

09-Jun-2022

Signet Jewelers Ltd. (SIG)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Signet Jewelers First Quarter Fiscal 2023 Earnings Call. My name is Irene and I will be coordinating this event. I would like to turn the conference over to our host Vinnie Sinisi, Senior Vice President of Investor Relations. Vinnie, please go ahead.

Vincent J. Sinisi

Senior Vice President-Investor Relations, Signet Jewelers Ltd.

Good morning, and welcome to our first 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 the risk factors, cautionary language and other disclosure in our annual report on Form 10-K, quarterly reports on form 10-Q, and current reports on form 8-K. Except as required by law, we undertake no obligation to revise or publicly update forward-looking statements in light of new information or future events.

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

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

Virginia C. Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd.

Thank you, Vinnie, and thanks to all of you on the call with us today. Before I discuss our first quarter results, I'd like to take a moment to thank our Signet team. Our team continues to strengthen their capabilities in every part of our business and to execute with brilliance quarter after quarter. They are Signet's greatest competitive advantage and a never-ending source of inspiration for me.

There are three key messages that we want to focus on today. First, using our scale, we have structurally improved our margin profile and are confident that we can deliver annual double-digit operating margin year after year. Second, we're widening competitive advantages that drive share growth based on critical capabilities we've been developing over the past few years. These capabilities give us the agility to respond to the kinds of macroeconomic challenges that we saw during the first quarter. And third, we remain sharply focused on shareholder returns while also continuing to invest in our business.

Our Signet team delivered \$1.8 billion in revenue this quarter, an increase of nearly 9% compared to last year, including 2.6% of organic growth which excludes Diamonds Direct.

And despite the macro environment, we expanded our non-GAAP operating margin 60 basis points above last year, to 10.6% this quarter. We've improved our margin profile with a rigorous cost discipline mindset that's enabled us to significantly rationalize our store fleet and leverage the investments we've made in Connected Commerce and data analytics, all underscored by the strength of our balance sheet.

Our growth is broad-based. We're continuing to grow across all four of our Where to Play strategies. In our big businesses, we delivered more than \$80 million more in total Bridal sales than in Q1 last year. Weddings are revenue drivers for Signet and an opportunity to establish lifetime relationships, not only with brides and grooms but entire wedding parties. They are a critical point of entry which we're capitalizing on.

In accessible luxury and value, Jared grew nearly 19% at price points above \$3,000. Diamonds Direct over-delivered our acquisition expectations with \$106 million in revenue this quarter.

In services, we delivered more than 15% growth in revenue compared to last year, resulting in operating margin expansion. We're expanding our service offerings to deepen customer relationships quarter-over-quarter.

And in digital, 52% of online orders are now leveraging our flexible fulfillment capabilities. For orders that we fulfilled through ship-from-store or buy online, pickup in store, the average order value grew more than 24% this quarter. Our ability to serve customers whenever, wherever and however they want to shop with us is an increasingly important and differentiating strength.

We can see the advantages of our diversified banner portfolio in these results. For example, we're capturing consumer demand in bridal and accessible luxury, which offset softness in the value tier where consumers are more impacted by inflation and economic pressures. We leveraged our portfolio similarly last year, where in the value segment, Banter captured stimulus spending by leaning into self-purchase trends among value customers and outpaced the growth of our other banners as a result.

We believe no other company in the jewelry industry has this same ability to adjust dynamically to market conditions across its banner portfolio and continued to grow even in the face of challenges to a particular part of the business.

The point I want to focus on now for the balance of my comments is not only what we're delivering, but how, because how we're delivering these results especially in a challenging macro environment, is key to our confidence that we can sustain our performance.

So let's take a closer look at our How to Win capabilities, starting with Consumer Inspired. We use data analytics to capture consumer-inspired insights that drive virtually every aspect of our business. I'd like to share four quick examples of how we're doing this.

First, we're navigating the impact of inflation and economic pressure on value shoppers. February traffic was up compared to last year but, as we anticipated, we saw a deceleration in traffic in late March as we began to lap the impacts of last year's stimulus alongside heightened inflation and the war in Ukraine. These factors led to softer demand at lower price points across our banners.

