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Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

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CORPORATE SPEAKERS:

Robert Ballew

Signet Jewelers Limited; Senior Vice President of Investor Relations

Gina Drosos

Signet Jewelers Limited; Chief Executive Officer

Joan Hilson

Signet Jewelers Limited; Chief Financial, Strategy and Services Officer

PARTICIPANTS:

Ike Boruchow

Wells Fargo; Analyst

Paul Lejuez

Citi; Analyst

Lorraine Hutchinson

BofA; Analyst

Jim Sanderson

Northcoast Research; Analyst

Mauricio Serna

UBS; Analyst

Dana Telsey

Telsey Group; Analyst

PRESENTATION:

Operator^ Good morning. And welcome to the Signet Jewelers Second Quarter Fiscal 2025 Earnings Call. (Operator Instructions)

Please note, this event is being recorded.

Joining us on the call today are Rob Ballew, Senior Vice President of Investor Relations; Gina Drosos, Chief Executive Officer; and Joan Hilson, Chief Financial, Strategy and Services Officer.

At this time I would like to turn this conference over to Mr. Rob Ballew, Senior Vice President of Investor Relations.

Please go ahead, sir.

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

Robert Ballew

Senior Vice President, Investor Relations, Signet Jewelers Ltd.

Good morning.

Welcome to Signet Jewelers second quarter Fiscal '25 earnings conference call.

During today's discussion, we will make certain forward-looking statements.

Any statements that are not historical facts are subject to a number of risks and uncertainties.

Actual results may differ materially.

We urge you to read the risk factors, cautionary language and other disclosures 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 a reconciliation 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 ir.signetjewelers.com.

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

Virginia Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd.

Thanks, Rob. And good morning, everyone.

I'd like to first thank our Signet team for delivering another quarter of sequential same-store sales improvement and an encouraging start to the third quarter.

Our team is our greatest competitive advantage and the key to our success. That's never more abundantly clear to me than at earnings time, when we have the chance to see the tangible impact of our knowledgeable, dedicated and empowered team members.

I'd like to leave you with three key takeaways today.

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

First, we continue to see momentum in same-store sales, improving more than five points from the first quarter, led by strong Fashion sales to deliver results in the top half of our expectations. This sequential acceleration is both the fifth consecutive quarter of same-store sales improvement and the largest improvement we've delivered in more than two years, driven by higher levels of new and innovative merchandise as we emerge from the Engagement trough caused by COVID.

Second, we grew merchandise margin and average transaction value, or ATV, as our merchandise strategy continues to drive performance in a dynamic time for the industry.

Third, we are on track to deliver on our Fiscal '25 guidance. Our momentum has carried into Q3 with same-store sales turning positive third quarter-to-date and Engagement units now growing.

Let's go into each of these in detail.

Same-store sales improved to a low single-digit decline in the second quarter, led by an acceleration in Fashion, but also with improvement in Bridal and continued strength in Services.

As I mentioned last quarter, we continue to focus on new, innovative and on-trend pieces. This is a proven strategy for us in tougher macro environments, and there's been a strong response from customers.

In the second quarter, we delivered a 50% increase in revenue from new merchandise which comprised 25% of sales in our core banners, up eight points from a year ago.

In Fashion, this trend was broad-based as all banners improved sequentially this quarter, led by our three largest banners: Jared, Zales and Kay.

In fact, we delivered positive Fashion same-store sales in July, August and September to date.

As we head toward the key gifting season of the year, we expect this trend to continue.

We are well positioned to further grow our penetration of new merchandise while maintaining our inventory discipline.

We see our ability to be nimble and manage our merchandise assortment as a real competitive advantage.

When compared to industry data, we turn our inventory roughly 2x as fast as independent jewelers, which to consumers, means more frequency of great new products at the right price points.

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

Our innovation in Fashion includes sculpted gold that allows us to provide big, chunky looks at attractive price points. Lab diamond fashion jewelry continues to grow, up more than 25% in the quarter to last year and is a driver of ATV.

We're also seeing traction in watches led by new designs in Citizen and Bulova.

Further, our proprietary branding is aiding Bridal ATV, led by pieces from Chosen, Neil Lane and Monique Lluhlier.

We're also leveraging our DeBeers partnership to advance jewelry consultant training, natural diamond marketing, and several new branded natural diamond merchandise collections launching in the third quarter.

