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Signet Jewelers

FY26 Second Quarter Earnings

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CORPORATE SPEAKERS:

Robert Ballew

Signet Jewelers; Senior Vice President of Investor Relations and Capital Markets

J.K. Symancyk

Signet Jewelers; Chief Executive Officer

Joan Hilson

Signet Jewelers; Chief Operating and Financial Officer

PARTICIPANTS:

Paul Lejuez

Citi; Analyst

Lorraine Hutchingson

Bank of America; Analyst

Randal Konik

Jefferies; Analyst

Robert Bischoff

Wells Fargo; Analyst

Mauricio Serna

UBS; Analyst

Dana Telsey

Telsey Group; Analyst

Jim Sanderson

Northcoast Research; Analyst

PRESENTATION:

Operator^ Good morning and welcome to the Signet Jewelers Second Quarter Fiscal 2026 Earnings Call. Please note this event is being recorded.

Joining us on the call today are Rob Ballew, Senior Vice President of Investor Relations and Capital Markets, and JK Symancyk, Chief Executive Officer, and Joan Hilson, Chief Operating Officer and Financial Officer.

At this time, I would like to turn the conference over to Rob. Please go ahead.

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Rob Ballew

Senior Vice President of Investor Relations and Capital Markets

Good morning. Welcome to Signet Jewelers Second Quarter Fiscal '26 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 the 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 JK.

J.K. Symancyk

Chief Executive Officer

Thanks, Rob. And good morning, everyone. Before I get into prepared remarks, I'd like to quickly thank our team. Our outperformance again this quarter is a reflection of your commitment to the customer as we continue in the early stages of our Grow Brand Love strategy. Thank you for your hard work in driving consistent performance this year, and let's continue the momentum into the holiday season.

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

First, we delivered another quarter of positive same-store sales and earnings ahead of our expectations, and including August, we've delivered eight consecutive months of positive comps.

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Second, we continue to make early progress on our Grow Brand Love strategy through distinct merchandise, enhanced marketing, and unique experiences, as well as attracting key leaders to advance our growth agenda.

And third, we are fully prepared and well positioned for holiday as we enter our most critical season with momentum and clear strategic focus.

Turning to the quarter, we delivered same-store sales of 2%, ahead of our expectations, driven by our early prioritization of the three largest brands, Kay, Zales, and Jared, which delivered a combined same-store sales growth of approximately 5% in back-to-back quarters. At the category level, our early efforts to focus on fashion drove a 2% comp growth. Additionally, services continues to deliver, posting a high single-digit comp growth this quarter.

Fashion is important to us, both due to the size of the category as well as building customer relevance across categories. We are focused on delivering fashion pieces across key price points to reach more customers including an expanded assortment of lab-grown diamond, or LGD, fashion pieces. LGD fashion accelerated versus the prior quarter, growing to approximately 14% penetration of fashion sales.

This continued momentum on strategic imperatives bolsters our confidence for the holiday season this year, which I'll touch more on shortly. Before that, I'd like to update our progress on Grow Brand Love go-to-market strategy via three key levers: merchandise, marketing and customer experience.

Within merchandise, we've developed distinct assortments that include new collections. At Jared, our assortment work is furthest along in its differentiation, highlighted by collections like Unspoken and Shy Creation. We are expanding our Unspoken line ahead of holiday based on strong customer response to the initial assortment. This collection reflects the rarity and uniqueness of natural center stone diamond pieces at a wide range of price points. Shy Creation, another collection we're expanding this holiday, elevates the trend of layering or stacking multiple pieces to create a bigger and more styled look.

At Kay, our sentimental gifting brand, we're introducing more milestone gifting pieces at key price points as well as items at a price that are designed to serve

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value-oriented customers without relying on promotions. At Zales, we're focused on breadth and depth of self-purchase fashion. Our assortment offers a range of price points intended to target jewelry box essentials as well as fueling the stacking trend.

Turning to marketing. Our go-to-market strategy is now focused on maximizing performance across a more full funnel approach. Building off the momentum we delivered in the first quarter, our three largest brands drove a more than 40% increase in impressions on a mid-single-digit increase in media spend in the second quarter. We're also adjusting where we spend with a more than 20% increase in social media channel buys to last year, with social media now representing more than a quarter of our total marketing spend. We are bringing brand messaging to more relevant channels that deliver the best reach.