In response, we planned ahead. We've leveraged our scale, vertical integration capabilities and strategic vendor relationships to value engineer pieces that made jewelry more affordable for all our customers. We've also selectively increased prices this quarter, but well below the inflation we've seen overall in the industry, proving that our scale and competitive advantages enable us to provide customers with value that is hard to match, while at the same time protecting our margins.

Second, we've tiered up our accessible luxury assortment to capture demand from customers who want higher quality metals and larger carats, and who continue to drive growth at our highest price points. We saw this opportunity coming into Valentine's Day and beyond. We tailored our assortments accordingly and even with some softening in the value tier and traffic, we held Signet's conversion rate roughly flat to last year. During the quarter, Signet's average transaction value in North America was up more than 19% to last year and up nearly 30% to fiscal 2020 before the pandemic.

Third, we've curated a breadth of external credit and payment options that go beyond traditional financing. We think about financial services as an opportunity to provide our customers with a range of consumer-inspired options, which we know our customer base values especially in uncertain economic environments. Our fully outsourced financial services model is designed for this kind of service and agility.

A fourth example of being consumer-inspired is our commitment to lead the jewelry industry in corporate citizenship and sustainability, which we know is important to our customers and to our team members as well. We just released our fiscal 2022 Citizenship and Sustainability Report which details our progress. Our entire team has embraced our commitment to Citizenship and Sustainability, 90% of our team says they take great pride in what they do every day.

It's this passion and pride that unlocks discretionary effort inside our company and our goals attract consumers who want to buy from a company like ours, one that is willing to take a stand and be the change we want to see in our world. The key point here is that we're inspired by customer's needs and expectations. And when we respond in ways that deeply matter to them, we grow our business and we grow share.

Connected Commerce is the second How to Win capability I want to emphasize. When we talk about Connected Commerce, we're referring to jewelry shoppers crossing channels seamlessly. We've been working to make this a desired shopping habit in jewelry and already two-thirds of our customers cross channels in their shopping journey. We continue to invest and innovate to make that journey delightful and seamless. We've been focusing on our appointments capability for example. The volume of appointments and related revenue has more than doubled year-over-year.

Further, our jewelry consultants are assisting customers with scheduling their six-month warranty appointments, leading to an increased flow of service engagements. About 21% of our appointments are scheduled through clienteling, which is important because AOV is almost double when scheduled through clienteling and conversion is 33% higher.

Loyalty is another aspect of our Connected Commerce presence. We can offer loyalty incentives at scale and across channels in ways that no other jewelry retailer can. This is what we're doing with our new Vault Rewards program. After piloting last fall, it's now available at every Jared location, is in pilot at Kay and is visibly promoted both online and in-store. Vault members spend over 60% more on a transaction than our average customer, return for repeat purchases sooner, and spend nearly 15% more on their first repeat purchase.

Extended service agreements are also part of our Connected Commerce presence. They drive repeat visits, create opportunities for repeat purchases and drive lifetime value, which is also true of our repair services.

We grew repair revenues 20% this quarter compared to last year. Our turnaround time is now steadily below a week compared to an industry average of about two to three weeks. We just recently rolled out our virtual repair tracker, which allows customers to follow each step of a repair process online, by text or e-mail. Our ability to provide customers with quick turnaround and process transparency is driving satisfaction scores as well as our revenues.

Our Q1 NPS score for repair improved four points to last year, with our strongest improvement in time to complete and strongest overall rating in quality. The key point in all this is that Connected Commerce is the future of jewelry retail and a significant driver of share growth. With every investment we make in this space, we continue to widen the digital moat around our business.