Services continues to be a source of strength for Signet, growing 1.4% in the quarter, with Extended Service Agreement, or ESA, attachment rates up 210 basis points, led by strong attachment in Engagement and early traction on new products like post-repair ESA.

Importantly, the attachment rate on Lab-Diamond jewelry is well above other merchandise in both Bridal and Fashion categories.

Services has grown every quarter for the past two years, outpacing merchandise revenue by over 20 points. The progress we've made will be an important tailwind as merchandise same-store sales improve in the back half of the year, particularly as Engagements continue to increase. Engagements also improved in the second quarter by approximately 400 basis points on a same-store sales basis.

As predicted, the Engagement recovery is happening. Google and Instagram searches for Engagement rings are now up significantly in recent months. Couples achieving at least 26 of our proprietary Engagement milestones, where they become highly likely to get engaged, is now 900 basis points higher than last year and the highest number of couples ready to get engaged we've seen since we began tracking these milestones a few years ago.

Based on these leading indicators and the positive Engagement unit growth we've seen third quarter-to-date, we have confidence that we're well positioned for the upcoming peak engagement season over the holidays and the multiyear Engagement recovery back to pre-pandemic levels. That said, separately, customers are approaching engagement in a more cautious way in this macro environment, slowing the recovery.

For example, customers are visiting our sites 15% more often than a year ago before making a purchase.

Our Digital Banners progress has been steady as we saw sequential improvement of 600 basis points in same-store sales compared to the first quarter with further improvement into the third quarter.

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

We now have the majority of our vendor API connections corrected, facilitating more real-time communication for custom pieces, and we expect more vendor connections to be updated ahead of the holiday season.

We're also making improvements to the customer website experience, and we've significantly expanded our new merchandise assortment.

My second takeaway today is that we grew both merchandise margin and ATV despite industry promotional pressure.

Our merchandise strategy is to deliver the right products at the right value while balancing market share, margins and long-term value of natural diamonds. This strategic balance is working to offset competitive price pressure on loose diamonds.

For example, North America Bridal ATV was nearly flat in the second quarter.

Further, our merchandise innovation drove North America Fashion ATV up mid single-digits in the second quarter and helped expand merchandise margins.

We are investing ahead of holiday to improve the customer shopping experience. This includes additional training for our jewelry consultants, further rollout of personalized digital storefronts, enhanced Wi-Fi across the fleet as well as more than 300 store renovations.

At Kay, we're renovating over 200 stores this year.

At Jared, we've invested in both the fleet and up-tiering of the assortment, delivering Fashion ATV up nearly double-digits in the second quarter.

In marketing, we're increasingly leveraging data and AI to personalize our messaging.

In digital, we're launching a number of new features including self-learning search capability on our websites which will curate results and listings to the most relevant products.

We believe all these investments will drive incremental sales over the holidays. This tight knit combination of merchandise and banner strategy has been a competitive advantage for Signet.

Since wide-scale availability in 2019, price decreases in Lab Diamonds have been an ongoing story.

In the second quarter and across this longer time period, our merchandise strategy delivered growth, both in our ATV and merchandise margins, driven by our strengths in sourcing, branding and diamond expertise. The consumer remains dynamic and is focused on value,

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

promotions and new on-trend merchandise, and we believe we have the right playbook to navigate this environment.

This leads me to my third and final takeaway that we are on track to deliver our fiscal 2025 guide.

We've seen strong progression in same-store sales with the shape of the year on track with our expectations.

Our confidence is also supported by the multiple ways to achieve our guide.

We continue to expect positive Engagement units in the second half of the year, and we believe our new merchandise assortment will continue to drive strong Fashion sales. And while we expect sequential improvement in both categories, it's not required, Simply maintaining our current pace of sales would deliver within our provided range.

Further, our flexible operating model and continued efforts to streamline operations is leading us to increase our cost savings target for the year to up to \$200 million. These savings will help balance the continued promotional environment as we go into the back half of the year.

We're also increasing our 3-year savings target from \$350 million to \$450 million.

In summary, our same-store sales progress continues and has turned positive, we're successfully managing margins and ATV, and we are on track to deliver the year.

With that, I'll turn it over to Joan.

Joan Hilson

Chief Financial, Strategy, and Services Officer, Signet Jewelers Ltd.