We also continue to refine the messaging within each brand. For example, we launched our Love Highway campaign in Jared this quarter, moving away from the longstanding "He went to Jared" mentality. Love Highway is a campaign that targets affluent couples navigating life's roads together. This campaign represents a new way for Jared to go to market, utilizing a popular social media influencer, Taylor Hill, in this example, to drive traffic and awareness. Highlighting the early effectiveness of this type of campaign, social media impressions for Jared this quarter were nearly double to what they were last year.

At Kay we're early into modernizing the brand. Leading these efforts will be our new Kay and Peoples brand President, Julie Yoakum. Julie comes most recently from Helzberg Diamonds, where she was the President and Chief Brand Merchant Officer and previously was the Chief Merchandising Officer at Blue Nile. Her deep experience in the jewelry industry, both as a merchant and a brand leader, will be important to refresh Kay to a more modern experience to attract the next generation of customer and increase repeat purchases from existing customers.

As part of our modernization efforts, Kay's primary marketing objective is to drive emotional connection with customers including connection with an expanded audience, allowing the brand to reduce reliance on promotion over time. One recent example is naming Teddy Swims as Chief Love Officer. Appealing to a broader audience, the campaign has already driven more than 2 billion impressions since launch.

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While these are examples of early progress in marketing, I'm excited to welcome Lisa Laich as our new Chief Marketing Officer. Lisa previously oversaw digital and brand marketing for the Crocs footwear brands. She brings over two decades of experience in transforming and building brands. Further, she has a strong track record of digital and social marketing excellence.

Lisa will lead our team to drive brand relevance through strategic partnerships and activate channel strategies to build loyalty with existing customers while attracting new ones to engage with our brands. She will also collaborate with the brand teams to develop creative content and storytelling to drive consideration while delivering the benefits of scale in marketing.

The customer experience is the third lever of our go-to-market strategy and the one that will take more time to fully achieve. Our goal is to create unique experiences at each of our brands that enhance the overall omnichannel model, integrating the brand experience from digital to physical down to remerchandising the cases. Our recent reorganization has placed store operations including the store experience, directly under our brand leaders, giving them both the opportunity and the responsibility to create unique customer experiences over time. We're early into this process, but some recent examples of the type of changes we'll be testing and potentially implementing include store formats designed to drive self-purchase and milestone gifting, more self-directed browsing and more interactive experiences. We're furthest along in this process at Jared, where we've been enhancing the shopping and checkout experience.

In stores, our presentation is aligned to recent campaigns, integrating marketing alongside the collections. This delivers styling suggestions to customers and provides them clearer illustration of how pieces can complement their personal jewelry collection. Further, Jared has completely upgraded their packaging, which is often the first impression among important moments for our customers. This is a reflection of the end-to-end upgrade of brand touchpoints that are reinforcing Jared's elevated position of inspired luxury within our portfolio. Consumers are responding to this change in the shopping experience as reflected by the fact that Jared had the best year-on-year improvement to in-store sales conversion across our portfolio this quarter.

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Before handing things over to Joan, I'd like to detail our thoughts around navigating the back half of the year. We believe we are well positioned to enter the holiday season with the right merchandise assortment at the right price points and the right marketing campaigns, all this to bridge the gap in holiday results last year. We believe the consumer will still seek to celebrate this holiday season, and we'll leverage our marketing and brand experience to amplify that emotion at the right time.

Within fashion, we are significantly bolstering our LGD, men's and other trending category assortments in the key gifting price points of \$200 to \$500 as well as higher penetration in LGD fashion across all price points. For example, we expect the number of LGD fashion pieces on hand at price points below \$1,000 to be up at least three-fold from last year, with even higher growth below \$500. We see our customer willing to spend as long as the assortment is compelling and delivers on their expectations of value.

We believe our assortment is well positioned to deliver against that backdrop. We are navigating a dynamic tariff environment to deliver for our customers and our shareholders. We are working with our vendors to land the inventory at the best time to minimize tariffs and maximize holiday availability. We're also working to reduce the impact of tariffs through discussions with suppliers to maximize domestic production, optimize country of origin and by value engineering pieces that deliver on customer expectations at the right price points. Finally, the team is actively evaluating ways to optimize our production as we begin to place orders into the coming year.