Our final How to Win capability is our culture of agility and innovation. Anticipating and responding to change is a competitive advantage at Signet and is continuing to grow stronger. Our agility is underscored by our financial health. We have the data and the liquidity to make precise spending adjustments throughout the year in response to customer demand, while staying sharply focused on margin. This applies to spending pools such as store labor and advertising, which we manage dynamically by leveraging our scale and speed. We can make projections and place orders far enough out that our strategic vendors can consistently meet our needs, so we can meet customer demand. This in turn helps us manage our in-stock and ensures that we have the right assortments at the right level of inventory, at the right prices to provide superior customer value throughout the year.

Financial agility is also the driver of our share repurchase program, supported by the confidence we have in our operating model. We don't believe the market is reflecting the sustainability of our performance, so we're investing in Signet's shares. We're confident these investments will drive strong returns for shareholders. We repurchased more than 4 million shares in Q1, decreasing our outstanding shares by roughly 7%. In ways large and small, our team is moving with accelerating agility and a passion for innovation in every part of our business.

What I hope you can say, is that what's working at Signet has every reason to keep working. We remain focused on what we can control such as our merchandise assortment, tailored marketing and cost disciplines, and we're committed to respond with agility to forces beyond our control, such as prolonged periods of heightened inflation, the war in Ukraine and changes in fundamental consumer spending patterns.

Our How to Win capabilities are advancing. The macro environment we're delivering in right now is a pressure test that demonstrates the value and reliability of these strengths and advantages. We're widening the moat

around our business, a moat that differentiates and positions Signet as an emerging and sustainable growth leader and best-in-class jeweler.

I'll close with one final point. Earlier today, we announced that Signet has agreed to a \$175 million financial settlement. This concludes a nearly 15-year long legal matter alleging unfair pay and promotion practices against one of our divisions, Sterling Jewelers. This is another example of how we transformed our company over the past four-and-a-half years. We have been taking a systematic approach to eliminating all overhangs on our company.

We have substantially reduced our debt to achieve a healthy trailing 12-month leverage ratio of less than 2 times. We fully outsourced our financial service offerings. We've provided much clearer financial targets, including our past \$9 billion in sales and our commitment to an annual double-digit operating margin.

We completed the buyout of substantially all of our UK pension plan obligations. We implemented a \$15 minimum wage to retain talent and to limit uncertainty around wage inflation, while also improving employee benefits, leadership development and training. And now, we settled this nearly 15-year-old legal matter, so we can continue our focus on an inclusive and highly engaged culture that will allow our company to truly shine. We're able to do all this in line with our purpose of Inspiring Love, because of the balance sheet strength we've created through our transformation.

I'm proud of the changes we've made to Signet's culture over the past several years, changes that ensure pay equity, diverse hiring and promotion practices, and abundant personal growth opportunities. Interventions like these have earned us recognition as a Great Place to Work-Certified company for the second year in a row. Recognition by Bloomberg's Gender Equality Index for four years in a row and most recently, inclusion on the Human Rights Campaign's [Human Rights Campaign Foundation] Corporate Equality Index.

DE&I, diversity, equity and inclusion, is reflected in our corporate sustainability goals as well and we believe it to be a key business driver as well as a differentiator. Our team member satisfaction ratings are the strongest in Signet history and are improving year-over-year.

I believe these changes among many others, are important drivers of the growth that we're delivering.

I'm very proud of the company we are today. On that note, I'll turn the call over to Joan.

Joan Holstein Hilson

Chief Financial & Strategy Officer, Signet Jewelers Ltd.

Thanks, Gina and good morning, everyone. I'd like to reiterate today's key messages. First, we are operating with a sustainable cost structure that we believe can deliver annual double-digit operating margin year-after-year. Second, we'll continue investing and innovating to deepen our capabilities and widen our competitive advantages to drive share growth. And third, we continue to prioritize shareholder returns alongside continued investments.

Now turning to the quarter's results. Our team performed once again, delivering total sales of \$1.8 billion, growth of \$150 million from last year. This included growth in our comp base, which was driven by UK's performance as we anniversary lockdown, as well as more than \$100 million in revenue from Diamonds Direct.