Thanks, Gina. And good morning, everyone. Revenue for the quarter was \$1.5 billion, down 7.6%. Same-store sales were down 3.4% to last year.

Same-store sales reflects the continued drag from our Digital Banners of approximately 150 basis points. The larger gap between same-store sales and total revenue this quarter is related to the 53rd week last year, as it shifted early Mother's Day shopping from Q2 to Q1, and we expect the gap to normalize in the back half of the year.

North America ATV was up 1.6% this quarter, as we accelerated our push into Fashion newness, a strategy that is also effectively expanding merchandise margin.

Importantly, Bridal ATV was nearly flat and Fashion ATV was up mid single-digits.

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

We delivered gross margin of \$566 million or 38% of sales this quarter, up 10 basis points to last year despite lower revenue.

The strength of new products at higher margins, a higher Fashion penetration and continued strength of Services drove a merchandise margin expansion of 120 basis points, fully offsetting fixed cost deleverage. Turning to SG&A, expense was down \$13 million to \$498 million for the quarter.

SG&A deleveraged by 170 basis points to 33.4% of sales due to the decline in revenue and modestly higher marketing expense. Adjusted operating income was \$68.6 million for the quarter or 4.6% of sales.

Adjusted EPS for the quarter was \$1.25, down less than operating income due to higher interest income and a lower share count from the retirement and amendment of the convertible preferred shares as well as open market share repurchases.

As a result of our annual evaluation of goodwill and trade names, we took non-cash impairment charges of \$166 million during the second quarter that were primarily a result of factors impacting our digital banners, which included the lengthened integration timeframe and the slower engagement recovery.

As you may recall our Digital Banners strongly over-indexed into Bridal and loose diamonds, compared to Signet as a whole. This means that the slower engagement recovery and, to a lesser degree, impacts from market declines in the Lab-Created Diamond pricing has a more material impact on our Digital Banners. This charge caused an operating loss and negative EPS for the quarter on a GAAP basis.

As mentioned earlier, our Digital Banners delivered a 6-point same-store sales improvement to Q1, and we expect further improvement in the back half, based on quarter-to-date trends.

Turning to inventory, we ended the quarter at just below \$2 billion, down more than 5% to last year. New product comprises approximately 25% of inventory in our core banners, up more than seven points compared to a year ago.

We plan to continue to drive higher penetration of new merchandise as we head into holiday.

We believe customers will be value-focused this year, and our newness provides assortment at a wide range of price points.

We increased the pace of share repurchases in the second quarter, buying approximately 441,000 shares for nearly \$40 million to take advantage of the pullback in the share price.

We continue to see share repurchases as an attractive use of capital and ended the second quarter with over \$800 million in our multiyear remaining authorization.

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

As a reminder, we are allocating up to \$1.1 billion to the retirement of debt, redemption of preferred shares and open market common share repurchases in Fiscal '25, of which we've already executed over \$700 million through the second quarter.

Importantly, these actions will reduce our diluted share count by over 15% on an annualized basis and also improve our leverage profile.

Turning now to our balance sheet, we recently secured a 3-year extension to our ABL at attractive terms similar to the existing facility, which now provides liquidity for the next five years. The ABL was also lower to \$1.2 billion to align to our significantly reduced inventory base in the last few years as well as to provide savings on lower fees associated with our undrawn balance.

Looking to guidance, we are pleased with our agility in the second quarter, balancing new merchandise, competitive pricing, and sourcing savings to deliver on our expectations.

We will continue this strategy in the back half of the year.

We believe this combined with our additional cost savings provides flexibility in a competitive environment.

Turning to the third quarter.

We expect revenue in the range of \$1.345 billion to \$1.380 billion, with same-store sales between down 1% to up 1.5%.

We expect adjusted operating income between \$8 million and \$25 million and adjusted EBITDA between \$55 million to \$72 million.

Our quarter-to-date same-store sales through this past weekend have turned positive, which is reflected in the upper half of our guide, while the low-end provides some cushion for variability throughout the quarter.

Gross margin rate is expected to expand modestly in the quarter with SG&A deleveraging somewhat, in part due to the shift of marketing spend into the third quarter ahead of the upcoming election.

We are reaffirming our guidance range for the year.

