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Signet Jewelers Ltd. (SIG)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Signet Jewelers fourth 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 [Operator Instructions] 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.

Vincent J. Sinisi

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

Hey terrific, thanks very much Andrew and good morning, everyone. Welcome to our fourth 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 in our Annual Report on Form 10-K, quarterlies on 10-Q, and 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 of those non-GAAP measures, as well as reconciliations to the most directly comparable GAAP measures, investors should review the news release we posted on our website at www.signetjewelers.com/investors.

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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. Before I get into the call, I want to take a moment to address the crisis in Ukraine. As a company whose purpose is inspiring love, we stand against this invasion and unprovoked war. As such, Signet has suspended all business interactions with Russian-owned entities since the beginning of the conflict and through our Signet Love Inspires Foundation we have donated $1 million to the Red Cross to help provide food, medical attention and supplies within Ukraine as well as shelter for the millions of refugees fleeing the country.

Our foundation is also providing a two-to-one match for Red Cross donations made by our generous team members. We will continue to look for additional opportunities to support the people of Ukraine and our thoughts and prayers are with them all.

Now let me share Signet's results with you. We closed this year once again with strong performance. The Signet team delivered record sales and earnings growth, our sixth consecutive quarter of overall growth. I want to thank our team members for their unrelenting leadership and dedication. I am always inspired by their achievements There is one key message that I'd like you take away from this quarter and year.

We are demonstrating that Signet has the strategies, strengths and structural advantages to consistently outpace the market and gain share, while also delivering sustainable double-digit operating margins. We can see this in three specific ways.

First, we grew our US market share to 9.3%, a 270 basis points gain over prior year. We grew share in every channel and every banner. This was true in well-established categories, like bridal where Signet is the clear US retail leader with a roughly 30% share and in lab-created diamonds where we are widening the gap as the market leader in this new and fast-growing category.

Second, we are continuing to increase margin as we grow. In fact we have permanently reset our margins over the past four years by 200 basis points, ahead of where we were before starting our Path to Brilliance journey. We'll use our time with you today to explain why we believe our double-digit operating margin is sustainable.

And third, we are generating significant excess cash. Our leverage ratio is healthy at now less than two times EBITDAR. We are investing in organic growth and acquisitions.

And with our stock's current valuation, we are aggressively focused on share repurchases to take advantage of the disconnect that exists between our confidence in the values Signet will continue to generate and what the current share price reflects from the market. In fact, we repurchased more than $270 million in shares since mid-January and still have over $400 million in authorization remaining.

Signet's results are being driven by the strengths we mentioned in our last call. Our diversified banner portfolio, Connected Commerce presence, data analytics capability and scale. These strengths and our financial health, our ability to sustain industry-leading investments in our business have become important, sustainable sources of competitive advantage.

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In a moment I'll talk through the progress we made this quarter in each of our Where to Play focus areas. But first I'd like to share perspective on both the tailwinds and macro headwinds that we see ahead in the coming year. Tailwinds, we are confident Signet can leverage and headwinds that we are well-positioned to manage through. The most important tailwinds are those that we are creating with our strategies

They are not transitory. To the contrary they are accelerating. We plan to invest up to $250 million in capital during fiscal 2023 to drive our strategies further enhancing our stores, digital platform and data analytics advantages. This is our largest planned capital investment in the past five years and it's guided by increasingly precise insights. The biggest external tailwind is also the happiest one; weddings are back. Couples are getting married at record-setting rates.

We expect more weddings this year than we've seen in nearly 40 years. Bridal is an important part of our business, of course, but it's much more than engagement rings. The average couple buys their wedding bands two months ahead of the wedding and wedding days give us the opportunity to provide jewelry for the bride and groom, bridesmaids, mother of the bride and guests attending the wedding.

In addition these celebrations drive future growth because dating couples who attend a wedding together are among the most likely to get engaged shortly afterwards.

We continually look for new ways to innovate to make the entire bridal occasion more special. One example is the Rocksbox Bridal Subscription which we're testing now. Rental pieces make it easy and affordable for every member of a bridal party to shine. At showers, engagement dinners and at the magical I do moment. They also appeal to customers who want to participate in a circular economy. We also see macro headwinds in the months ahead and believe we are well-positioned to mitigate them.

We continue to anticipate a shift in spending towards entertainment and travel. More than 75% of American consumers say they are ready to travel. And a majority of those are already planning trips for June and July, despite the inflated cost of these trips versus pre-pandemic levels. This reinforces that consumers are willing to pay more for both experiences and goods that they want and value.

The biggest issue on people's minds of course is the war in Ukraine and to a lesser extent the inflationary pressures that may create in both the near and longer-term on top of what we were already experiencing. Inflation puts pressure on discretionary purchases.

That said, whether people have been waiting two years to travel or two years to get married, they are making the purchases that matter to them even at higher prices. At Signet, we're prepared to make the most of this dynamic with excellent value, fresh assortments, industry-leading marketing and services, expert advice from our jewelry consultants in the store and online and a Connected Commerce presence that provides superior and seamless customer experiences.

Our financial fitness and our strong supply chain relationships enable us to deliver great value to customers, despite inflationary pressures, while still protecting and growing margin.

