01-Sep-2022

Signet Jewelers Ltd. (SIG)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Signet Jewelers Fiscal 2023 Second Quarter 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'd like to turn the conference over to Vinnie Sinisi, Senior Vice President, Investor Relations.

Vincent J. Sinisi

Senioir Vice President-Investor Relations, Signet Jewelers Ltd.

Good morning and welcome to our second quarter earnings conference call. On the call today are Signet's CEO, Gina Drosos and Chief Financial and Strategy Officer, Joan Hilson.

During today's presentation, we'll make certain forward-looking statements. Any statements that are not historical facts are subject to a number of risk and uncertainties, and actual results may differ materially. We urge you to read 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 measures to the most directly comparable GAAP measures, investors should review the news release we posted on our website at www.signetjewelers.com/investors. And with that I'll turn the call over to Gina.

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Virginia C. Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd.

Thank you, Vinnie and thanks to all of you joining us today. I want to begin by thanking our Signet team. Their passion for building lifetime relationships with our customers and fulfilling our purpose is central to everything we do. I continue to be inspired by their excellence and agility every day, no matter the conditions. It's an honor to work at their side.

Here are the key takeaways from my remarks today. We believe that Signet's growth strategy and the structural advantages we've created in our operating model enable us to do three things consistently. First, deliver an annual double-digit operating margin. Second, invest to achieve market share expansion. And third, create meaningful shareholder value.

Q2 was yet another demonstration of these advantages. Our team delivered $1.8 billion in revenue and $193 million in non-GAAP operating income. Revenue was down 1.9% versus record setting second quarter sales last year, and up 29% versus the second quarter of our fiscal year 2020, which was the pre-pandemic base.

Importantly, we delivered operating income within our original guidance range and non-GAAP operating margin was strong at 11% which is nearly three times higher than Signet's operating rate in fiscal year 2020.

So, despite a softer top line environment, our structural transformation, and the flexibility we now have in our operating model enabled us to leverage SG&A to deliver double-digit operating margin, and maintain strategic investments, and return capital to shareholders in Q2.

Our strategy is working. We are winning in our biggest businesses with our diversified portfolio of banners, expanding accessible luxury, accelerating services, and leading in digital.

We're able to be strategically flexible leaning further into the areas of our business with the most growth opportunities driving both customer and shareholder value.

Before I get into our results, let me first share some jewelry category context. What we're seeing in our proprietary data is that consumers shopping at lower price points primarily buying discretionary fashion items or with lower incomes are being impacted most directly by macroeconomic pressures. We believe lower jewelry price tiers are also seeing the most negative impact from deep discounting in apparel and other fashion and discretionary categories.

So in general, jewelry price points below $500 are seeing steep decline with price points below $1,000 also being negatively impacted. Conversely, higher price point items are showing more strength, and this is reflected in the fastest jewelry growth being luxury price tiers followed by accessible luxury.

What's particularly interesting is that our proprietary customer research for Kay, Jared, and Zales is showing relative strength in what we call considered purchases. That is, sentimental items over $1,000 like engagement rings, anniversary bands, and other sentimental gifts are outperforming their categories.

Our strategies around consumer insights, banner differentiation, and tiering up into accessible luxury are allowing us to lean into these trends.

So while Q2 was a mix of headwinds and tailwinds, we responded to these precisely as our company is now designed to do. We drove growth in bridal in our biggest banners especially in the $4,000 to $5,000 price range

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where revenue increased 11% versus last year. And all banners grew 15% in aggregate for purchases in the $10,000 plus price range.

We grew services nearly 7% which has a higher margin profile and drives traffic to our stores. We reduced core inventory excluding Diamonds Direct almost 2% versus last year with more efficient data-driven assortment and flexible fulfillment. This is enabling us to quickly respond to changes in consumer trends, maximize newness, and limit clearance.

With that context let's take a closer look at how we're doing across our four growth strategies, and why we believe we're building moats of competitive advantage that will lead to long-term profitable share growth.

Winning in our biggest businesses is our first Where to Play strategy and bridal is a big part of the story this quarter. We estimate that our bridal share is now approximately 30%. This is a real advantage driven by the high consumer awareness of our banners, our leadership marketing spend, and personalized always-on media approach.

Our Connected Commerce presence which is unrivaled in the jewelry category ensures that we're uniquely able to meet our customer's needs whenever, wherever, and however they want to engage.

Relevance plus readiness is a powerful combination, and it is precisely the combination we built with our portfolio of highly differentiated banners, our optimized footprint of brick-and-mortar stores, and our expanding digital capabilities and experiences.