In summary today my key takeaways are: first, we once again delivered positive same-store sales and earnings ahead of our expectations with eight consecutive months of positive same-store sales through August. Second, we continue to make early progress on our Grow Brand Love strategy through distinct merchandise, enhanced marketing and unique experiences. And third, we're confident in our ability to navigate the second half as we prepare for our most important season.

With that, I'd like to turn it over to Joan.

Joan Hilson

Chief Operating and Financial Officer

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Thanks, JK. And good morning, everyone.

Revenue for the quarter was over \$1.5 billion with comp growth of 2%, led by growth in fashion and services. Fashion delivered a 2% comp growth, driven by continued acceleration of LGD product performance, particularly at key gifting price points. Bridal comps were roughly flat, with our three largest brands delivering mid-single-digit revenue growth, led by AUR expansion on relatively flat units.

Services grew over 7% in the quarter, led by higher attachment rates of extended service agreements. July was our best month of the quarter despite the toughest comparable within the quarter and was flat on a 2-year stack. Merchandise AUR increased roughly 9%, with fashion up more than 12% and bridal up 4%. This is a consistent result benefiting from our bridal assortment strategy, which has generated AUR growth for the third consecutive quarter. We've seen price stabilization in both loose LGD and natural over the last six months, with natural even rebounding across carat sizes. The fashion AUR improvement reflects the strength of our LGD fashion assortment, which carries a more than 3x AUR premium to other fashion pieces as well as higher gold prices.

With respect to units, we saw a decline of 7%, largely in Banter, which has been more impacted by gold prices and brand-specific assortment strategy to move away from some low priced promotional items.

Now moving on to gross margin. We delivered a rate expansion of 60 basis points to last year, which included gross merchandise margin expansion of 30 basis points. This reflects continued progress of our refined promotional and assortment architecture strategies, which added approximately 80 basis points of expansion. Growth in services also added roughly 20 basis points of expansion. The expansion in merchandise margin rate was partially offset by a 70-basis point negative impact from an increase in the wholesaling of loose stones and the write down of some discontinued product based on a comprehensive assessment of items below cost.

As a reminder, wholesaling of loose stones carries a lower margin but is important to our inventory turn and newness capacity. We also saw 30 basis points of gross margin leverage on fixed costs from a 2% comp. Our SG&A rate improved 50 basis points to last year, driven by reorganization cost savings and disciplined expense

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management. We do not expect SG&A leverage to extend to the back half of the year due to the reset of incentive comp, which is overweighted to the back half of the year, particularly in the fourth quarter. Adjusted operating income grew more than 20% to \$85 million for the quarter, driven by positive same-store sales, gross margin expansion and leverage in SG&A. Adjusted EPS was \$1.61, which was 29% above last year on higher income and a lower share count, partially offset by a higher effective tax rate.

Turning to the balance sheet. Inventory ended the quarter at \$2 billion, nearly flat to last year, despite a nearly 30% increase in gold costs. Cash ended the quarter at \$281 million, with total liquidity of more than \$1.4 billion. Free cash flow for the quarter of more than \$60 million improved by nearly \$50 million over the prior year and improved by more than \$15 million year-to-date. We repurchased approximately \$32 million of shares in the quarter or nearly half a million shares, bringing our year-to-date repurchases to roughly \$150 million or 6% of shares outstanding.

Our remaining repurchase authorization is approximately \$570 million. Recall that our approach to capital allocation includes prioritizing investment in organic growth, maintaining a conservative balance sheet and returning capital to shareholders through share repurchases and dividends. To this end, our organic investments remain on track this year to a range of \$145 million to \$160 million in capital investments and is more heavily weighted to our real estate strategy.

Before moving on, I'd like to provide an update on our digital brands. We continue to remain positive with the progress we're seeing in Blue Nile. While the second quarter includes the temporary impact from shifting to a U.S.-based marketing team as well as pricing resets that required promotional cooldowns, the brand returned to positive comps in July and delivered a 25% increase in fashion revenue in the second quarter.

We believe Blue Nile will further benefit from a more differentiated product assortment and further price point distinction. We continue to evaluate the positioning of James Allen within our portfolio. The brand's performance this quarter impacted total company comps by 120 basis points, a modest improvement from the first quarter. Based on testing to date, we believe the James Allen customer will respond well to faster ship options and more finished jewelry

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offerings in fashion basics. We expect James Allen's impact to same-store sales for the balance of the year to moderate to a range of 60 to 90 basis points.