As a result, we believe we'll be less impacted by inflation than jewelry industry competitors or the retail sector overall. To dig a little deeper, our supply chain is a significant source of competitive advantage. We're a Siteholder with De Beers which enables us to buy rough diamonds directly. We have proprietary online diamond marketplace through James Allen.

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This gives us real time pricing on more than 450,000 cut and polished stones valued at more than $2 billion. We now have seven manufacturing facilities in India, subcontracted to work exclusively for Signet, in addition to our own cut and polish manufacturing facility in Botswana. Altogether, we grew our production capacity by 10-fold last year.

This level of scaled vertical integration, along with our strategic vendor partnerships gives us an enormous advantage in terms of both quality and volume of inventory. We're also an industry leader in responsible sourcing which has become even more important to consumers today.

We believe our sophisticated supply chain and AI-driven inventory management system is a clear competitive advantage in the highly fragmented jewelry industry, ensuring consumer access to the right inventory, at the right time at the best price with an agility that's hard to match.

We expect the overall jewelry industry to be down low-single-digits to roughly flat this year. While it's impossible to predict precisely how long it will take the industry to return to its historical average annual growth rate of 2%. What we can say with much greater confidence is that Signet has the right strategies, strengths and structural advantages to grow faster than the industry.

We believe we are well-positioned to keep gaining market share and delivering sustainable double-digit operating margins. With that confidence in mind let's take a closer look at our progress across each of our Where to Play strategies.

Winning in our biggest businesses remains the largest pillar of our Inspiring Brilliance strategy; every one of our banners is growing at or ahead of their growth targets. This reflects the steady progress we've made differentiating our banners with more clearly defined customer targets, optimized assortments and always-on marketing that is highly efficient and effective. I'll touch on just two of these improvements.

First we are focused on our in-store experience as part of our seamless Connected Commerce presence. During the pandemic, we pivoted to digital and invested in the digital experiences customers needed. Now that customers are coming back to stores FY 2023 marks the biggest investment in our store experiences that we've made in five years, all driven by our distinctive banner value propositions and database greenfield analysis.

Second, we're investing in always-on marketing more aggressively and strategically than ever. At a level that no other company in the jewelry industry can. In fiscal 2022, we increased our advertising budget by more than $180 million and we expect to continue investing again this year.

This enables us to increase customer acquisition. Engaging customers with relevant messages in the right channels, at the right times and as a result reducing our reliance on traditional fourth quarter profitability and here's where scale matters. We hold a 50% share of voice in targeted TV even we've shifted significantly to a more targeted digital marketing plan.

The two approaches work in concert enabling us to expand quantity at the top of our customer acquisition funnel and reach more customers more efficiently. At the same time, our data-driven consumer insights help us improve the quality of customers we're attracting, customers who are responding to our marketing have higher purchase intent and are looking to spend more.

We see this most vividly in North America, where we drove average transaction values up more than 15% and in-store conversion up nearly 20% versus two years ago. Further Kay and Zales, two of our banners that historically

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overlapped each other are now very distinct and delivering strong parallel growth, not only did both outperform the industry, but they also delivered double-digit improvements to their Net Promoter Scores compared to two years ago.

Expanding accessible luxury and value is our second Where to Play priority and we're making meaningful progress at both ends of the mid-market. In the value tier we have now completely rebranded Banter by Piercing Pagoda. With seven consecutive years of positive same-store sales, Banter continues to attract our youngest customer base and the rebrand is building momentum.

The launch of banter.com, for example, has driven site traffic up more than 80% compared to last year and our expansion into in-line locations is allowing us to enter high-traffic shopping environments where kiosks [ph] aren't (00:15:56) feasible and to provide private rooms for needle piercing services, one of the fastest-growing and highest margin services we offer.

We're also growing in the value tier by putting a greater focus on our outlet formats with distinctive and exclusive merchandise designed for treasure-seeking customers, outlets grew nearly 55% compared to last year.

At the other end in the accessible luxury tier, we grew considerably this year across three of our banners; Jared, James Allen and Diamonds Direct. Jared has been diligently refining their assortment for the past few years to lean into a higher price points.

We are now offering larger stones, fancier cuts and higher quality metals, while also moving away from a lower-priced beads, this is working. In fact, for a year Jared's average transaction value increased more than 60% compared to the previous year.

James Allen remains critical to our accessible luxury expansion with its digitally native model. This year, James Allen made significant progress by expanding its fashion assortment. The strategy here is that when customers are thrilled with their James Allen engagement ring and wedding bands, it's naturally one of the first places, they look for meaningful gift ideas and fashion accessories. This too is working. James Allen increased its fashion category sales more than 95% this year with an average transaction value that is more than eight times our North America average.

Diamonds Direct is another great story. We only have 22 locations today and there is clear room for expansion, what Signet brings to this opportunity is our trade area analytics capability. This will enable us to expand Diamonds Direct stores with data-driven precision ensuring we open new stores precisely where they will grow fastest and most profitably.

And a bit down the road, we know we can leverage Connected Commerce to create a Diamonds Direct digital presence that will work seamlessly with our brick-and-mortar formats.