We now expect revenue near the middle of our range or better and are on path to deliver adjusted operating margin rate near the low-end of our expectations.

Importantly, we have inventory flexibility to meet consumer demand for engagements within a range of down 5% to up 5% for the year.

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

In addition, Fashion performance is now expected to be materially better based on recent trends.

The Digital Banner impact is also expected to be less of a negative impact this year, at roughly down 1% of sales compared to our prior view of down nearly 2%.

We also continue to expect to spend \$160 million to \$180 million in capital expenditures with our investments in real estate on track.

Before we move on to Q&A, I'd like to thank our Signet team for the momentum we are seeing in our business.

I continue to be inspired by their passion and commitment to our customers and each other.

Operator, now let's go to questions.

QUESTION & ANSWER:

Operator^ (Operator Instructions) Our first question comes from the line of Ike Boruchow from Wells Fargo.

Ike Boruchow

Wells Fargo; Analyst

Question for me on the gross margin line.

So up modestly in the third quarter, you've had merch margins up around 100 bps in the first two quarters of the year.

Is there reason to believe that the merch margin trajectory should remain consistent into the back half and just there would be less offsets from deleverage as the comps improve? And then I guess, the second question, maybe for Joan or Gina. Just can you give us some guardrails around holiday specifically.

It's just obviously it makes the breaks the year, given how much volume you guys do.

Can you give us some thoughts on what exactly your expectations are, whether it's comp or -- I don't know if there's any other variables you could kind of point out to us, that would probably be helpful.

Joan Hilson

Chief Financial, Strategy, and Services Officer, Signet Jewelers Ltd.

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

Thanks, Ike, for the questions. With respect to gross margin, we continue to drive Fashion newness into the back half of the year. And as I mentioned, there's a push to increase the penetration of that inventory within our assortment.

So that is what is driving the margin expansion for us.

We said Bridal ATV was flat in the second quarter and Fashion was up mid single-digits.

So we expect to continue to see the Fashion really providing that margin expansion for us at a merchandise margin level.

We will continue to amplify and drive Services in the back half of the year.

And notably, the Bridal attachment rate has been increasing as we're seeing Bridal units increase. And so our penetration in-store now is up over 90 -- 90% and as we're looking into the third quarter. And I would say that the Fashion attachment rate is also increasing.

So that is also providing the margin expansion. And we would expect those components to continue to provide margin expansion for us in the back half of the year.

With respect to thinking about the quarters and what we expect for holiday, the back -- our guidance range enables us, as I said, to be at the mid-point, top-line or better, you can see what the third quarter is. And so we're very pleased with the assortment that we have lined up for the back half, for the Bridal assortment, the amount of newness that's coming in is also in Bridal.

So -- and we expect the Engagement recovery to continue.

So -- and also bear in mind, like, that December is a very important and critical timing for engagements as we head into that, the holiday selling period.

So we believe that we're -- our assortments is strong. we're seeing a strong response. And we're seeing the Engagement recovery happen. Although, as Gina mentioned, it's a little bit slower, than we had anticipated.

The customer is more cautious, visiting -- 15% higher visit rate before they actually make the purchase.

So all of that is considered within our guidance.

But to your point, fourth quarter is important. And we see that we're prepared for it.

Ike Boruchow

Wells Fargo; Analyst

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

Got it. And then just to go back to the gross margin. Juts, where there was a lot of talk on the last conference call about the promo environment, the competitions, what was going on that you guys spoke at length about that.

Can you kind of just give us an update three months later? How is that playing out?

Is anything worsening? Is it improving? Is it kind of flat lining, just kind of at a high level, that would probably be helpful too.

Joan Hilson

Chief Financial, Strategy, and Services Officer, Signet Jewelers Ltd.

Well we have included in our guidance, Ike, is the idea that the competitive environment will remain as such and that we are prepared with flexibility within our guidance for promotion. And we will continue to -- with the balanced strategy of newness at strong margins, particularly in Fashion, and pacing of promotions to meet the competitive dynamic.

So we will be leveraging the same components that we did in the second quarter for the balance of the year.

Operator^ Our next question comes from the line of Paul Lejuez from Citi.

Paul Lejuez

Citigroup; Analyst

Can you say what Engagement units are running year-to-date and quarter-to-date? And curious what do you have to see in 4Q to hit the plus 5% for the year? And then within that Engagement units being up quarter-to-date, I guess, it sounds like sales are still down.