Today, we're a transformed company with a sustainable operating structure and we continue to meet our customers' growing demand for high quality and innovative product assortments at higher price point. Nearly all

banners delivered their strongest growth at price points above \$3,000 in both Bridal and Fashion. Our data driven consumer insights helped us to anticipate and plan for this trend and we delivered for our customers this quarter.

In Bridal, growth included wedding and anniversary bands, reflecting this year's 40-year high watermark for wedding. Our scale and tailored bridal assortments enabled this growth and was effective alongside the expected year-over-year moderation and engagement ring sales as engagements are expected to return to pre-pandemic levels.

In Fashion, we continued to see growth in gold with particular strength at higher price points. In services, we also delivered growth with higher attachment rates of service plans, coupled with the growth at the higher price point. We also saw growth in our care and repair services as more customers returned to public shopping spaces. Altogether, our uniquely diversified portfolio remains a competitive advantage in a variety of macro environments. Simply stated, we range from a value offering in Banter to achievable luxury in Jared, Diamonds Direct and James Allen.

Non-GAAP gross margin for the quarter was \$728 million, or 39.6% of sales, down 60 basis point to last year. This reflects similar merchandise margin to last year for our organic banners and the strength of Diamonds Direct's bridal business which carries a lower relative margin. It also reflects the absence of COVID-related tax abatements within our UK operation.

Non-GAAP, SG&A for the quarter was \$533 million, or 29% of sales, a 130 basis point improvement to last year, reflecting the impact of our enhanced credit agreements and continued cost discipline, which accommodated investment initiatives, notably, the investment in talent that we made in the second half of last year.

First quarter non-GAAP operating income of \$194.6 million is up more than \$25 million to last year. Importantly, we expanded our non-GAAP operating margin while lapping a hyper-growth year, delivering a 10.6% margin, up 60 basis points. These results were above expectations and demonstrate our teams' diligent cost discipline and agile execution. We note that GAAP operating income was impacted by charges that are not reflective of Signet's ongoing operations.

Let's turn now to the balance sheet. Our strong balance sheet creates resiliency and enables us to anticipate, innovate and operate with high levels of agility. We ended the quarter with \$2.2 billion in inventory, up \$200 million to last year, driven substantially by the addition of Diamonds Direct to our base. This is reflected in our cash used for operating activities this quarter of \$136 million compared to an inflow of \$161 million in the prior year.

Our inventory efficiency remains healthy with turns above 1.5 times on a rolling 12-month basis and clearance from sell-down penetration is 9 points lower to this time last year. This gives us room for new products and gives us the flexibility for further innovation in our product assortment.

We ended the quarter with \$928 million in cash. This cash level provides us the flexibility to defend against macro uncertainty and continue deploying capital consistent with our stated priorities. First, investing in our business including further banner differentiation, enhancements to digital capabilities, and flexibility to act on opportunistic potential M&A. Second, to maintain a leverage ratio within our target of less than 3 times. And third, to return capital to shareholders through dividends and share repurchases. To that end, we completed \$380 million of share repurchases this quarter, including \$50 million related to the completion of our ASR, and we have expanded our share repurchase authorization by \$500 million to a total remaining authorization of approximately \$645 million.

In summary, our balance sheet strength is a direct result of our investment and capabilities, and the execution of our high functioning team. We have significant liquidity and we have greater financial agility. Compared to pre-pandemic fiscal 2020, we delivered more than 6 times the Q1 operating margin and have increased our operating profit eightfold. This improvement to our performance is sustainable and built on the foundation of our investments to differentiate our banners, implement connected commerce shopping capabilities, and elevate our use of data analytics across our business. To that end, we continue to expect capital investments of up to \$250 million this year.

With that, let me turn to our fiscal 2023 financial guidance. We are reaffirming our expectations for full year total revenues in the range of \$8.03 billion to \$8.25 billion and non-GAAP operating income in the range of \$921 million to \$974 million.

Within that, we've reflected our view of a continued pressure on consumer discretionary spend, resulting from inflation as well as a more pronounced return of consumer spend around experiences and travel. Additionally, we factored in the continued impact of Diamonds Direct into our merchandise mix, as well as investments in banner differentiation and technology like cloud computing. Offsets to these includes Diamonds Direct's efficient operating structure, as well as further cost savings relating to our enhanced credit agreements, indirect procurement, and labor planning.