Accelerating services is the third pillar of our strategy and our goal is to grow it into a billion-dollar business. In FY 2022, we advanced toward this goal delivering $620 million in revenue up 65% versus prior year.

I'll highlight three of our highest potential services, repair, extended service agreements and rewards. What I love about these services is that they are all relationship builders, the better we do in each of them, the more lifetime relationships we build and the more lifetime value we capture.

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I'll start with the repair; we offer repair services regardless of where piece was purchased not only because of the revenue it generates, but also because it is a powerful opportunity to build advocacy. When someone hands us a treasured piece of jewelry to repair and we beautifully refresh the quality, we create evangelists. It's a powerful and emotional moment of truth and also a driver of future growth.

We are continually improving our repair capability, our average turnaround time for repairs is now under a week compared to an industry average of two to three weeks and we continue to see increasing customer satisfaction ratings in areas like feeling valued and time to assist.

The second example I'd like to highlight is increased attachment of our extended service agreements especially online. ESAs are the largest and among the highest margin of the services we provide. In the fourth quarter, after our re-launch, online attachment increased nearly 400 basis points and the listed total attachment 300 basis points versus prior year. That translated into more than 35% revenue growth in extended service agreements this quarter.

Improvements like these are great for customers and are also important to our margin expansion goals. The last example I'll mention here is, one I am personally very excited about; our new Vault Rewards loyalty program. We began piloting this program at Jared last year and by the end of fiscal 2023, we'll expand it into other banners. Loyalty programs are important because they deepen relationships and drive repeat purchases.

At Signet, a customer's second purchase is the most important indicator of lifetime value. 40% of customers who make a second purchase within nine months of their initial purchase will make a third purchase in the next six months building a relationship that only grows stronger over time.

This matters, in fiscal 2022 for example; the average transaction value of a returning customer was of 14% higher than a new customer. Lifetime relationships at scale are powerful source of advantage. Our fourth strategy is leading digital commerce which we see as an accelerator of growth.

This is a strategy that I think many people may define too narrowly and as a result underestimate the value Signet is creating. It includes e-commerce of course, and we've doubled our e-commerce sales over the past two years. In fact, e-commerce sales have grown more than threefold since we began our Path to Brilliance transformation.

With over $1.5 billion in e-commerce sales, we're now the largest online specialty jewelry retailer in the US and we are widening the gap. Last year, when the overall retail average NPS in digital declined by 17 points versus prior year to less than 50, Signet's digital NPS improved by 8 points to nearly 70. That's an almost 20-point gap and given industry fragmentation, we believe our advantage over jewelry retail is even higher.

But importantly leading digital commerce at Signet is much bigger than e-commerce alone. We are digitizing every interaction we have with our customers. Our store associates are so connected now that they never have to leave a customer's side. They can search our entire inventory for a perfect piece that may not be in their store, enroll a customer in an ESA and complete the purchase all on their tablet. Here's why I believe this is such an advantage, digitally connected customers represent more value and Signet is uniquely positioned to serve them.

Now 65% of all our customers visit our digital sites during their journey much higher than pre-COVID and [ph] fully (00:23:57) 90% of our highest value customers those who spend more than $500 with us engage across our shopping channels, taking advantage of our Connected Commerce capabilities and services.

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The more customers who are comfortable and well served across formats with no friction, the faster our banners grow. Beyond our customer-facing capabilities, we are also using digital innovation and data analytics to improve efficiency and to inform decision-making. Two quick examples, we know that targeted marketing and promotions are a better use of dollars. This year, we acquired 32% more new customers than we did in fiscal 2021 as we continued to sharpen our targeting and we regained 37% more customers who had not shopped with us in more than two years.

This is why we're launching our new customer data platform this spring which we will leverage to attract more customers at lower acquisition costs. There is a real scale potential here with a company-wide database of customer browsing and purchase histories harmonized across our banners.

An additional point is that, this data is by customer, not by household which allows us to advertise to a customer about their upcoming anniversary without tipping off their spouse or partner. Secondly, we're leveraging digital capabilities to accelerate the continued optimization of our fleet. As we've talked, stores are an important part of our Connected Commerce presence. The key is to have them exactly where customers want them to be part of their shopping journey and where they will generate the greatest returns on investments.

Over the past four years, we've trimmed over 20% of our fleet. Now, we're drilling beyond trade areas to optimize our fleet at a hyper local level with our new greenfield analysis.

Fleet optimization is critically important because it enables the permanent reset of our margin structure. We delivered nearly 500 basis points more in gross margin in fiscal 2022 than we delivered four years ago by driving higher sales on lower occupancy costs. A simple way to think about our strategy of leading digital commerce is that we are building a consumer-inspired moat around our business.

The more we invest and the stronger our capabilities become and the more our customers come to value and expect our seamless Connected Commerce experience, the harder it becomes for competitors to catch up. This is strategic scale at its best.

What I hope you can see is that we are outpacing the market in all four of our focus areas and these strategic choices are widening the gap between us and the rest of the industry. We believe we can keep doing this and gaining market share year after year.