As predicted, 2022 has become the year of the wedding with 2.5 million weddings expected this year. In addition, with in-person events growing, we've seen an increase in prewedding, and other wedding related events which are great opportunities for gifting.

In fact, our data suggests that jewelry represents 43% of the gifts shared at wedding-related celebrations including gifts for the bridal party, mothers, and the couple themselves making this a $1.9 billion opportunity in the US.

Because Signet delights so many couples with engagement ring purchases, we're now focused on making the most of all wedding opportunities. We've made changes to our assortment, services, and marketing, and are creating new digital content, online shopping guides, and targeted media campaigns, all to serve our customers throughout their special events, and capture the entire value of the wedding.

Our second Where to Play strategy is to expand the market we play in and in this economic environment we are both leaning into accessible luxury while also increasing our value equation for more economically challenged customers.

To delight higher income customers we've added higher price point items to our assortments across banners. We've expanded concierge-level services like Jared Foundry which offers customers the ability to design custom pieces from scratch. We've increased availability of personalized appointment bookings particularly at Jared's and Diamonds Direct.

Diamonds Direct is proving to be the strong, strategic acquisition we anticipated it would be delivering $113 million in revenue this quarter ahead of acquisition expectations.

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We believe we grew our share of accessible luxury in the quarter more than two points. We're also navigating the impact of inflation and economic pressure on value shoppers. To maximize the value of their spend, we are leveraging our scale, our vertical integration capabilities, and our strategic vendor relationships to value engineer pieces that make jewelry more affordable for all our customers.

A great example is how we're leveraging lab-created diamonds for a bigger look for less in our fashion pieces. We've also designed innovative new items using diamonds that are more plentiful and have a lower cost basis. Finally, we strengthened our financing offerings including expanding our 0% down payment promotional financing.

Accelerating services is our third Where to Play strategy and is delivering strong revenue growth, with first half sales up nearly 12% versus year ago and Q2 up 7%. This performance was driven largely by growth in warranty attachment and repairs, extended service agreements revenue was driven by a mix of our newer, more customer appealing bundles, price increases and higher attachment rates.

Repair growth reflects increasing NPS scores driven by faster turnaround times, team training, and new digital tracking visibility.

Further, in the second quarter, we launched several new services based on our consumer research. These included appraisal services at Kay, and the new insurance product at Jared, Kay, and Zales to protect cherished jewelry from theft and loss.

We also launched bridal by Rocksbox, a new premium rental service for brides at all their wedding events ranging from bridal showers, to bachelorette parties, to their wedding day. We believe this service will help us continue attracting younger and more diverse customers as well as expand repeat purchases. The Rocksbox subscriber base increased 15% in Q2 illustrating the power of Signet scale for a newly acquired banner.

We continue to be very bullish about the expansion of our Vault Rewards loyalty program which is currently in Jared's and select Kay's. It's on pace to be rolled out in e-commerce and to more than 1,800 Jared, Kay, and Zales stores by this holiday.

This continues to be a meaningful source of future growth, with transaction values among loyalty members at Jared for example, nearly $600 higher. And repeat rates up 700 basis points versus non-loyalty members.

We continue to see services as $1 billion business and are steadily making progress towards that goal. Importantly service margins remain consistent and accretive.

Our fourth Where to Play strategy is leading in digital. Digital is our multiplier, it is the capability that creates the most advantage, and is most difficult for competitors to match given the investments we've made. It's a multiplier because it makes browsing, shopping, and buying even easier and more fulfilling for our customers who are increasingly looking for an integrated, multichannel experience. And it leverages our data and scale in powerful and targeted ways to drive conversion.

Being the digital leader of jewelry means much more than leading in e-commerce. We're leveraging our digital capability and technology to innovate in every part of our business now with industry-leading speed. For example, we've added several new and easy ways for customers to book appointments which is driving higher levels of customer engagement.

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In the second quarter 65% more appointments were booked online versus year ago. This is important because the conversion rate of a merchandise appointment is three times greater than for a walk-in customer, and the average transaction value is 30% higher. And we've also expanded virtual try-ons for more of our key products which increases conversion rates between three- and six-fold.

We saw a 22% increase in checkout start rates this quarter versus last year after launching our new Mobile First mini-bag shopping companion. This makes it easy for customers to see at a glance views of their orders, apply discounts, total cost and progress toward earning loyalty incentives.

In Q2 more than 20% of customers used one or more of our flexible fulfillment options. Including ship-to and from store, buy-online-pickup in-store or same day delivery, all of which improved both customer convenience and inventory efficiency, these offerings also drive traffic to stores so that our expert jewelry consultants can further build relationships.