All said, the operating margin implied is 11.5% to 11.8%, reflecting year-over-year expansion at the high end of our guidance and slight degradation at the low end.

We expect fiscal 2023 non-GAAP earnings per share in the range of \$12.74 to \$13.47 per share.

Turning to the second quarter, we expect revenue in the range of \$1.79 billion to \$1.82 billion with the non-GAAP operating income in the range of \$188 million to \$204 million, reflecting our ability to continue driving growth while defending against the shift in consumer spending that we expect to play out across the year.

To be very clear, our fiscal 2023 outlook factors in a level of pressure on the consumer similar to what we're currently experiencing. Our outlook does not anticipate a material worsening of macroeconomic factors, which could impact consumer spending patterns and have associated impact on our business performance. That said we are committed to controlling what we can, such as our merchandise assortment, tailored marketing, and cost disciplines.

Before we turn to your questions, I would like to reinforce our core message. Our continuing performance is demonstrating that our strategies are working and we have a proven and sustainable business model. We're competing where we're best positioned to grow profitably and we're leveraging our How to Win capabilities to create and widen competitive advantages that drive long-term growth, market share gains, and value for our shareholders.

Again, compared to just three years ago, we delivered more than 6 times the Q1 operating margin and have increased our operating profit eightfold. And at the heart of this organization are the extraordinary team members who remain committed to our purpose and remain resilient in the face of macro challenges. To every one of our team members, I thank you for your partnership, and tenacity in bringing our strategies to life.

On that note, we'll be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] . Our first question comes from Ike Boruchow from Wells Fargo. Ike, your line is open, you may ask your question.

Ike Boruchow

Analyst, Wells Fargo Securities LLC

Q

Hey, thank you. Congrats everyone. Gina, I guess I wanted to start at a very high level. I mean, I think you gave some really interesting color to begin the call, but any more insight on how you guys are essentially delivering top line in this environment? I think there is a lot of concern around the revenue base you guys have in the overall jewelry category that was a COVID beneficiary, and how much [ph] give back could there be (31:58), could you kind of just talk about the confidence you have in that sustainability, both at the margin and of just the overall revenue base? I think that'll be very helpful.

Virginia C. Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd.

A

Sure, Ike. Thanks very much for that question. I'm happy to dimension our sales performance for the quarter and what I hope that you'll take away is that Signet is not a COVID story. We have successfully executed on a multi-year turnaround for this company and we believe this quarter is evidence of three key competitive advantages that we continue to invest in and are widening. The first and important one is our uniquely differentiated portfolio of banners. We are able to meet the demand for a wide spectrum of customer shopping journeys. Last year, when stimulus was in the market, we leaned into self-purchase trends and gifting, and we're able to achieve strong results, well, with value customers in that environment.

This year we're leaning into wedding day merchandise and higher price point assortments. And so we're able to dynamically change our focus within our portfolio, focusing on at this point in time, the customers who were in the market, and I think that's something that can continue for us.

Secondly, I don't think there is any question now that Connected Commerce is the future of jewelry. This is a category that was slow to move to virtual sales, but we've been leading that effort and we are still in the early days of what I call, frictionless shopping. But we have the physical footprint, the digital capabilities and the supply chain efficiency to provide journeys that cross channels, and we're seeing that play out. Now two-thirds of Signet customers are interacting with us both virtually and in a store before they purchase.

And then the third thing, as Joan really emphasized in her remarks, is that we've worked diligently to create a flexible and sustainable cost structure. We're leveraging our scale, our digital capabilities, the strategic vendor relationships that we have, to invest in our business and to widen our competitive advantages, and really meet customers at all points on their shopping journey in unique and differentiated, and meaningful ways.

So these are sustainable competitive advantages. It's a sustainable operating margin and I think that's why we are able to deliver the results that we did in a period like retail saw in the first quarter.