Before I hand this over to Joan, I want to make one final point; culture matters. The strength of Signet's culture, talent and employee engagement at every level of our organization is reflected in the company's strong business performance. One of the ways we assess the strength of our culture is the Great Place to Work survey.

For the second year in a row, our employee survey scores qualified Signet as a Great Place to Work certified company with ratings improving in literally every category the survey tracks. Importantly, in a year when so many companies were suffering from labor shortages as a result of the Great Resignation, Signet's turnover actually improved.

One thing team Signet is highly motivated by is our purpose of Inspiring Love. This is part of every interaction we have with customers and it's also part of our ethos as a good corporate citizen. Together, we want to make a long-term and meaningful positive impact on the world around us. This earns customer admiration and drives pride and belonging in our organization.

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One example, in addition to the humanitarian support for the people of Ukraine that I mentioned at the outset is the support we provide to St. Jude Children's Research Hospital. This year in the midst of an ongoing pandemic and continued uncertainty, our customers and team members rallied, eager to express love and to help celebrate the lives of every child St. Jude cares for.

And our fiscal 2022 annual campaign came to an end with an increased fundraising donation of over 85% versus prior year, a total of $7.6 million, bringing our total to nearly $100 million in support over the past 25 years.

Our ability to have an impact like this powered by our purpose and driven by performance and strong customer relationships builds a tremendous pride and belonging in our organization. It's one of the factors driving 90% of our team members to say they are proud of what they achieve every day at Signet.

On that note, I'll ask Joan to share her perspective and then we'll be happy to take your questions, Joan?

Joan Holstein Hilson

Chief Financial & Strategy Officer, Signet Jewelers Ltd.

Thanks, Gina. Hello everyone and thank you for joining. Here are our key takeaways with today. We are demonstrating Signet has the strategies, strengths and structural advantages to consistently outpace the market and gain share, while also delivering sustainable double-digit operating margins.

Our strategic initiatives have improved our operating structure and we are now positioned to consistently deliver an annual operating margin that is more than double that of two years ago. Simply stated Signet is a transformed company poised to gain market share. Additionally, the combination of continuous market share gains and stronger margins means we will continue to generate excess cash, giving us flexibility to continue investing in the business, consider acquisitions that align with our existing strategy and given our current valuation, focus on share buybacks.

Our performance this quarter and this fiscal year reflect the importance of our improved operating structure and the cost discipline that is now a core part of our culture and will help fuel growth in the years ahead. While we anticipate a challenging macro environment for the industry in the coming year, we believe we will deliver top-line growth that outpaces the industry. Now for the quarter, we delivered total sales of $2.8 billion, growth of nearly $625 million over last year.

Growth continues to be broad-based across all banners and categories reflective of our Connected Commerce efforts working across our platforms. Fourth quarter non-GAAP operating income of $411 million is up from $293.8 million last year. This represents a 14.6% operating margin, up 120 basis points to last year.

Reflected in this improvement is 150 basis points of gross margin expansion led by the continued leverage on fixed costs from our real estate optimization efforts. This was slightly offset by 30 basis points in SG&A from deliberate investments in our holiday advertising strategy and staffing initiatives, both of which we believe led to an acceleration of top-line results.

Turning to the balance sheet, I'd like to highlight a number of working capital milestones this year. This is an area of major progress and net of cash our working capital is better by more than 40% to last year from the following improvements.

We drove a 56% improvement in inventory turn versus last year. Driven by continued progress of inventory lifecycle management as well as the positive impact of fulfillment options like ship-from-store notably Kay, our

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largest banner had inventory turn of roughly two times, the fastest turn in its history. This is a great example of our progress that has enabled more targeted newness for our customers.

To highlight the health of our inventory, clearance and sell-down penetration declined 10 points to last year. It is the lowest it's been in five years. Additionally, we sold all of our remaining credit receivables in the first half of the year completing our transitional wave from historical exposure to consumer credit risk.

And further we drove a 30% increase in our days payable outstanding. I am really proud of the team and the muscle we have developed in continuously looking to optimize our efficiency and to achieve our results by doing more with less. Together we are driving more sales with less working capital, less risk and less [ph] stores (00:34:26) all while delivering more cash.

And our balance sheet is strong. We ended the year with $1.4 billion in cash and overall liquidity of more than $2.6 billion to continue supporting our capital priorities as we look to the year ahead. As always, our first priority remains investing in our business with a focus on continued growth and market share gains. To that end, we utilized $193 million of cash in fiscal 2022 for capital expenditures fueling our digital and technology advancements as well as differentiating our banners.

Also, we strategically invested in two new banners through the acquisitions of Diamonds Direct and Rocksbox. Looking at the year ahead, we see opportunities to further enhance our physical and digital footprint as these competitive advantages remain crucial to our Connected Commerce strategy. Looking forward we expect capital expenditures up to $250 million for fiscal 2023.

Our second priority is ensuring a strong cash position and liquidity to provide financial flexibility. We have achieved an adjusted debt-to-EBITDAR leverage ratio of 1.9 times this year which is well within our stated goal of below three times leverage. Also recall our ABL facility extends beyond the horizon of our current debt obligation.

Lastly with the strength and balance sheet and confidence on our team's execution, we are continuing to return excess cash to shareholders. As a reminder, we entered a $250 million accelerated share repurchase agreement during the fourth quarter which was completed after the fiscal year end.