We're increasingly linking our digital and physical experiences. We now have 28,000 e-tags tracking loose diamonds at the store level. This proprietary e-tag ecosystem was developed at Signet. E-tags are innovative and valuable technology for many reasons. First, because our e-tags enabled storytelling with a visible QR code customers can easily access information about each diamond.

Second, by leveraging a motion sensor and sales data, e-tags give us the ability to dynamically adjust pricing or offer incentives to close a sale within seconds. We can now optimize inventory levels and maximize sales and margin on a nearly real-time basis. Nearly every loose diamond at Jared will soon have an e-tag and we're continuing to expand the technology across other products and banners. With the digital innovation of our proprietary e-tag system, we're essentially adding Internet-of-Things technology to our Connected Commerce capabilities in a way that no other jewelry company is doing.

We invested in digital from the beginning of our Path to Brilliance transformation, and we're not letting up. Our recent acquisition of Blue Nile is a good example. Blue Nile is the pioneer in online diamond marketplace shopping bringing a new customer cohort to our portfolio, younger, more affluent, and highly diverse. It has the highest brand recognition of any digital pure play jewelry retailer and expands the top end of our accessible luxury offerings.

Blue Nile has unique shopping technology featured in their 23 showrooms through which customers are educated by a trained jewelry consultant, and are then able to complete their purchase online. We can learn from this low inventory showroom model. We see incredible synergy opportunities with Blue Nile and James Allen while strengthening and growing each of their unique banner value propositions, we now expect the Blue Nile acquisition to be accretive through both revenue and cost synergies no later than Q4 of next year.

The final point I want to make is that a significant factor in our performance from quarter-to-quarter is the strength of our financial position. We reset our operating model with significantly reduced fixed costs such as occupancy through our store fleet optimization, and leaned into zero-based budgeting. Our operating model takes advantage of our scale that's why we're confident in committing to annual double-digit operating margin with expansion over time. We've demonstrated that we have several levers we can pull to respond to changing market conditions which is precisely what we did in Q2.

We're using our financial strength and flexibility to invest in the business in ways that create moats of competitive advantage, and that our customers see and are delighted by whether that's true to value of our assortment, the breadth of virtual shopping journeys we enable or through strategic acquisitions.

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We're focused on consistent long-term value creation, and our stated capital allocation priorities. First, investing strategically in our core business and acquisitions to expand market share. Second, maintaining appropriate levels of leverage. And third, returning cash to shareholders with repurchases and dividends with a goal of being a dividend growth company.

So, I'll close where I began. Signet's Q2 results are a strong reason to believe our core message; we have the strategic clarity, structural advantages, financial flexibility, and winning culture to deliver consistent, reliable, and sustainable growth and meaningful shareholder value. Signet is strong and growing stronger.

On that note, I will hand it over to Joan.

Joan Holstein Hilson

Chief Financial & Strategy Officer, Signet Jewelers Ltd.

Thanks, Gina and good morning, everyone. I want to leave you with three messages today that all illustrate the sustainability of our operating model. First, we're confident we can deliver annual, double-digit operating margin while growing market share consistently and reliably. We believe we have the disciplined operating structure and innovative culture to do this year-after-year.

Second, with the health of our balance sheet and working capital efficiencies, we believe we're well-positioned to make strategic investments that drive long-term growth.

And third, we continue to prioritize shareholder returns alongside continued investments.

Now turning to second quarter performance, Q2 is a perfect example of how we are effectively managing the top and bottom line. We delivered total sales of $1.8 billion down 1.9% compared to the record-setting sales performance we delivered in Q2 a year ago. Banter represented almost a third of our comps decline during the quarter offsetting a strong performance in bridal and accessible luxury. As Gina explained, we're taking full advantage of our strength in bridal and leaning into higher price points while at the same time moving Banter out of underperforming malls and accelerating the growth of digital.

As previously reported, we saw trends soften across all price points in July along with weaker traffic. That said for the quarter, our average transaction value in North America was up 10.8% on a comp basis. Sales per square foot was up over 40% compared to the second quarter of FY 2020, a direct result of our Connected Commerce strategy coupled with our fleet rationalization that reduced our store base by 20%. In addition, warranty and repair services were drivers in the quarter and delivered nearly 7% growth. Importantly, we began to see improvement in August as a result of non-comp activities.