Turning to guidance. We expect total sales for the third quarter in the range of \$1.34 billion to \$1.38 billion, with same-store sales in the range of down 1.25% to up 1.25%. We expect gross margin rate to be up modestly in the quarter on continued merchandise margin expansion. We also expect some deleverage in SG&A in the quarter including incentive comp reset, change management costs related to our reorganization and shifting some marketing spend out of Q4 and back into Q3.

Recall last year, we shifted some marketing out of Q3 until after the election in battleground states to avoid paying premium rates. We expect adjusted operating income between \$3 million and \$17 million in the quarter. For the year, we are raising our guidance range, reflecting results in the first half of the year, our third quarter expectations and the current tariff landscape. We now expect total sales in the range of approximately \$6.67 billion to \$6.82 billion, with same-store sales in the range of down 0.75% to an increase of 1.75%.

The lower half of our sales guide continues to provide flexibility in the fourth quarter for a measured consumer environment. The implied 2-year stack in the second half of the year is in line or slightly more conservative at the high end of guide than what we have seen over the last two months. We are raising our adjusted operating income expectation to a range of \$445 million to \$515 million. We continue to expect gross merchandise margin expansion for the year, inclusive of the impact of tariffs.

With regards to tariffs, India currently represents roughly half of our finished merchandise purchases and has seen the tariff increase from 10% to 50% in the last five weeks, inclusive of the incremental 25% Russian trade penalty. To minimize the penalty, we will leverage existing inventories, shift some production to other countries, evaluate pricing and promotions as well as utilize bonded warehouses.

If the penalty were to remain in effect for the balance of the year, we expect adjusted operating income in the middle to lower end of the range. Conversely, if the tariff penalty is removed in the next two months, we expect adjusted operating income in the upper half of the range. Also working to offset higher tariffs, we're in

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the early stages of rolling out our refined promotional strategy to other brands, reflecting the success we've seen to date at Jared.

We expect SG&A as a percentage of sales to be flat or slightly higher year-over-year at the high end of our guidance range. Recall that our outlook also includes an incentive compensation reset within SG&A. We are raising our adjusted EPS guide today by approximately 3% at the midpoint to a range of \$8.04 to \$9.57 per diluted share, inclusive of share repurchase to date.

Before we turn to Q&A, I'd like to thank the team for the agility in navigating the impact of tariffs, all while embracing the strategic changes within our organization and delivering a consistent positive performance for our business.

Operator, let's now go to questions.

QUESTIONS:

Operator^ (Operator Instructions) Your first question comes from Paul Lejuez with Citibank.

Paul Lejuez

Citi Group; Analyst

Can you talk about the drivers of AUR in both bridal and fashion in terms of how much is being driven by mix versus pricing actions? Then how do you expect that to change, if at all, in the second half?

J.K. Symancyk

Chief Executive Officer

Yes. Paul, thanks for being on the call. Really, there's a couple of things going on. I'd say mix is largely the driver of it, but we'll focus on fashion first. I think there's two dynamics there. When you look at the introduction of lab-grown diamonds into the mix, that really does expand the AUR. It's an expansion of the category overall. So it's not even really trade up. It's about stretching what the category of fashion looks like for us. With that, we see continued expansion in AUR and have modeled it accordingly.

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From a bridal perspective, similar. Mix is really driving it, whether that be on the lab side or the natural side, candidly. I mean we've seen some stabilization in lab and natural markets of late, which I think bolsters what the bottom side has been. That action that we've talked about, I think on previous calls of how customers are really looking for opportunities to trade up continues to be something that we see playing out.

Paul Lejuez

Citi Group; Analyst

Got it. Then just on the tariffs, specifically India, is there -- as you think about the impact on this year versus next year, how are you thinking about the potential wraparound into the first half of '26? Would you expect to be able to mitigate the pressures if they stayed at this 50% rate? I'm just trying to understand how much is -- how much you're benefiting from using existing inventory versus does this just kind of create an issue for you next year?

J.K. Symancyk

Chief Executive Officer

Yes. I think -- well we've not given any guidance for next year, obviously. But as we look at it, I mean it's the same set of tools that we have. I think the benefit of thinking about next year is you've got a little bit more run time to be able to mitigate, particularly as you start thinking about some of the design elements at play and any of the country of origin movements that are part of our strategy including even some onshoring of production to the U.S.