Ike Boruchow

Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

Operator: Our next question comes from Paul Lejuez from Citi. Paul, your line is open.

Paul Lejuez

Analyst, Citigroup Global Markets, Inc.

Q

Hey, thanks, guys. You guys said a couple of times that you intended to keep the double-digit EBIT margins over time. And I guess I just wanted to hear kind of again, just what gives you the confidence to be able to do that? And I guess, when I ask that question, I'm also kind of looking at your guidance and talking about how you're not expecting any sort of a deterioration in the consumer environments? And maybe, if you can add to that question just in the context of what if you did see some weaker performance just at a high level, are there consumer broad-based weakening or within jewelry category, just what gives you the confidence that you can sustain that double-digit EBIT margin over time?

Joan Holstein Hilson

Chief Financial & Strategy Officer, Signet Jewelers Ltd.

A

Thanks for that question, Paul. Our confidence in an annual double-digit operating margin is based on structural changes that we've made in our business, as well as the agility that we've created within our business. Just to remind you the largest structural changes that we made are the optimization of our physical footprint. We've reduced our store fleet roughly 20% since the beginning of our transformation, and this has reduced our fixed costs such as occupancy and again it allows us to leverage those costs as we deliver top line growth.

Further, another structural change was the enhancement of our credit agreements and it's driving notable improvement within our SG&A, as well as we've removed consumer credit risk from our balance sheet. And we've we have also created agility through variable spend levers, like marketing spend in the midst of marketing channels that are enabled by our data analytics program. And as well, our labor hours and our ability to condense store operating hours, more so in off-mall formats, has really enabled a good change for us and in the ability to leverage our cost base.

And then, we've developed muscles, important muscles, in response to COVID. We use zero-based budgeting across our business, every expense is justified and is supported. There is no use it or lose it mindset, it's rather take only what you need, and we've empowered our teams to hunt cost savings throughout our organization and it's given us the capability to react quickly, to your question, to customer demand deterioration and deliver on our own expectations.

So, our cost structure takes advantage of our scale across channel shopping and data-driven insights to deliver that double-digit operating margin, nearly a flat to positive top line growth. So when you think about the guidance that we're giving, we're showing – we're reflecting what we see occurring in our business today in terms of top line performance. And we're leveraging our differentiated banner portfolio which runs from a value offer, up to achievable luxury as I mentioned.

So with that flexibility within our consumer base, we feel that we can bring assortments, target our marketing and continue this agility to deliver an operating margin rate.

Operator: [Operator Instructions] Our next question comes from Lorraine Hutchinson from Bank of America. Lorraine, your line is open.

Lorraine Hutchinson

Analyst, BofA Securities, Inc.



Thanks, good morning. I just wanted to focus on sales. The guidance implies some acceleration in sales growth versus pre-pandemic levels for the rest of the year, and I wanted to hear your view on what areas of the business might improve for you to hit that sales guidance?

Virginia C. Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd.



Hi, Lorraine. There are really a couple of key areas and these have been called out as part of our Where to Play strategies. One is we're leaning into services. The good news about that is, it also comes with a higher margin and we saw some great results in the quarter. Repair was up substantially as customers returned to brick-and-mortar. We've been driving repair through now using clienteling and appointment booking to reach out to customers to come in for their six-month warranty checks. We're seeing good attachment rates of our extended service agreements, both in-store and online.

So, services has been, I think, a growing strength for us. And I was particularly pleased to see the improvements in our NPS. We're now down to about a week for repair versus an industry average of typically around three weeks. So, it's a competitive advantage. And similar to what it's like when you check your bag and get on an airplane, you can see where it is at every stage in the process, that's what we're now doing with repairs. So customers can feel a level of comfort and trust as we're repairing their cherished piece. Needle piercing is another great expanded service for us alongside loyalty. So, we've got some traditional services that we're growing and some new non-comp ones that we've brought in this year.