Now let's turn to gross margin. Non-GAAP gross margin was 38% of sales, down 190 basis points compared to the second quarter last year. This reflects deleverage of occupancy on a negative 8.2% comp, and the impact of Diamonds Direct which carries a lower relative margin. Importantly, our organic banners merchandise margin was similar to last year. Additionally, strategic technology investments and the absence of COVID-related tax abatements from prior year also impacted the changing gross margin.

In spite of softer top line, we leveraged SG&A this quarter. SG&A was $477 million or 27% of sales, a 90-basis point improvement over last year. Our team managed SG&A in response to shifting market conditions, all while maintaining priority growth investments and returns to shareholders.

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This is driven by our disciplined spend management, our gating approach to investments, lower payroll costs driven by our flexible labor model, and benefits from our enhanced financial services agreements.

Non-GAAP operating income was $190 million or 11% of sales which excludes acquisition-related charges of $6.4 million and compares to $223 million or 12.5% of sales last year. Please note that last year included $9 million of income primarily from COVID-related brands.

Notably, our Q2 operating margin performance is nearly 3 times higher than FY 2020. Looking back further, this also exceeds our performance seven years ago when we had credit factored into our margin mix. This demonstrates the strength of our transformed operating model.

Let's look now at the strength of our balance sheet. We have the flexibility to innovate, and invest, and even with softer top line environment because of our working capital efficiencies, we continue to deploy capital consistent with our stated priorities.

At the end of the quarter, we had $852 million in cash and equivalents. Our focus on cash and working capital efficiencies have enabled us to achieve the following since FY 2020. We returned cash to shareholders through $600 million of share repurchases and given our stock's current multiple which we believe is undervalued, we will continue to use our remaining $622 million multiyear authorization.

We paid $37 million in common dividend since reinstatement with a goal to become a dividend growth company. We've also invested nearly $900 million in strategic acquisitions augmenting our accessible luxury tier within our differentiated portfolio. Further, our leverage ratio on a trailing 12 month basis currently stands at approximately 1.9 times EBITDAR, well below our previously stated goal below 3 times, and down nearly 50% from FY 2020, and today reflecting the strength and confidence in our operating model, we're revising our leverage ratio target to maintain below 2.75 times EBITDAR.

Now, I would like to turn to inventory, which remains a critical differentiator for Signet. Inventory management is at the heart of our working capital efficiencies. Since fiscal year 2020, we have made it a strategic imperative to reduce inventory overall, and we have done it even including Diamonds Direct. Overall, core inventory is down 13% in the quarter compared to the second quarter of FY 2020 or $300 million and importantly it's also nearly 2% down from last year indicating our ability to change quickly in response to macroeconomic shift.

Penetration of clearance inventory at the end of Q2 is down one point to last year and down eight points compared to FY 2020 reflecting the health of our inventory and inventory turn of 1.5 times at quarter end is turning 47% faster compared to pre-pandemic levels, and is also improved to last year.

We continue to use the appropriate levers to maintain a healthy level of inventory, and are well-prepared for holiday season. We partnered with our vendors to secure the right inventory to meet consumer demands and trends, while still maintaining the rigorous inventory management that drives much of our cash and cost discipline. We manage inventory holistically to grow market share and improve operating margin.

This has become a reliable component of our annual double-digit operating margin commitment.

Now, let me move to guidance and then we're happy to take your questions. We're reaffirming our full year fiscal 2023 annual revenue and operating income guidance. We now expect non-GAAP earnings per share of full year fiscal 2023 in the range of $10.98 to $11.57 including the impact of share repurchases through the second quarter.

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Our full year fiscal 2023 guidance does not include a material worsening of macroeconomic factors and it does not include Blue Nile's performance.

For the third quarter, we expect revenue in the range of $1.46 billion to $1.49 billion with non-GAAP operating income in the range of $20 million to $34 million. Please note that our strategic shift to an always-on marketing model has moved cost to the third quarter with associated revenue largely occurring in the fourth quarter.

Before we open the call for Q&A, I want to acknowledge the capability and commitment that I see in our team day in and day out. Our team members operate with such commitment to our customers, and accountability to our shareholders, and it is genuinely inspiring.

What I love most about this team is that they are both high-performance and high potential delivering exceptional performance every single day, and striving to be even better without fail. And on that note we'll be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We will take our first question from Ike Boruchow from Wells Fargo. Please go ahead.