Obviously there's a lot of moving parts in the tariff landscape right now. We're -- I'm really proud of what our team has done. We've been able to maintain guide throughout the year and even with this incremental 25% penalty to stay within guide and also be able to pull some levers that ultimately are going to create value for our customers and for shareholders by hitting the right price points as we go into the holiday.

We expect to be able to continue to do that. Valentines is really right around the corner. So as we're looking at holiday merchandise, we really sort of lump the two

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together. Beyond that, I mean what I would tell you is we're going to continue to exercise the same set of tools. I think this is a race where the finish line has moved around quite a bit. But it's a set of muscles that we have because of our -- we've operated in a commodity-based environment that's had a lot of moving parts before, and we've got great partnerships with our suppliers and really leading supply chain capabilities within the industry and the balance sheet to be able to manage it. So I think we're as well positioned as we can be, and we're also doing our best to even exercise some tactics to be able to create the flexibility if things continue to be dynamic.

Operator^ Your next question comes from Lorraine Hutchinson with Bank of America.

Lorraine Hutchinson

BofA; Analyst

Can you give us an update on the bridal business? What are plans to try to get the unit velocity moving again? And anything specific planned for marketing into the holiday season for bridal?

Joan Hilson

Chief Operating and Financial Officer

Yes. So we're really pleased, Lorraine, with how bridal has been performing within our three largest brands and really working through the impact that James Allen is having on the bridal business. So overall, if we just focus on the three largest, we're seeing AUR be a strength, particularly over the last three quarters. It's remained relatively consistent. The unit growth, we see the opportunity to continue to trade up into higher carat weights. JK mentioned we saw stabilization in retail pricing, and we've seen an increase in natural, particularly in some of the core larger carat weight.

So we think that is a positive for us from an AUR perspective. Then from a unit perspective, we've really fortified some of the lower price points within our assortment and continuing to drive that, and Kay Zales and Jared is a critical focus. Then if you kind of look at that sweet spot between \$2,000 and \$5,000, we see opportunity, particularly as we see the stabilization and even the increase in natural

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diamond pricing. So we believe that the trend of bridal, we are on pace currently with what we're seeing in the market and in the largest brands even slightly ahead. So positive signs for us as we lean into the critical fourth quarter for bridal.

J.K. Symancyk

Chief Executive Officer

Then one of the items you mentioned on your list of mitigating factors was testing pricing. Just curious if you have any test complete and what the customer reaction has been to price increases in either fashion or bridal.

Joan Hilson

Chief Operating and Financial Officer

Yes. It's been a really company-wide effort across our largest brands, and then we're rolling it out as we move to the back half of the year. But Jared, as we've mentioned, saw a reduction of discounting 20% to 30% over the first half of the year. With that under our belt, we've been able to apply that to Kay and Zales. The three brands are posting up a mid-single-digit comp. So we're seeing that the customer response to those changes have been -- has been good. What I'd like to share, though, is that it's not so much just retail price change per se. It's really lower discounting, but also fewer promotion days and on promotion just going less deep, if you will. So we're seeing that we weren't getting paid for some of the pricing actions that we had in the past. So we've removed some of the days and leaned out some of the price -- the discounts, and it was a good result.

We did mention, Lorraine, that in -- during the quarter, we had pricing and promotion cool down, so we can reset price. We do expect some of that as we roll out to the other brands to occur in the back half of the year. And really, we'll take action in other areas of the business to mitigate some of the impact of that cool down. But it's really been a strong effort across the brand and one that is embraced and, frankly, has served us well timing-wise for the impact of the tariff decisions that have impacted our business.

J.K. Symancyk

Chief Executive Officer

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Yes. I think that's spot on. The only thing I would add to it to maybe help dimensionalize it a little more is we've had pretty significant reset in assortments, particularly in the fashion category. With that level of newness, we really have had the opportunity to focus on design and where we're buying, who we're buying from, leveraging those partnerships to be able to marry design with the sourcing capability to maintain key price points for our customers.

And I think what we're finding is they understand the commodity market. They certainly understand when gold prices move and they see value associated with that. But the ability to really adjust our assortment architecture overall and supplement with newness means we're landing new merchandise at the right price points and have been able to do that with the tariff landscape in mind, so that we're well positioned going into the holiday.