Currently $413 million remain under our authorization, and with our current valuation we are focused on share repurchases. Additionally, we've increased our quarterly common dividend of $0.18 per share to $0.20 per share, a first step in becoming a consistent dividend growth retailer.

Before I discuss our full-year guidance, I'd like to take a step back to detail structural changes in our operating model since we began our transformation four years ago. These changes expanded operating margin by nearly 200 basis points and gives us the confidence to provide guidance that outpaces our expectation of industry growth and delivers a double-digit operating margin, all despite macro uncertainties.

We've transformed our business model to do more with less through the following changes. First, we gained nearly 500 basis points resulting from our real estate optimization strategy. We've cut our fleet by over 20% and also shifted mall stores to more profitable off-mall formats, for example, Kay our largest banner is now roughly 50% off-mall.

Second, alongside a more efficient suite is a more efficient labor model. Informed by our data analytics, we've planned staffing store-by-store and hour-by-hour contributing 300 basis points of margin expansion. Importantly,

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we're doing this while improving the team member experience as we continue to see high employee satisfaction scores and lower turnover.

And thirdly, we've also invested over 500 basis points of margin to better align Signet with our long-term strategy. Notably, we shifted to a complete outsourcing of our store credit program. We also acquired James Allen, a critical step in both the acceleration of our digital innovation and the vertically integrated sourcing of both natural and lab-created diamonds.

And finally, we made investments in always-on marketing, reducing our reliance on fourth quarter profitability as well as increasing awareness of our differentiated banner portfolio.

While there are other smaller puts and takes, I'd also highlight several capabilities that we see maturing in a margin accretive fashion over time. These include our inventory lifecycle optimization, a practice that is helping us to better capture margin by taking early remarks during the product's lifecycle.

We have also tripled our e-commerce sales, while keeping our freight cost as a percent of sales flat through our expanded fulfillment and freight management capabilities. We believe we can continue to leverage our digital and physical footprint to further optimize our shipping cost in a time of freight cost increases.

In summary, these changes are sustainable and reflect the company that we are today. We are a data-driven and innovative Connected Commerce leader in the jewelry industry. As we look to the year ahead, we will continue to invest in both our physical and digital footprint as we manage the business in an even more integrated fashion.

To this end, we're moving away from the practice of guiding same-store sales. We plan our business to drive top-line whenever, wherever and however our customers choose to shop with us. Today the final point of sale is not indicative of our customers' shopping journey also a portion of management's incentive compensation will now be tied to market share gains incenting our team to drive top-line growth.

That said, we appreciate that we and the industry are going up against difficult compares, so we will continue to report same-store sales in this unique environment.

With that let me turn to our fiscal 2023 financial guidance. After a year of heightened growth in our industry, our guidance reflects an industry-wide transition back to a more normalized environment.

We expect sales for the overall jewelry industry in a range of down low-single-digits to roughly flat. Reflected in this view of the industry is an appreciation of the continued pressure on both consumer discretionary spend and commodity cost as well as the expectation of a more pronounced return of consumer travel.

With this context, we expect to deliver total revenue in the range of $8.03 billion to $8.25 billion. This is the performance that we believe will outpace the industry trends through both our core business and Diamonds Direct.

We expect operating income in the range of $921 million to $974 million. This range reflects the structural changes I detailed a moment ago with flexibility for increased promotion and optionality based upon the evolving macro environment and shifting consumer discretionary spending.

New with our guidance this year is that we will be providing annual EPS expectations. For FY 2023, we expect earnings per share in the range of $12.28 to $13 per share. Turning to the first quarter, we expect revenue for the

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first quarter in the range of $1.78 billion to $1.82 billion with operating income in the range of $177 million to $186 million.

Now before we open the call for Q&A, I'd like to thank our team for a tremendous year. Our team brings our purpose to life every day and I look forward to what we'll deliver together in the coming year.

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

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session [Operator Instructions] The first question comes from Dana Telsey with Telsey Advisory Group. Please go ahead.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Good morning, everyone and congratulations on the nice progress and the outlook. As we think about the macro environment, couple of things, how are you taking into account the implications of inflation both on the cost side and also the consumer side? And then on the macro side, do you receive any of your diamonds from Russia and how are you handling that?

And then just lastly, Gina you talked about the ways you're serving the consumer and frankly the whole circular area whether it's online, whether it's stores, whether it's what you have with Rocksbox. As you think about new customer acquisition, how is that moving along and are you seeing channel diversification of the shoppers that you have? Thank you.

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

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Hi Dana, thanks so much for those questions and for being with us today. Starting with the customer, we are certainly aware of the pressure that customers are facing as it relates to the inflationary environment. It's front of mind for us and something that's part of our research on an ongoing basis. To-date we have not seen significant changes. We delivered another strong Valentine's Day this season and the trends have remained strong.

But we have levers to pull if confidence turns significantly more negative and spending abates due to the macro environment. We are consistently working with our vendor partners to value engineer our products so that we can offer good, better, best products, products at a range of prices for our customers within our banners and of course across the diversified banner portfolio that we've created.