Ike Boruchow
Analyst, Wells Fargo Securities LLC

Q

Hey everyone, thanks for the question. Two quick ones, just on the quarter-to-date, it sounds like August has gotten little better. When we look at your Q2 performance versus the Q3 guide, it does look like you're embedding a decent slowdown in revenues organically both one year and on a multiyear basis. So, just kind of walk us through the conservatism built-in, and what you commented on what you've seen in August, a lot of retailers are seeing a little bit of a rebound. And then a quick follow-up is just on the Blue Nile transaction, assuming this does close before holiday. I understand your guidance does not include any impacts from them, if the deal does close ahead of holiday, would that be a positive or a negative to your EBIT that you are currently guiding to in the fourth quarter? Thank you.

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

A

Hey, Ike. Thanks for your questions. I'll start with the first one. So, when we guided couple of weeks on the balance of the year at the time that we announced the transaction with Blue Nile. We really wanted to make sure we were reflecting the current reality of where we see the customer now. And so the low end of our guide was very clearly representing a continuation of the trends that we were seeing, not a material worsening, not including Blue Nile.

We did see some improvement in August, I think that's really a combination of the customer. We have continued to see some strength, as I said in my remarks, at higher price points; and also for considered purchases, especially sentimental gifts, and bridal, which we saw up 5% in the quarter. So, I think there's some good news as we've come into August, but we didn't reflect any of that in the low end of the guide that we gave. And then, Joan, you want to talk a little bit about Blue Nile, we have already closed that transaction.

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

A

Yeah, we closed the transaction recently, our team has been on the ground over the last week or so really pulling together and working hand-in-hand with the Blue Nile team to put together our holiday plans. And so, it would be premature at this time to talk about our view of the fourth quarter. I expect, that said, based on the work that we've done, we're very excited about the opportunities for synergy, and the ability to integrate the two banners under the – with the James Allen team. So – and really leveraging the synergies of back office.

So, lots of opportunity in our view, and just a little premature to really give guidance on the fourth quarter.

Ike Boruchow
Analyst, Wells Fargo Securities LLC

Q

Okay, thank you.

Operator: The next question comes from Lorraine Hutchinson from Bank of America. Please go ahead, Lorraine.

Lorraine Hutchinson
Analyst, BofA Securities, Inc.

Q

Thank you, good morning. Encouraging to hear about the August stabilization, but I just wanted to see how you are stress testing the model, and maybe hear your view [indiscernible] (00:32:42) stocking further, just talk to some of the levers that you could use to offset that deleverage to allow you to maintain that goal of double-digit operating margin.

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

A

Thanks, Lorraine for the question. So, our commitment and goal is to maintain an annual double-digit operating margin. And so, what – if you think about what we closed often in the second quarter, it was that negative 8.2% comp, and we delivered a very strong double-digit operating margin. So, how did we do that was; one, strong inventory management; healthy inventories; clearance was below last year; and current sales were below last year. So, again healthy margins, as I mentioned, merchandise mix in our organic banners were similar to last year. So, really able to leverage and build on that the strong inventory disciplines that our teams are working on, and have really put as part of our daily operating.

The other levers are labor, right. What we said is we have a very flexible labor model. We use data analytics to manage labor to traffic, and ensure that our teams are – we're putting coverage in the stores to support our customers at the right time, and in the right locations. And then our spend management, we gave our investment and it is, it's really gated against our view of where we see the top line trending. We protect priority investments that are critical to long-term growth, and really evaluate each based on our – the ability to support our revenue in the short term with the eye to the long term as I mentioned.

I would also say that if we're looking forward into the back half, we've applied all of these same disciplines, and we work very closely with our MPI teams and vendors on inventory to ensure that we have the right trends, but we have the flexibility to move receipts should that be needed. And then from the P&L perspective are always on marketing the shift that I mentioned Lorraine for the third quarter is it just wanted to amplify that because it's a cost in the quarter that we continue to drive, and the revenue relates to the fourth quarter.

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And then, I would say in the third quarter recall that as we are anniversarying investments in the prior year, we don't really get to that investment anniversary until the fourth quarter. So, we're very close to watching our investments and really as you think of our guidance for the third quarter, and then the implied guide for the back half, we have considered all those factors.

Lorraine Hutchinson
Analyst, BofA Securities, Inc.

Q

Thank you.

Operator: The next question comes from Dana Telsey from Telsey Advisory Group. Please go ahead.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Hi, good morning, everyone. As you think about the gross margin and now the new buckets of the gross margin with new businesses entering like Diamonds Direct. How do you think about the shaping of it whether on an annual basis or quarterly basis and what the opportunity is for the levers gross margin? Thank you.

