just walk us through any opportunities or pressures maybe around that number as we model for the next few years?

Joan Holstein Hilson
Chief Financial & Strategy Officer, Signet Jewelers Ltd.
A

So, as I say just mentioned, Lorraine – and thank you for the question – our FY 2022 EBIT guidance implies an EBIT margin of 10.9% at the high end, and this compares with 5.2% two years ago. Looking forward, we've made structural changes to our operating model which enables us to sustain a healthier operating margin; and these include top line performance, higher margin services, and many of the inventory management disciplines that affect our merchandise margin performance; and the strong health and – of our inventory is enabling that to really flow through to the bottom line as well.

When we look at our cost, we are funding investments with – over the last four years, we've saved over $400 million and have – which has helped fund the investments that we've talk about, which – Connected Commerce capabilities, our flexible fulfillment; and we've also – have enjoyed the result of the diligence of our fleet optimization, which is really providing a significant leverage while we reinvest in advertising and some of the other costs that I mentioned with labor.

So the way we think about it is, we're going to continue to drive cost discipline for our organization; we'll use that to fund investments and continue to drive out costs that the customer doesn't care about.

Lorraine Hutchinson
Analyst, BofA Securities, Inc.

Q

Thank you.

Operator: And our next question today comes from Paul Lejuez with Citi. Please go ahead.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Hey, thanks, guys. Joan, I'm curious if, when you mentioned the EBIT margin sustainability, if that comment is specifically referring to F 2022 as well, that you are intending to say that EBIT margins are going to remain at least at that 10.9% level?

And I guess, related to that, I'm kind of curious how you're thinking about [ph] F 2022 (00:48:24) just from a consumer pattern perspective? I know you guys have been assuming that consumer shopping patterns would change. I don't think that's happened to the degree that you had been planning for. So, curious how that influences how you plan for F 2022?

And then just longer-term, you guys still talk about the $9 billion long-term goal. Curious if you've got a timeframe for when you might think you could achieve that? Thanks.

Joan Holstein Hilson
Chief Financial & Strategy Officer, Signet Jewelers Ltd.

A

Okay, so I'll take that. The operating margin, the way we should think about that and the way we think about it structurally within our business is that, beyond this year in a normalized environment, we will continue to drive and leverage the operating structural changes that I noted in my prepared remarks.

So, things like the merchandise margin expansion, the fleet optimization which have taken out a lot of occupancy and labor costs and it's enabled us to reinvest in advertising and capabilities that are going to drive growth and – in Connected Commerce capabilities that will drive growth as well, and drive us to the jewelry category – innovation leader in the jewelry category. So, all that said, we're not giving guidance. But in a normalized environment, we believe that there's a sustainability to the operating margin that we're putting forward because of the structural changes within our business.

When we think about the fourth quarter and the consumer shift, what I've included in the fourth quarter and the view of fiscal 2022 is the idea that we know that we've – we need to prepare for flexibility promotion; that we have a higher marketing costs, we indicated that they were significantly higher in the third quarter, they were 40% higher; and at the end of the day, we – there's uncertainty about the level of pull forward, so we've considered that in our top line performance.

And then, we'll – we have included the idea of – or the reality of increased transportation cost, as well as the higher labor cost. We raised our wage rate, along with higher incentives at holiday, which is very important for us to provide to our team members as well. So, it's – we've included all of the costs that we see ahead of us and the idea of promotional flexibility in fiscal 2022; and we're prepared, to Gina's earlier point, with staffing levels and inventory to serve our customer throughout the holiday selling period.

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

A

And Paul, just on your other question about our timeline to our $9 billion goal, we have not given a timeline on that. But I will say, our high guide today reflects revenue of almost $7.5 billion, which I'm really proud of our team for all the great effort that they have put into deliver not only banner differentiation, which is driving strong performance across our different banners, but also the innovation that we see coming in in flexible fulfillment and how we're able to serve our customers.

Some of the non-comp things that we have in place this year, like our curbside service or our same-day delivery, things which we've just piloted last year are now fully across our fleet. And that agility and ability to test and learn, perfect things; and then roll them out broadly at scale, I think, is a competitive advantage for us. So, I'm proud of how we're learning to do that.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Thanks, guys. Good luck.

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

A

Thank you.

Operator: And our next question today comes from Tim Vierengel with Northcoast Research. Please go ahead.