We also have targeted advertising, improved experiences in store and online, compelling merchandise, all of this gives us confidence that as consumers turn to jewelry purchases, which they will, particularly given pent-up demand for weddings, even in a challenging time we believe they'll turn to Signet.

As it relates to Russia and as I said at the beginning of the call, our purpose as a company is Inspiring Love and so we moved very quickly to address this situation. We suspended all business interaction with Russian-owned entities since the start of this conflict. We've asked all of our vendor partners to do the same time and we made $1

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million donation to the Red Cross which is really one of the best boots on the ground organizations in Ukraine, helping all the people there.

We also have a very well respected, responsible sourcing program, that's one of the things that customers play back to us in survey results. We've been an industry leader, an responsible and ethical sourcing now for more than a decade and so customers can be very confident, completely confident that every piece of jewelry and every stone and every metal that's in them was responsibly and ethically sourced.

This is our Signet promise, we make it overtly to our customers and we can stand behind it because not only are we founders of the Responsible Jewellery Council, part the World Diamond organization, but we also developed our own bespoke Signet Responsible Sourcing Protocol.

So, this helps us dig back into the supply chain, not only to know that our vendors are operating ethically, but that everyone on the supply chain from mine-to-market is operating on the standards that we require. So, this is an area that we're confident about. Russian diamonds that we have suspended were really a very small impact for us, but we're taking a bigger stand on this issue because we think that it's so important.

And then the last question you asked is about the circular economy and our new customer acquisition. Are we seeing that divide across channels? The most interesting thing I think is what I talked about in my remarks, which is that now, and it wasn't unlike this pre-pandemic, but now 65% of all of our customers are interacting with us in multiple channels.

And when we look at our most valuable customers', people who have spent $500 or more, it's 90%. Jewelry has always been thought of as a category that was mostly a brick-and-mortar category and it's true that still most sales for us are consummated in store. About 20% of our sales are e-commerce and about 80% are in store.

But what matters and what you were pointing out is how customers are shopping, how are we acquiring them and how are they moving through our purchase funnel? And that's increasingly digital. It's really one of the competitive advantages that I think is least understood about Signet, but probably most valuable because the level of spend, the level of capability that we have put into this over the last several years, is just something that is unmatched in a fragmented category. So, I believe that's something we will continue to lean into as one of our key investment areas as we keep widening the gap.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Thank you.

Operator: Thank you. The next question comes from Tim Vierengel with Northcoast Research. Please go ahead.

Tim Vierengel
Analyst, Northcoast Research Partners LLC

Q

Good morning, Gina and Joan and Vinnie, thank you taking my questions. I think we all appreciate the extra data on your market share gains and expectations for the industry for fiscal 2023. I was wondering if you can may be break out how you think fashion will perform relative to the bridal assuming the industry hits that slightly down to flat comp versus the previous year. And I guess for modeling purposes, do you expect the sales growth to be pretty consistent throughout the year? Thanks.

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

A

Well, thanks for the question, Tim and its interesting, as we think about the growth in the jewelry industry, the heightened growth last year and our view that we expect it to be down low single to roughly flat given the inflationary pressures, we think that bridal will continue, Gina mentioned the increased number of weddings and people getting engaged, it's important for us to focus on bridal and continue to do so as it represents nearly half of our business.

The other point on fashion is, we've seen over the last year, the continued growth in fashion, Gina talked about James Allen and the growth that we saw online there with fashion. So, we see it as a continued growth opportunity for our business and really a way for us to continue to bring value to our customer as well as address the self-gifting customer, if you will, throughout the year.

So, really feel that that's an important aspect of our portfolio offering and it really allows us as well to drive a good, better, best assortment architecture. And that will also help us to mitigate some of the pressure that we're seeing related to discretionary spend and inflation.

With respect to how the year plays out by quarter, what we did give is the first quarter and Gina mentioned we had a strong Valentine's Day and we're pleased with that performance and the continued strength of the business that's reflected in our guidance for the quarter.

Tim Vierengel
Analyst, Northcoast Research Partners LLC

Q

Okay, thank you. You brought up inflation twice again. I was just wondering if you guys, maybe Gina could clarify why inflationary pressure can be an advantage for you guys over to the market. Is it a simply, it improves your relative value perception or is your buying power better, so your margins are less impacted. Can you just walk us to that a little bit more? Thanks.

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

A

Yeah, Tim. I think you just hit the nail on the head. We have over time developed two, actually really three competitive advantages in our supply chain that all allow us to be more inflation resistant than we believe other jewelry industry competitors are. One is our strategic vendor relationships; we get our orders in very early which gives them flexibility to be in the market when prices are good and out of the market when they are not.

And our scale is such that we can partner with them to make sure that we get the quality, quantity and pricing value equation that make sense to our customers. Secondly, vertical integration, I mentioned in my script that we've increased this tenfold in the last year.

This is a strategy that helps us not only to serve ourselves in times of pricing pressure or pressure on availability, but it also gives us insight into cost structure at every step of the value chain and so it makes us better able to work with partners to get the value equation that we think we deserve.