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

A

Thanks, Dana. So, gross margin, as I mentioned, our organic banners in the second quarter were similar to last year as we move forward into the back half of the year. We have the same Diamonds Direct mix which carries a relative lower margin because of the bridal mix, but also our inventories are healthy. And what that means is that our clearance marks are not as deep and therefore of our yield on clearance selling is stronger. So, that's a lever that we continue to pull and use our clearance as a strategic lever for us for promotion, but able to carry relatively higher margin given the health of the clearance inventory.

Then vertical integration is another lever for us to continue to drive to optimize our cost, and continue to drive expansion in gross margin over time. And then, I would also add that value engineering that Gina mentioned in her remarks, as we work with our vendor base in this environment, we continue to value engineer to ensure that we're bringing beautiful product that's relevant on trend, a cost that enables us to have right pricing, and also bring value to the customer.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Thank you.

Operator: The next question comes from Oliver Chen from Cowen & Co. Please go ahead, Oliver.

Oliver Chen
Analyst, Cowen & Co. LLC

Q

Hi, Gina and Joan. Thank you. Regarding the lower price point products, what do you see for innovation there ahead, and what's necessary in timing on that? And how does that relate to traffic and merchandise margins? And you're calling out promotions and also the reality of the bifurcation at a lower-end from consumer. And Joan, as we think about inventory turns, you made a lot of progress there, which parts of the product portfolio have the most opportunity to increase inventory turns? Thank you very much.

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

A

Hi, Oliver. Thanks for your questions. So we, as we have really developed our consumer insight capability over the last several years look at the category by price tiers, also by journeys. So, from a price tier standpoint, as I mentioned in my remarks, luxury has been very strong. So, that's a part of the category that continues to grow, that's generally above where Signet plays, but what we've been doing is tiering up all of our banners to have higher price point offerings, and we think we grew two points of market share in accessible luxury in the quarter, that's something we got behind very early. So, we've placed our holiday orders by Memorial Day, so we really have gotten ahead of that. And everything Joan talked about on inventory includes the fact that we have tiered up to higher price point in our inventory this year.

In terms of lower price customers like you were talking about, they're really, I think, challenged by two factors; one is, macroeconomic inflation all of that. And so, particularly in the self-purchase journey, we've seen a fall off there that would be primarily price points under $500. The other factor impacting that is the very heavy discounting that we're seeing because of high inventories in apparel and other discretionary categories so that is impacting that customer right now.

We would expect to see, as we go toward holiday that the product that we've worked on for those customers, the value engineered product, we think will be very appealing. So we've been using lab created diamonds, for example as a way to get a big look for less for those customers. We have worked on our items that are priced in a way to make sure that we are providing excellent value. We've been very conscious of how we've taken price increases especially at the low end. And we believe we've done that in a way that creates a superior value at Signet relative to the rest of the market. We've worked with our vendors to use diamonds they had on hand, so had a lower cost basis, call it last year's inventory, we've been able to use those to create product that can really appeal to that customer.

Another area of innovation is diamond cut gold, so we've worked with many of our factories in Italy to come up with a laser cutting technique that actually creates the look of diamond in a piece of gold even though there are no diamonds present. So it gives a really rich look for still a very affordable price point. And then the last thing is we've leaned into the financing offers we have for our value customers, those are, of course, split pay. We saw 35% increase on split pay using e-commerce. So we're definitely seeing customers lean into that as an opportunity. Leasing, we have available and then we've increased our 0% down promotional offerings for our private label credit card as an opportunity for those value challenged customers.

So we're really, I think, based on our consumer insights, we've been able to get our orders in early, and to work early on the kind of innovation that is giving us more access to the part of the market that's growing, but also helping us be very competitive and offer great value at the lower end of the market.

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

A

In order to address your inventory turns. So, there's a couple of things that I would note here; one is that because of the health of our inventory and our consignment inventory position has been substantially lowered from several years ago, we've been able to work more flexibly with our vendors to test product, bring it [ph] on memo (00:42:51), and roll to the balance of our portfolio based on its acceptance by the customers. So that enhances our ability to have the strong newness as well as improved turn.

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So I think that's something that we'll continue to drive with the merchandise teams, and they're really, that's something that we started last year, and in a smaller way, and really, it's really taking hold as we drive to this fiscal year. And the other is flexible fulfillment capabilities. Our team has done a really amazing job with our fulfillment team, our supply chain team, and our merchandise planning team to really integrate flexible fulfillment capabilities into our purchasing as well as into the fulfillment of product from all of our locations, our stores, and our DCs which really has opened up the selling aperture for us, and able to really continue to drive inventory turn there. So that's underway, but still moving up the maturity curve to enhance inventory.