Tim Vierengel
Analyst, Northcoast Research Partners LLC

Q

Good morning and thank you for taking my question. I was wondering if you guys could go into a little bit more detail on these impressive average transaction kind of value improvements. Is it – specifically, is it you guys are raising your price points or adding more inventory at that kind of luxury, high price [ph] per level (00:52:55) at Jared and Kay, which is driving that 30%-plus improvement or is there really a fundamental change in the demographic of the consumer or in their spending habits? Or if it's a bit of both, maybe you could break it down, which one is a bigger driver? Thank you.

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

A

Sure. I'll start on that and you can jump in, Joan. I think the first thing I would say is that it is not about price increases. So, what we really pride ourselves on is providing a great value to our customers, and we're able to do that across a broad variety of price points because of our scale and the data and analytics we use to optimize our assortments.

What I do think it's related to is higher closure rates. So, as we are better directing customers to the banner that is best able to serve them and as we're optimizing our assortment and our services and even our selling capabilities within those banners, we're seeing higher closure rates, which is great.

And then, I'm pleased with all the work, honestly, if you think about the entire funnel, that our team has been doing to drive traffic, both in-store and to our websites. So, while retail traffic is still down versus two years ago, we saw a strong increase in brick-and-mortar traffic in the quarter; and I would consider that to be the effect of our

Omni-approach to marketing where we are really trying to serve customers whenever, wherever, and however they want to shop.

We've also improved a lot of aspects of our eCommerce and digital experience. Our virtual consultants – we have 700 of them – now are able to have asynchronous chat with our customers. They have two-way texting capability. So, our ability to start a conversation, pause a conversation if our customer wants to do more research or think about it, and then come back to that same conversation to serve people in a seamless way is dramatically improved versus where it was a year ago. So, all of these things are driving higher closure, which I think is the real story here.

Joan Holstein Hilson
Chief Financial & Strategy Officer, Signet Jewelers Ltd.
A

The only add to that I'd have is the idea that our inventory is very healthy. Our clearance selling is – the penetration of clearance sales is down to last year. And I mentioned that clearance and sell-down inventory is down 14 points, and the actual selling is down as a result. And so, it's really improving the average transaction value as well. We've been able to put our inventory in a very healthy position.

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

And then, in Jared, as I talked about in my script, I mean, we have had a very intentional strategy about tiering up our assortment to be more Accessible Luxury-oriented; and the results there, I think, are very impressive over the last couple of years, with more than a 30% increase in ATV as a result of all of the things I previously mentioned, as well as a more valuable higher price point assortment.

Tim Vierengel
Analyst, Northcoast Research Partners LLC
Q

All of that is really helpful, guys. Appreciate the commentary. Thanks.

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

Sure, thank you.

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

Ike Boruchow
Analyst, Wells Fargo Securities LLC
Q

Hey, thanks. Good morning, everyone. On Diamonds Direct, I guess, could you, maybe Joan, fill us in on what's in the 4Q guide around revenue and EBIT contribution? That would be helpful. And then, bigger picture for next year, is there an ability to take – to add [indiscernible] (00:56:37) generate some synergies or some incremental margin on that business, as we think about what you guys can do with it? Or, conversely, is there a thought that maybe you want to reinvest more aggressively, [ph] that makes you take your margins down in brands in (00:56:48) eCommerce or something like that? Just trying to understand how to think about the margin as they flow into next year.

Joan Holstein Hilson
Chief Financial & Strategy Officer, Signet Jewelers Ltd.
A

Well, what we said, Ike, is that we expect Diamonds Direct to be immediately accretive. We have included it in our guidance. And you'll note that there was – with the implied Q4 guide, there was some margin expansion, as you kind of compare that to where we've been. So, that's really the – what I can share with you around Diamonds Direct.

We're not separating out Diamonds Direct. So, it's part of our North America business now and part of that family, and I would just encourage you to kind of look at the guidance or the information we provided in our release around the purchase price and the trailing 12-month view of sales and so forth.

And then, into next year...

Ike Boruchow
Analyst, Wells Fargo Securities LLC

Q

Okay.

Joan Holstein Hilson
Chief Financial & Strategy Officer, Signet Jewelers Ltd.

A

...we've not given that kind of guidance but we really are excited about what Diamonds Direct brings to the overall financial and economic view of our business and what it does for us in terms of bringing a new business into this expansion of Achievable Luxury (sic) [Accessible Luxury] (00:58:07) sort of mezzanine segment that Gina talked about in her prior prepared remarks. So, really excited about what it can bring.