So maybe can you talk about the average ticket engagement and how that average ticket looks in Naturals specifically versus like Lab. specifically when you compare it to last year?

Virginia Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd

Sure. Paul. Why don't I start on that? And then Joan, you can jump in.

I think in terms of units, as Joan was just saying, we said in our prepared remarks, the Engagement recovery is happening.

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

And all of the data that we track indicates that, that will continue to accelerate throughout this fiscal year.

But our guidance doesn't need that in order for us to deliver.

In other words, if the pace of unit growth that we're seeing right now just flattens to where it is, and continues through the year, we would still deliver within our guide.

So we see that everything that we're looking at, external data like searches across different search engines as well as the proprietary milestones that we track. Those are at their highest that we've seen them.

So up 900 basis points versus last year in terms of number of couples ready to get engaged.

So we see a good tailwind on Engagements, but we don't have to have that in order to achieve our guide.

And then you also asked a question about LCD.

We have had a strategy since beginning to trade customers up if they're interested in LCD. And we have continued to do that.

So we actually see a higher ATV on LCD pieces than we do in natural.

We see a higher attachment rate of ESA on LCD as a result.

So in that context, our team has worked very hard to maintain strong value across diamonds. And we're also seeing a lot of great innovation come on natural diamonds.

I think we're getting to a point where consumers seem to understand the difference. They understand the specialness and uniqueness of natural diamonds and are very interested in that context and that's the value that has been able to have over time, but they understand that with LCD, they have an opportunity potentially to trade up because it's cheaper, there's more availability.

Paul Lejuez

Citigroup; Analyst

Got it. And just to follow up with the plus 5% for the year, would that be consistent with the high end of guidance then?

Joan Hilson

Chief Financial, Strategy, and Services Officer, Signet Jewelers Ltd.

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

Yes. When you think of the guidance range, it's a minus 5% to plus 5% units in Bridal.

But to Gina's earlier comments, I would say, Paul, there's a several scenarios to hit our overall high end of guide, we have Fashion running positively right now.

We have Bridal units running positive.

So there's a combination of outcomes to deliver the high end of guide, but one of those combinations has the high end at plus 5% units for Bridal.

Paul Lejuez

Citigroup; Analyst

And sorry, right. And then what do you need to do in the fourth quarter to get to that plus 5%?

Joan Hilson

Chief Financial, Strategy, and Services Officer, Signet Jewelers Ltd.

The fourth quarter is -- would be toward high single-digit, low double-digit in Bridal units to get to the high end of the guide. And importantly, the trajectory that we're on today shows that quarter-to-date in the third quarter is that we're running up units in Bridal.

So it's a positive trend for us.

Paul Lejuez

Citigroup; Analyst

Thank you, guys. Good luck.

Joan Hilson

Chief Financial, Strategy, and Services Officer, Signet Jewelers Ltd.

Thank you.

Operator^ Our next question comes from the line of Lorraine Hutchinson from Bank of America.

Lorraine Hutchinson

Bofa; Analyst

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

Has the volatility in Lab-Created-Diamond prices changed your customers' perception of that as an option? I'd just be curious to hear the feedback you're hearing from customers and if it's different between Bridal and Fashion?

Virginia Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd

Lorraine, thanks for the question.

So I think the interesting thing is we tend to think of lab-created as kind of a new phenomenon, but it's been broadly available in jewelry since 2019.

So the story of Lab Diamond pricing dropping has been a consistent story over that time period. And what we're seeing is that consumers are understanding that. They're seeing that with lab created, they have a point-in-time opportunity to trade-up to potentially a larger diamond but that -- I don't believe they have the expectation that it will hold its value necessarily over time in the same way that natural diamonds traditionally have.

So I think we're seeing a more educated consumer over time about the difference. And I do think that it is somewhat different, at least that's what our research would indicate and our jewelry consultants is that it is somewhat different in Engagement and Fashion.

So Fashion LCD offers the chance really to add bling to pieces where it would have been too expensive to do that, previously.

So we see continued opportunity to trade-up to higher ATVs in Fashion using LCD.

Operator^ Our next question comes from the line of Jim Sanderson from Northcoast Research.

Jim Sanderson

Northcoast Research; Analyst

Just wanted to talk a little bit more about marketing spending.