And then, I think, the third would just be this idea of turning inventory more towards just in time and working with our vendors with core inventory products. So we believe that we still have room to go but it will take time and it will be – it will take more precision across our operations.

Oliver Chen
Analyst, Cowen & Co. LLC

Q

Thank you. Best regards. Thanks a lot.

Operator: [Operator Instructions] We take our next question from Jim Sanderson from Northcoast Research. Please go ahead, Jim.

James Jon Sanderson
Analyst, Northcoast Research Partners LLC

Q

Hey, thanks for the question. Just wondering if you could walk us through the back half of the year, how – what the puts and takes are between overhead expense and gross margin that gets you to a considerably lower dollar operating income in the current quarter, and a nice pickup or acceleration in the fourth quarter, what are the building blocks between those cost centers to get you to the end of the year guidance based on what you are looking at for the third quarter?

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

A

Thanks for the question. So when we think about the back half, the third and fourth quarter splits, our guidance for the third quarter includes incremental investments that we will anniversary in the fourth quarter. So that's the operating income rate deterioration that you see in the third quarter, but it's largely due to these investments that we will anniversary in the future quarter.

I would also say that as we're looking at our always-on marketing strategy, this, as I mentioned in my remarks, this sees marketing cost in the third quarter that are incremental, but the revenue is not generated until the fourth quarter largely. So I think that's the split between the quarters that you are seeing, Jim.

And then lastly, things to remember about last year, in the fourth quarter of last year, we had an inventory related charge based on reduction in our inventory. We took a charge related to our capitalized overhead that is [indiscernible] (00:46:27) inventory. So that is a positive for us as we anniversary that this year.

James Jon Sanderson
Analyst, Northcoast Research Partners LLC

Q

Thank you.

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

A

Okay, we'll take the next question.

Operator: Thank you. So, the next question comes from Paul Lejuez from Citi. Please go ahead, Paul.

Brandon Cheatham
Analyst, Citigroup Global Markets, Inc.

Q

Hey, everyone, this is Brandon Cheatham on for Paul. Thanks for taking our question. I was just wondering if you could talk a little bit about how ticket and traffic trended this quarter. When did you start seeing this kind of inflection in the kind of higher price point penetration that seemingly is driving results? And what are your expectations for that price point for the rest of the year?

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

A

So in terms of traffic, we actually saw traffic begin to go down in the spring. So call it March, April kind of timeline with a more significant drop after Mother's Day, brick-and-mortar traffic this year relative to e-commerce traffic has been stronger that's customers desire to return to store. Of course in our case it's really not just about e-commerce sales, digital for us is very much about browsing and preparing customers for their store journey. We have two-thirds of our customers now that are having a multichannel experience with us that we have seen more purchase and more traffic happening in brick-and-mortar.

And then in terms of the sort of bifurcation of challenged lower price points and growing higher price points, I would say that was most pronounced following Mother's Day. We saw that as a big kind of June sort of phenomenon, July, the surprise of July was that higher price points actually became a bit more challenged but as we've said we have seen some stabilization in August from that.

Brandon Cheatham
Analyst, Citigroup Global Markets, Inc.

Q

Okay and has your guidance assumed that that trend kind of continues in the higher price points or are you expecting kind of an inflection in your lower value range?

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

A

So, the way to think about is our high guide assumes a continuation of the Q2 trend on comp carries into Q3 and Q4 as it positioned with the modest improvement largely from non-comp activities that we're putting in place to improve performance. Our low guide positions Q3 and Q4 comps similar to the trends that we saw in July and August and the underlying assumption here is that the macro environment remains constrained in the back half.

Brandon Cheatham
Analyst, Citigroup Global Markets, Inc.

Q

Got it, that's helpful. And then I was wondering, you've talked on in the past about gaining more share of kind of wedding day related jewelry. I think historically you did a good job of capturing engagement and then you didn't capture as much of the wedding day as you wanted.

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So I was wondering if you could kind of talk about how is your penetration on the wedding day related jewelry going. Where do you think that that can kind of grow to? And where you are in kind of that progression? Thank you.

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

A

I would say we're reasonably early in that progression, but our first party data capture, the investments we've made in our consumer data platform. All of that is really a big help to us. So we are, I would say, more than ever able to not just get to know couples at the engagement stage, but then really stay with them to work – toward wedding day and purchases, and all the different wedding day purchases I talked about.

The research that I quoted is Signet's proprietary research around wedding activities. And the fact that 43% of all gifts given around the wedding are jewelry we think is a big opportunity for us. We are launching new programs to go after that.