Joan Hilson

Chief Operating and Financial Officer

Yes. I think the only thing I'd add to that, JK, is that it's been a selective -- for existing SKUs, it's been a selective price increase. It's been somewhat modest mid-single digit on applicable SKUs. So it's something that we've really been able to manage strategically with our promotional cadence and the depth of discounting as well. So I think all in all, it was a cohesive strategy around pricing and promotion for the business.

Operator^ Your next question comes from Randy Konik with Jefferies.

Randal Konik

Jefferies; Analyst

I guess JK, when you look at the fashion AUR, obviously nice improvement there. Is there any kind of feel for what the headroom looks like in that category? Because you're talking about a significant amount of increase in the number of LGD fashion pieces to drive up, obviously purchase activity demand and could also drive up AUR. So just any kind of feel to dimensionalize where is AUR now in fashion and what the headroom could be would be super helpful.

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J.K. Symancyk

Chief Executive Officer

Yes. I think it's a great question, Randy. I think there's still runway there. Both -- we do want to be mindful that we're thinking about how to drive some unit growth along the way although to date, a lot of our unit performance is tied to gold, and that tends to fluctuate as gold prices fluctuate. So as we look at lab-grown -- our LGD fashion proliferation, it is generally much higher price point than what our existing assortment was.

We're setting at -- I think the number is about 14% penetration overall. So that would tell you that there's still quite a bit of room there for us to continue to grow and expand the category. And I think how that plays out in terms of AUR itself is -- it's also a function of what we're doing to grow some of our base categories like gold. But at the end of the day I think we're -- we still see runway there and feel like there's an opportunity for us to continue to grow market share in fashion, particularly as we expand into that side of the category.

Joan Hilson

Chief Operating and Financial Officer

And the only thing I'd add there is that, that fashion penetration that JK stated is double what it was last year at this time. So to your point, Randy, there and JK, it's continued growth. The other add-on would be that we don't expect a pullback in AUR at this time citing the higher gold prices, this LGD penetration growth, our lower level of promotions and the tariffs. So we expect AUR to continue.

Randal Konik

Jefferies; Analyst

Great. Then when you look at the success of an improved momentum of Jared, Zales and Kay you gave us some crumbs that were very important around the other banners that are getting, I guess less worse right? Blue Nile turned. James Allen impact looks like it's going to be less worse going forward. I think Banter hurt the

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units as well. Are we looking at perhaps, let's say two quarters out, three quarters out before we kind of -- we can lap a lot of this non-Kay Zales, Jared items of these other banners and start to kind of -- they'll start to kind of become more neutral impact to both AUR units and comp? How do you see that? That would be really helpful just to dimensionalize that.

Then, Joan, just on the CapEx cycle, you -- I believe you reiterated the CapEx guidance for the year. Just high level, is that a kind of -- is that like a normalized type of number as we just think about the future without giving guidance? Just kind of just trying to get a sense of where we are in the CapEx cycle just for go-forward free cash flow purposes.

J.K. Symancyk

Chief Executive Officer

Do you want to take CapEx first, and then I'll come back to it?

Joan Hilson

Chief Operating and Financial Officer

Sure. So the \$145 million to \$160 million, Randy is -- as I said, was heavily weighted to real estate. I think it's -- as we look forward into our real estate strategy and we continue on the Grow Brand Love from banners to brands, our real estate strategy and in-store experience will continue to follow that strategy.

As a run rate, we really haven't assessed what that brand strategy would mean to our CapEx guidance, right, into the following year. But I wouldn't expect it to be markedly different at this time. And as you know our capital allocation priority is to organically invest, number one, in our business. So it will follow the strategy and -- but I wouldn't see it as being materially different than where we are today.

J.K. Symancyk

Chief Executive Officer

Thank you. I would just -- let me take the first part of your question, Randy. The -- as far as the other brands are concerned, yes, I mean we're focused on what we do to

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drive improvement there. I would say we've been very clear about the focus on Kay Zales and Jared. Given the size, I think it's hard to be healthy if the core is not healthy. And so I'm really pleased with the way that we've put the energy there, and I think it's absolutely the right thing to build momentum in the business. It also -- to Joan's point, whether it's how we think about promo or what we're looking at in terms of assortment, it informs the decisions that we feel like are critical to help drive the other brands.