And then the third builds on what Joan was saying in her script about doing more with less. We reduced our inventory on our core business last year by $190 million, while making product even more available to our customers. That's because our jewelry consultants now have access to every product across the Signet network at a touch on their iPads.

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And so we can serve customers virtually, we can serve them in store and find the best product for them and that's important in a category like jewelry. A lot of our product is bespoke. Diamonds are unique. That's part of what makes them special.

So, it's not like white t-shirts in apparel that you need certain number of size medium. We really need to identify that right bespoke piece and our network allows us to do that in a way that is with agility, that's a significant competitive advantage.

So, those are really the reasons why I think that we have an advantage and then I would also say from a category perspective, the jewelry category has tended to be more inflation-proof than other areas of retail and our research indicates that's because consumers see the inherent value in jewelry, gold, other precious metals, diamonds appreciate over time as opposed to other things that they could spend on that depreciates, so those would be the key reasons.

Operator: Thank you, sir. [Operator Instructions] The next question comes from Lorraine Hutchinson with Bank of America. Please go ahead.

Lorraine Hutchinson
Analyst, BofA Securities, Inc.

Q

Thanks, good morning. After a really strong year for the category, I think one of the big questions is the margin sustainability, Joan could you just try to bridge us from pre-pandemic margin to the guided levels and may be focusing on the changes you've made in credit, how much of the merchandise margin gains are sustainable, just to get us a little bit more comfortable with the sustainability of that level.

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

A

Yeah, thanks, Lorraine. As we reported on a non-GAAP basis, our operating margin was 11.6%. So, when we look at that margin, the first thing I would point you to, Lorraine, is the optimization of our fleet and as I mentioned in my remarks, it is 500 basis points of fixed cost leverage that we brought to this year in terms of just lowering the occupancy cost by cutting the number of stores in our fleet by over 20% over the last several years.

And what that did for us is really provided the opportunity for us to reinvest and continue to drive top line because as you can see we've been demonstrating top line growth while reducing our number of stores and investing in digital.

The other point that I'd make is that, I mentioned 300 basis points related to the labor optimization model and the way we do that, it's a structural change, it's planning day by day, hour by hour with our store teams and it actually is a great opportunity for the team member in terms of getting coverage in peak times and during important times of the selling day.

And it provides us with the efficiency in the labor model, so improved labor productivity, so that's what driving that 300 basis points is a structural change in how we do business.

And then I would say gross margin expansion as well, the work that the team has done related to inventory has been nothing short of amazing. Working with the sourcing teams and the merchants and to Gina's point,

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streamlining the inventory making the inventory available to all of our [ph] JC's (00:57:46) through a touch of the iPad has helped us really sell through our inventory, turn it faster and provide newness which provides growth.

But also, I reported that our clearance was down 10 points. It's all related to these structural changes within our business. And so, the team have built this muscle, it's part of our culture and we take it very seriously to continue to drive operating margin expansion and sustain the margins that we've been able to demonstrate over the last couple of years.

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

A

The one build that I'd add is, what I talked about in my scrip, one of our strategies which is accelerating services. I mentioned that we have a $1 billion goal for services that we reached $620 million last year and it was up 65%, that's higher obviously than the 50% revenue that we were up overall in part because customers are returning to stores but also in part because we're figuring out how to get attachment of things like extended service agreements online.

Services are high margin for us and so we as really focus on growing that as part of our mix and leveraging the relationship building that we get, I also mentioned that the second and third purchases that customers make are often more valuable to us than the first one, so the benefit not only if the service itself to our margin, but also that ongoing relationship with customers adding to our mix is another reason that we're confident that our margin expansion is sustainable.

Operator: The next question comes from Ike Boruchow with Wells Fargo. Please go ahead.

Q

Hey, good morning guys, this is [ph] Will (00:59:34) on for Ike. Just a question around Russia and you guys have somewhat touched on this, but given Russia is a major supplier of diamonds, I think read somewhere, it supplies like 30% of world's mined diamonds, are you seeing upward pressure on costs related to the ban on imports from Russia and then related to that, do you expect meaningful price increases for yourself and across others in the jewelry category? Thanks.

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

A

So, [ph] Will (01:00:05) given the strong demand for jewelry over the past several years, we were already seeing some pressure on diamond prices with the recent pricing on the rise. We've been working with our strategic vendors though, as I mentioned, and leveraging our significant vertical integration and sourcing to mitigate these increases. So, I feel very confident that consumers will continue to find strong value at Signet.

We believe that the pricing pressure will impact Signet less than other industry players and the retail segment as a whole. The other thing is that any price increases that will happen are within the balance of ones we've taken historically and have a good data on. So, I feel good about, and when think about the alternatives that consumers are seeing, things like travel the double-digit increases on trips, things like that that people are willing to pay for are bigger price increases than I expect that we'll see at Signet.

Operator: The next question comes from Paul Lejuez with Citi Research. Please go ahead.

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Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Hey guys, thanks. Curious as we think about the industry growth overall, how much are you assuming in terms of the units versus price and I'm curious about how you're thinking about your bridal business specifically in terms of ticket and what plans are there from an AUR perspective and also just higher level, long-term where do you feel you have a bigger opportunity to take shares at bridal or fashion, one more so than the other. Thanks.