So gift guides that helps the bride. She has a big to-do list coming out of the engagement and working towards the wedding. So the more we can help on that the better.

And I'm excited about some of the other innovations so, I talked in my remarks about what we're doing on Rocksbox and having launched a bridal event rental program, that's a great opportunity for brides to be able to wear nicer jewelry than they might have otherwise for all of their events whether it's the bachelorette party or announcement of the engagement all the way to the wedding day.

And of course once she's been looking at those photos for a year or more of that beautiful jewelry, we're certainly then using our data and our targeted marketing efforts to try to draw the choice of that as a great first anniversary gift or birthday gift during the first year.

So it's really a combination of the consumer insights that we've developed, the work that we're doing with our CDP to capture more and more information and be more helpful to our customers throughout the process. And then the assortment that we're putting in place that we think can really help them. So, our services business coming to life matched up with data and assortment.

Operator: Our final question comes from Mauricio Serna from UBS. Please go ahead.

Mauricio Serna
Analyst, UBS Securities LLC

Q

Great, good morning and thanks for taking my questions. I wanted to ask just very quickly, you mentioned that you closed the Blue Nile acquisition so I'm just wondering like is that something that will be already be reflected in Q3 or does that begin in Q4. So maybe if you could provide some guidance around that.

And then maybe we could elaborate a little bit more about how you see this acquisition versus specifically the James Allen business. Just wondering if there's any big customer overlap or anything there that could be leading to some cannibalization between both format. And then maybe if you can talk about Q3 – the sales outlook, I think it implies roughly 24% sales growth versus 2019, but if you take your guidance for the year I think that assumes like a 20% growth in Q4. So just wondering what are you thinking there in the guidance or so, thank you?

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

A

Okay, thanks Mauricio, I'll take the first one then I'll come back on the guidance, Gina. So that Blue Nile acquisition we closed in the third quarter and it will be reflected in our performance from the point of closing forward.

As I mentioned Mauricio we were on – our teams have been working diligently they've been on the ground there for about a week. And we have really been working very closely to develop the forecast and the plans collectively for the balance of the year. So, stay tuned on that, but as I mentioned it is not in our guidance for the balance of this year.

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

A

And then in terms of incrementality of Blue Nile, we see that as a great market share growth opportunity. We did considerable amount of consumer research before the acquisition and we found that Blue Nile has a distinctive cohort younger, more diverse, more affluent than the rest of our portfolio.

They also have some different go-to-market models versus our James Allen business. So with 23 showrooms they have a very low inventory model, but a high touch, high service environment for customers to be able to see styles, try on pieces, really get the feel for what they want.

But then they place the order online in a marketplace that's very similar to what we do on James Allen so, there a lot of back-office synergies we think that can come to life in this acquisition which then will give us more fuel to really invest to grow both of these as distinctive banners within our portfolio.

And to Joan's point, we did we had our team out meeting with the Blue Nile team the day after we closed. And we've just been so pleased with the caliber of talent in the Blue Nile organization and the excitement that they have to really make this transition a very successful one. So, I would say we're off to a good start on that front.

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

A

Then to address the Q3, Q4. As I mentioned, the high guide assumes a continuation of the Q2 trend on a comp basis. And it carries it – that carries into Q3 and modest improvement in Q4 related to non-comp activities that the team has tested and put in play for – will put in play for the holiday season.

On the low-end the guide positions Q3 and Q4 comps similar to the trend that we saw in July and August and I believe that's more conservative, and just put out the note again that we did see some improvement in August which gave us confidence in the high guide.

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

A

But just to be really clear, Blue Nile is not in our guide at this point in time. It's just too early for us to really know what that's going to look like for Q3 or Q4.

Mauricio Serna
Analyst, UBS Securities LLC

Q

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Got it, that's very helpful. And any thoughts on the share repurchases outlook – potential share repurchases given that you still have over $600 million available?

Joan Holstein Hilson

Chief Financial & Strategy Officer, Signet Jewelers Ltd.

A

What we said is that we – it remains part of our stated capital priorities and given our release that we believe our stock is undervalued that we – it will remain part of our priorities and we have a multiyear program and the authorization is $622 million.

Operator: We have no further questions left in the queue. So I'll hand it back to management for any closing remarks.

Virginia C. Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd.

I want to thank everyone again for joining us today. What I hope you took away is that Signet has the strategic clarity, structural advantages, financial flexibility and winning culture to deliver consistent, reliable and sustainable growth and meaningful shareholder value. Thank you everyone.

Operator: Thank you for joining. This now concludes today's call. Please disconnect your lines.

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