The second area I'd highlight is leaning into accessible luxury. We've really substantially tiered up portions of our portfolio, particularly in Jared, but we see it also in Kay and Zales, and so we're able to serve a wider range of customers and that's working really well for us. Across all of our banners, price points above \$3,000, we're growing strongly and so that's something we'll continue to do. At the same time, we're working with our vendors to leverage existing diamond inventory that they have, to value engineer products, just to make sure that our products are very affordable for customers at a time when their discretionary spend is at a premium.

So, I think we've got a number of strategies, but particularly services and higher price points have been working for us.

Lorraine Hutchinson

Analyst, BofA Securities, Inc.



Thanks.

Operator: The next question comes from Mauricio Serna from UBS. Mauricio, your line is open.

Mauricio Serna

Analyst, UBS Securities LLC



Great. Good morning, and thanks for taking my question. I just wanted to ask about trends in the North America business. Maybe if you could provide some commentary on what you've seen throughout the quarter, I mean, you talked about traffic, but maybe what happened in March and April and what have you seen so far in May. And I guess also just to that point, like, what does that the Q2 guidance – sales guidance implies for the North America business? And just a quick one on Diamonds Direct, should we expect the similar impact in gross margin, I guess

second and third quarter and maybe a little bit in fourth quarter, like what kind of impact should we see in the gross margin because of that?

Virginia C. Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd.

A

So, I'll take your first question Mauricio, we're seeing some puts and calls basically on what's going on in the environment. As we talked about in our remarks, we saw very strong traffic, great Valentine's Day performance, we leaned into higher price points. We're leveraging our marketing research, our consumer data to understand in advance of key purchasing occasions what customers will be looking for, who will be in the market. And now, multiple holidays in a row, we've really been able to predict with a high level of accuracy what kind of assortment we ought to have in store and available online and that's been working. We did see a fall-off on traffic about the time we started to lap stimulus, so call that mid-to-late March and particularly at lower price points. So, I think that was as expected with stimulus.

The other thing that is as expected is customers returning to travel and entertainment as a discretionary spend item. The things that are probably worse than we expected is the level of inflation and the continuing war in Ukraine. But we've been able to use the agility that Joan talked about of how we manage, we've done structural cost savings that have fundamentally improved our operating margin and flexibility, but we also are using data to manage our variable cost better than we've been able to in the past, the two notable ones being store labor hours and advertising. So I think we've been able to be agile in that environment.

In terms of for the year, we continue to expect the jewelry category to be down versus last year, in the range of low- to mid-single digits. So, I think in that environment, what we're guiding to overall is some slight growth in our business. And we feel like it's these strategic capabilities and widening competitive advantages that are allowing us to deliver that.

Joan Holstein Hilson

Chief Financial & Strategy Officer, Signet Jewelers Ltd.

A

Just to respond to your Mother's Day question, Mauricio, we saw a continuation of things that Gina just mentioned in the first quarter, but what we continue to see is average transaction values were above last year while traffic levels were below. So, we're really driving conversion on the traffic that we do have and as we've said, higher price points are driving up the average transaction value. So our Q2 guidance implies the same deceleration of traffic, but again, driving the higher price points, leveraging the breadth of our assortment and our marketing capabilities to achieve the top line guidance that we've included in our Q2 guidance.

And then, when you think about gross margins, we're very pleased with the Diamonds Direct performance and they are largely bridal and substantially bridal and that carries a lower relative margin, gross margin. However, their operating structure does apply – provide us a margin expansion as well. So, it's a very good formula for us and we're very pleased with how the Diamonds Direct business is performing and we do expect that to – the margin impact to continue into the second quarter.

And then if you move through the year, we're providing guidance that has bottom line expansion at the higher end, but it's also giving us the ability to – flexibility with promotion, flexibility with taking action and the agility that Gina mentioned, to continue to drive leverage in our cost base as well. So, really feel – I'll just remind you that the back half of the year, the comps are not as high as they were in the front half of the year in the prior year. So there is some lapping that we're dealing with now as well.