I think you mentioned that you might see an acceleration in the current quarter in anticipation of holidays.

But can you step back and give us an idea of how you expect this dollar budget to grow over time? Is that -- are you starting to lean into marketing as an investment to drive stronger foot traffic? Is that something that could be a near-term pressure point on operating income, just how we should look at that line item?

Virginia Drosos

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

Chief Executive Officer & Director, Signet Jewelers Ltd

Sure. Jim, we see marketing as a real area of competitive advantage for our company.

We are far and away the biggest spender in the jewelry category across all of our different banners. And so we, as a result of that, create great partnerships with all of our partners, whether that's Google or Meta or our agencies who are working to bring us data that we can use our loyalty data to match with and create more personalized marketing.

So we've been leaning into investments in marketing.

I think, gosh, since our transformation began because we've continued to see a great opportunity to drive more traffic to our winning brands. And as we've spent more time differentiating what each of these banners or brand stands for, it just makes more and more sense.

I think it might have been a couple of calls ago, I talked about the fact that while as of the end of last year, we're 9% share of the jewelry category.

We now have positioned our banners to appeal to 80% of jewelry customers.

So we see that as a lot of headwind or headroom, I'm sorry, to really communicate what our value proposition is and how it's different to our customers.

So I think the big picture answer to your question is, yes, we've been leaning into differentiating our banners and investing in both marketing capability and media dollars behind of that over time to really drive those brand equities and to drive traffic into our stores and online.

Joan Hilson

Chief Financial, Strategy, and Services Officer, Signet Jewelers Ltd.

Sorry, Jim, just to dimension the question regarding spend dollars.

We do expect dollars to be up for the year. And as we've said in both the -- reported in both the second quarter and third quarter, we see that as a part of the SG&A deleverage that we would expect.

Jim Sanderson

Northcoast Research; Analyst

Understood. And then going forward, though, should we think of that line item is something that would grow in tandem with revenue growth? Or do you expect to see some investment to drive broader brand awareness over the next several years? So I think that's really what I'm getting at.

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

Joan Hilson

Chief Financial, Strategy, and Services Officer, Signet Jewelers Ltd.

Yes. The investment, we would expect to continue investment, Jim, while driving efficiencies in our spend. And as we refined our algorithms and the work that we're doing within our personalized marketing and all of those capabilities that we're building, we would expect to build efficiencies in.

But clearly, it is an investment for us to continue to drive business. And as Gina said, foot-traffic online, so to speak, and in-store.

Jim Sanderson

Northcoast Research; Analyst

Understood. Just a quick follow-up on the Lab-Grown-Diamond category.

Could you update us on what your lab-grown mix is to date? How that's changed?

Joan Hilson

Chief Financial, Strategy, and Services Officer, Signet Jewelers Ltd.

So the mix is growing in terms of lab-grown.

It's -- I think total sales is up like mid single-digit penetration to get to roughly a mid-teens. And then when we think about it from a diamond alone, it's a bit higher, but growing similarly in terms of penetration.

Operator^ Our next question comes from the line of Mauricio Serna from UBS.

Mauricio Serna

UBS; Analyst

Just maybe could you talk a little bit more about -- just thinking about the guidance for the -- implied guidance for fourth quarter.

If I want to get to like the low end of the range, I think I'm seeing like a high single-digit decline in total revenues for the third quarter, what would that scenario be? I guess, just you guys are trying to be conservative, but I just want to understand like what are the puts and takes for that particular scenario? And then I have another quick follow-up on margins.

Joan Hilson

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

Chief Financial, Strategy, and Services Officer, Signet Jewelers Ltd.

Yes.

For the low end of guide, you're kind of directing it to that direction, Mauricio, we assumed Engagement units on the low end could be down 5%, as we mentioned earlier.

In Fashion could also be down low single-digits.

So as stay within our guidance range, we don't need to see the high -- we don't need to do better than the current trend that we're seeing.

So it's really -- we feel that what we're seeing in Q3-to-date as well as the response to newness and the margin expansion we're seeing related to that, that we're squarely positioned with the guidance we have to be at the midpoint or better on revenue and towards the low- to middle-end of guidance on EBIT margin.

So really feel solid on the trajectory of the business and the flexibility that we factored into our guidance around promotion and the variability that we might see across the back half of the year.