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

A

Thanks for the questions, Paul. So, when we think about our businesses for the coming year, we haven't really talked about units versus AUR or AOV guidance, but what we can tell you is that good, better, best is part of our strategy and we believe that we can bring value at each of those price buckets, if you will, and we can deliver that through the supply chain vertical integration and the strong vendor relationships that we have in bringing product to market that our customers will love, but will also be able to afford at appropriate margins that are included within the guidance that we gave today.

So, that's how we're structuring our assortment architecture and bridal continues to be, as I mentioned earlier, a significant part of our business. We're excited about the number of weddings that we expect to happen this year and the potential engagements. So, we'll continue to focus on that and then balance that with fashion as an important element of our portfolio strategy across all of our banners.

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

A

And Paul, to your question about market share and where do we see that coming, we are a very consumer driven company, so I would go back to three big trends that we expect in merchandise this year, number one is weddings, number two is the emerging workplace and number three is lab-created diamonds.

On weddings, I mentioned highest weddings in 40 years. People buy wedding bands about two months on average before the wedding. So, even if they are already engaged, we have two opportunities, two wedding band, opportunities to serve them in addition to great earrings and necklaces and things like that.

We are more and more expanding our care for our customers beyond just the couple getting married, but to mothers of the bride, bridesmaids, etcetera through both merchandise sales as well as the new circular economy, rental idea that we're testing. So, I think that is definitely something that we'll lean into and we have an opportunity to grow share in the bridal market.

On the workplace, as hybrid is becoming the norm, people are really looking to step up with confidence both in person and on Zoom, right, on the Teams meeting. So, we think that we'll continue to be able to grow in self-purchase. It is an area that we've historically been under developed in and it has become a faster growing part of our business more recently. So definitely opportunities for share gain there.

And then lab-created diamonds, this is still under 10% of diamond purchases, but growing rapidly. And we've developed proprietary sourcing, so that we believe we have the best offering for customers both in availability and quality as well as value, so we'll really lean into that.

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But maybe the most important umbrella point of all of those is the ones that we were making around lifetime value. Bridal tends to be a point of market entry for us, as does piercing in our Banter, and then we really want to serve our customers for a lifetime. And the better we do that seamlessly across channels, the faster we grow.

Operator: The next question comes from Mauricio Serna with UBS. Please go ahead.

Mauricio Serna
Analyst, UBS Securities LLC

Q

Thanks for taking my questions and congratulations on the very good results. A couple of things, I wanted to ask about the capital allocation, because you've done a lot of repurchases at the end of last fiscal year, so I want to understand how that plays out into the EPS guidance you provided this morning?

And also, maybe if you could just follow-up a little bit more on the operating margins. The guidance that you provided seems like at least you will be able to maintain operating margins in line with last year. So just trying to understand what are like the puts and takes there in terms of cost, may be like investments in marketing and labor costs, all of the major puts and takes in the operating margin guidance? Thank you.

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

A

Thanks Mauricio. As you mentioned we completed our $250 million ASR after the fiscal year end, and we have $413 million remaining under the current authorization? And what we have noted in our release is that our EPS guidance does not include further repurchases(1), but it does include the conclusion of the ASR program.

And then with respect to the operating margin guidance, as you noted for the full year, our guidance on the high side was 11.8% versus last year of 11.6%. We really are continuing to drive, Mauricio, the cost savings program that we built the muscle, it's part of our culture. And the teams know that we need to do that to expand margin as well as invest in the capabilities that we believe are important to our long-term future. We will continue to invest in advertising.

As Gina detailed through her prepared remarks, we have a very balanced approach to marketing. TV as a very important part of our approach, but also our digital investments are enabling us to have a broader awareness with our customers in a more targeted way through the data analytics, and the customer data platform that Gina mentioned. So, advertising is a part of our investment, but carefully managed on our return on investment basis.

And then, I would just say, we're continuing with our labor modeling that I detailed. We are continuing through our fleet optimization that we've been able to continue to leverage the fixed costs through that program. So, those are the big puts and takes I think, and I guess, we have included inflationary pressure in our thinking, and we'll continue with the opportunities in vertical integration [indiscernible] (01:08:41) gross margin expansion as well. So, it's a continuation of the structural operating model that we are establishing and we'll leverage go forward.

(1) Please refer to item 9B of the 10-K filed 3/17/22 for clarification that annual guidance includes the completion of the accelerated share repurchase agreement and an estimated level of open market share repurchases during the first quarter.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

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

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Well thank you again everyone for your engagement today. When we spoke to you this time last year, we reinforced that Signet has become a say-do company. Our team holds ourselves accountable for saying clearly what we will do and then we do it.

When we began our journey four years ago, we said we would accelerate growth, deliver cost savings to fund investments, optimize our fleet, reduce debt and return capital to shareholders. We've done all those things by leveraging our strengths and accelerating our investments.

As a result, we are consistently outpacing the market and gaining share while also delivering double-digit operating margins. We are no longer the company that many investors may remember from several years ago. We are demonstrating that Signet can reliably gain market share over time. We are a company you can count on to lead innovation, grow the market and generate the value you deserve. Thank you.

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

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