Operator: Our next question comes from Dana Telsey from Telsey Advisory Group. Dana, your line is open.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Thank you. Good morning, everyone. As you think about the lower price point categories where there is softer demand, how do you dimensionalize the percent of your assortment from lower price point versus higher price point, is it different in North America versus overseas? And then when you just look at North America in that the average transaction value, which up nearly 30% to 2020, are you taking price increases, how much are they and how do you see the pricing environment go forward? Thank you.

Joan Holstein Hilson

Chief Financial & Strategy Officer, Signet Jewelers Ltd.

A

Yeah, thanks for the question, Dana. So, what we're doing is continuing to see and leverage our drive, our tailored assortments in the higher price point. So, we have the agility as I mentioned, our inventories are the healthiest they've been in 10 years and our clearance and sell-down inventory is down nine points. What that gives us is the flexibility to bring in newness and work with our vendor base with a very strong relationships that we have, to bring in the innovation that we need to continue to fuel the higher price points in our assortment. So that's a critical lever for us.

As we said, we see the lower price points across our banners including the UK business, but what's important is that the view this year that weddings are at 40-year high. And we see benefit within our assortment across serving the bridal party as well as guests and we see anniversary up as well and even in the higher price points in that category. So, the leverage across our assortment and our ability to tailor and move quickly is what will enable us to respond to the consumer demand.

Virginia C. Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd.

A

The one other thing I might add on that is our financial services portfolio is a competitive advantage in an environment like this. We're fully outsourced in that portfolio, we have private label credit card that we now also over the last few years, have added leasing, we have split pay. So we've really become kind of payment option agnostic if you will, but it's a way that we can offer customers many different choices in terms of how they finance their jewelry purchases.

Operator: [Operator Instructions] Our next question comes from Jim Sanderson from Northcoast Research. Jim, your line is open.

James Jon Sanderson

Analyst, Northcoast Research Partners LLC

Q

Hey, thank you, and congratulations on a great start to the new fiscal year. Just wondered if we could drill down on the uncertainty that I think most retailers are feeling, given the global macroeconomic context, maybe you could walk through how each of your banners or most at least at risk if there is a deterioration in consumer demand either in the United States or Europe if these economies move closer to a recession with deceleration in growth? And I'm especially wondering how Diamonds Direct, how you would qualify that banner in this context?

Virginia C. Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd.

A

So, I think as we're saying, this year is one of a number of different puts and calls. I think the customer that is most challenged in this environment is the value seeking customer. So, as we said, we have a number of strategies to leverage our scale and the breadth of our financial services offering in our assortment to make our product more affordable for that customer. And then we're leaning into things that are enduring. I mean, one of the great things about the jewelry category is that it has tended to perform well in recessionary periods, because number one, there are still important and meaningful events that customers want to celebrate. And secondly, it's a product that has strong material value, the gemstones, the diamonds, the precious metals hold their value and customers see and recognize that.

So, we're leaning into things like weddings. With weddings at a 40-year high, we've seen an increase in wedding bands, anniversary bands, bridal party jewelry, gifts for the bride and groom, those kinds of things. And we've really been leveraging the point of market entry strategy that we have with engagement rings, to be able to contact and clientele with the people who are getting married this year, who purchased a ring from us and we're staying agile on serving value-oriented customers as best we can in this environment.

I think the other thing just to reinforce is, the flexibility that we built into our cost structure, so that we can move up and down on how we allocate those costs in this kind of an environment. What I'm really pleased about frankly, is our ability to continue to invest to widen our competitive advantages. This is the kind of environment that a market-leading company like ours can really leverage to our competitive advantage, as we have the wherewithal to continue to invest in this kind of an environment.

Operator: Ladies and gentlemen, we have now reached our time limit allocated for the Q&A session, therefore, I would like to hand back to the management team for any closing remarks.

Virginia C. Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd.

I want to thank you all for joining us today. I hope you will see from our results that our strategies are creating sustainable competitive advantages, that our people are inspired and driven to win and while there is much more work still to do we're committed to be and we have confidence that we are building a best-in-class store. Thank you, very much.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for being with us today. Have a lovely day ahead. You may disconnect your lines now.

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