So the cost savings that we've outlined, we've increased to up to \$200 million. That again also gives us flexibility in delivering on our margins.

Mauricio Serna

UBS; Analyst

Got it. And then just a quick follow-up on the fourth quarter on the margin side, actually, just doing the numbers again, like it does imply like a year-over-year expansion at operating margin, I think, over 300 basis points. Just trying to understand like where is that coming from? Is that like better gross margin acceleration, SG&A dollars are going to be down like high single-, low double-digits? Just trying to understand what is really contemplated into that really good fourth quarter?

Joan Hilson

Chief Financial, Strategy, and Services Officer, Signet Jewelers Ltd.

Yes. And what I would highlight for you is that we have deleveraged SG&A in both the second and third quarter. And as we are within positive comps that you'll see expansion come naturally from leveraging a fixed cost.

We'll continue to drive Fashion as I've mentioned, and Services. And with the Engagement recovery, you can see a higher penetration of Services that will also help to expand margin in the quarter.

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

So it's consistent leverage of our consistent drive on the tools that we have to leverage in newness services as well as the competitive pricing that we factored in as well as in the positive comp to help us offset or help us leverage on our fixed cost base. Those are the components.

Mauricio Serna

UBS; Analyst

Got it. And how much was the 53rd week from an SG&A dollar standpoint? Just to bear that in mind -- have that in mind?

Joan Hilson

Chief Financial, Strategy, and Services Officer, Signet Jewelers Ltd.

We'll have to -- I don't have that off the top of my head.

So we'll get back to you on that, Mauricio.

Operator^ Our next question comes from the line of Dana Telsey from Telsey Group.

Dana Telsey

Telsey Advisory Group; Analyst

As you think about the margins on the Digital Banners, can you get -- and I think last quarter, you had some improvement of up to 300 basis points. How is that margin -- what are you seeing in terms of the Digital Banner margin now? And also, it sounds like Services continues to be meaningful.

Is that an increasing contribution to margins? And then just a follow-up on the real estate side, what did you see during the quarter in terms of performance of the physical real estate, whether it's location or banner?

Joan Hilson

Chief Financial, Strategy, and Services Officer, Signet Jewelers Ltd.

So the Digital Banners improvement in terms of comp -- we've indicated in the past that it was [a negative impact of] down 2%, and we're seeing it move to having a negative impact of one point in the back half of the year.

So a 600 basis point sequential improvement in top-line for the Digital Banners. That's helping us to offset some of the fixed costs as well or leverage some of the fixed costs.

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

So we're seeing bottom-line margin expansion, albeit, Dana, it's slight at this point. And so -- but we'll continue to drive efficiencies there as we drive the top-line.

The integration itself is as Gina mentioned in her remarks that we have the majority of API fixed and we keep -- we are adding new vendors.

But importantly, with respect to the Digital Banners, we're also adding finished products and some Fashion products, which will continue to drive expansion in their gross margin as well.

So it's an important, a strategic move that the Digital banner team has made, and it's been helpful, and we'll see more of that coming into the fourth quarter. With respect to real estate, we've -- e-commerce overall for the quarter was relatively flat, the banner by banner.

We were really pleased to see that Zales has -- with the influx of Fashion product into that business.

We're seeing that help drive the e-commerce performance for that banner. And as we look overall, we -- our stores are well positioned.

We're renovating in anticipation of improved traffic, and we believe based on the testing that we've done and the stores that we've already completed that we'll see a nice lift on the top line relative to that as we complete the balance of the stores heading into holiday.

Operator^ There are no further questions at this time.

I'd now like to turn the call back over to Ms. Drosos for final closing comments.

Virginia Drosos

Chief Executive Officer & Director, Signet Jewelers Ltd

Well thank you, everyone.

We called out a number of competitive advantages today, but I'd like to end the call highlighting the same one that I started with this morning, our experienced, knowledgeable and dedicated team. Their execution is key to the accelerating momentum we are delivering in the business.

So thank you all for joining our call today, and we look forward to speaking to you all again in December.

Operator^ Thank you, ma'am. Ladies and gentlemen, this concludes your conference call for today.

We thank you for participating and ask that you please disconnect your lines.

Signet Jewelers Limited

Second Quarter Fiscal 2025 Earnings

Have a lovely day.