Ike Boruchow
Analyst, Wells Fargo Securities LLC

Q

Got it. And then, a second follow-up on the capital structure. You guys have a lot of cash, I know you just made the acquisition. Is there a thought to, could you juggle a second tuck-in acquisition at this point or would you rather kind of [ph] like to (00:58:28) see how Diamonds Direct can flow in? Would you use that cash towards a buyback? Your stock is extremely cheap. And then, just the last one on that is, with the preferred converts that you guys have, is there any interest in paying those [audio gap] (00:58:42) with Leonard Green have and you're kind of not interested in that?

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

A

I think we got kind of cut off and missed the very last part of your question, but I'll talk to the idea of our capital priorities. Number one for us is definitely investing to grow our existing business, now including Diamonds Direct, now including Rocksbox. We're excited about the acquisitions that we've made starting with James Allen a couple years ago because it's really rounded out our portfolio in a nice way.

We have an ongoing strategic process to evaluate other opportunities, and so we always stay open-minded to what might be another way to bring new capabilities, especially new opportunities to learn into our business. So, we will stay opportunistic and open-minded on that as a way to grow the business.

And then, our other capital priorities, of course, are making sure that we give back to shareholders. We reinstated our dividend. We did execute some share repurchase in the quarter, and still have room in that authorization. And then, making sure that we're managing appropriately our liquidity.

I think you were asking in the last part of your question maybe about Leonard Green?

Joan Holstein Hilson
Chief Financial & Strategy Officer, Signet Jewelers Ltd.

A

Yeah, so with respect to the LGP preferred position, I'd just take you back to the ABL refinancing that enabled us – gave us flexibility that that maturity, which is in October 2024. Our ABL extends beyond that and gives us the flexibility to manage through that through [ph] 2000 (01:00:21) – and it goes out to 2026. So, LGP continues to be a very valued partner to us and – but we have the right ABL refinancing structure that enables us to manage through that.

Ike Boruchow
Analyst, Wells Fargo Securities LLC

Q

All right, Thank you.

Operator: Thank you. We have time for one quick final question and that comes from Dana Telsey at Telsey Advisory Group. Please go ahead.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Hi and congratulations on the results. As you mentioned in the new inventory model basically, whether it's focusing more on just-in-time inventory, reducing experience inventory, where are you on that path and what does that imply for margins? And then, just lastly, I believe that 2022, there's been numbers out there that there's going to be $2.6 million wedding, which should be a real benefit, obviously, for your bridal and engagement business. How do you see marketing and marketing investment going forward into 2022? Thank you.

Joan Holstein Hilson
Chief Financial & Strategy Officer, Signet Jewelers Ltd.

A

So, I can start with the inventory. And Dana, we are feeling very good about the health and quality of our inventory. As you mentioned, we have a lot of new capabilities that have driven that, the flexible fulfillment that our SKU rationalization and our clearance inventory was down 14 points to a year ago. So, enabling us, all of that together, to expand our merchandise margin. So, with the expansion to both last year and to two years ago, we said that two-thirds of that leverage, our expansion came from our fleet optimization essentially; and then the other third is coming from our ability to lean out promotions and the – all of the activities around inventory capabilities that get our product to the right place at the right time and our – so, we think that we're in a very good spot. More room to go but we're in a very healthy position currently with our inventory position.

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

A

And then, in terms of weddings, that is always good news for our business because the most likely people to get engaged are people who were just in someone else's wedding. So, we definitely try to make sure that we're using our targeted marketing efforts to reach those potential brides and grooms before they come into the engagement ring market; and we're ready. We're ready to serve them with our always-on bridal strategy and we're ready with product this holiday season. So, we'll definitely be looking forward to that. Thanks, Dana.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Thank you.

Operator: And ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to management for any final remarks.

Virginia C. Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd.

Sure. Well, thank you again, everyone, for your engagement today. I'll just conclude by reinforcing that the results we're seeing demonstrate a healthier and more agile company at Signet; and reaffirm that we have the right strategy, the right team, and the financial strength to grow profitably and sustainably for the long-term.

We wish all of you the happiest of holidays this season, and we hope that you're able to celebrate safely and joyfully with your families and friends.

Joan Holstein Hilson

Chief Financial & Strategy Officer, Signet Jewelers Ltd.

Thank you.

Operator: And thank you, ma'am. This concludes today's conference call. We thank you all so much for attending today's presentation. You may now disconnect your lines and have a wonderful day.