Within each, there's a little bit different story. Blue Nile continues to build momentum. I think that is very much about distinguishing its brand positioning and really moving back up a bit to where it has held the greatest strength. It also has an opportunity as it relates to fashion, very similar to Kay Zales, Jared. That's -- I think that similarity is part of why it's moving faster along with -- within that team. The focus on it is really the bellwether of the digital brands.

James Allen, we've got some work to do strategically. We have some work around price and promotion, positioning within the marketplace. We also have some work around speed to market relative to customization or the assembly customization that's really the hallmark of what James Allen does. The team is working hard to reposition and relaunch with those improvements in place. I think we'll -- then we'll be able to measure what it takes to win that business back from a customer standpoint and/or what are the right decisions that we should be making moving forward with James Allen.

The other businesses, we don't talk a lot about. Peoples has been a really strong business in Canada. We don't talk about it quite as much, and I probably owe a big thanks to our Peoples team in Canada. They're small, but mighty. If you look at their business on a 2-year stack basis, it's probably the healthiest in the company, growing share and really leading well.

U.K., we don't talk a lot about for some of the same reasons. It's been relatively healthy. I think there are some market share dynamics that are unique to the U.K. market that present some opportunities for us moving forward. And -- but it's not a big source of investment or a big source of capital. And so it's probably not going to be something that we dimensionalize a lot.

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Then I think Diamonds Direct is a really good business that, like a lot of businesses that are sort of founder-led, hit a growth stage where you really have to look at operating model and what it means to go from being a smaller regional founder-led business to something that is of larger scale. So that's work that's in front of us. The team is galvanized around that. I do think that as we tackle that, then, yes, to your point, those things, I wouldn't use the word less worse. I think our goal is to improve them and create some tailwind behind those businesses and make them stronger parts of the portfolio, but it's going to come with the gravitational pull and the weight of having core brands like Kay Zales and Jared that really do drive performance for us.

The only one I didn't mention is Banter. I think Banter is -- it's good business. It's got some -- it's very different from the rest of our businesses, just given lower price point, heavy reliance on gold, kiosk business. So there's some unique dynamics there. But it's actually sort of holding its own. And I mean -- so again not a high source of capital or investment moving forward, but something that we'll continue to manage as well. So thanks for the question.

Operator^ Your next question comes from Ike Boruchow with Wells Fargo.

Robert Bischoff

Wells Fargo; Analyst

This is Robert on for Ike. I was wondering if you could talk a little bit more about your 3Q guide? Because it seems like it's a little below the 2Q run rate. As some softened, are you seeing some earlier demand pull forward? And also could you talk a little bit about your holiday comp plan?

Joan Hilson

Chief Operating and Financial Officer

So I'll take the 3Q guide. The guide -- the performance that we saw in second quarter, we saw momentum continue into the third quarter. We're pleased with that. The momentum was on a positive -- with a positive 2-year stack. So the guide itself is just -- is relatively measured, and we feel that we're pleased with how the business performed, and the guide itself just takes into account the many factors that we face in the third quarter. So happy with the top line momentum. We'll see a

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little bit of -- we continue to see gross margin expansion with some deleverage in SG&A. So really relative to some incentive cost resets. So we are -- and that's the underpinning of the 3Q guide.

I think as we look at the full year, we've raised our full year guidance same-store sales with an increase in operating income, less so on the low end given the impact of tariffs and so forth, which we've discussed. But the same-store sales itself is a slight decline, if you will, in the implied guide for 4Q, and it's really all around the idea of this measured consumer environment and what -- and being somewhat conservative to what we've seen happen in the business, just knowing the backdrop of the business. But overall, we've raised our guide, reflecting what we've seen in the second quarter, our expectations for third quarter and then just remaining somewhat measured in the fourth quarter for holiday.

J.K. Symancyk

Chief Executive Officer

Go ahead, Robert. I didn't mean to cut you off.

Robert Bischoff

Wells Fargo; Analyst

No. Go ahead. What were you going to say?

J.K. Symancyk

Chief Executive Officer

No. I was just going to say as far as holiday comp plan, I -- we're -- we believe we're well positioned to maximize the holiday season. I think Joan touched on it. There's a lot of moving parts in the environment right now but we've seen our customer be resilient. This -- we largely set in what is a planned and emotional purchase, and those drivers are fairly timeless, resilient, and we're seeing customers respond to that in the marketplace.

I think we've also taken the right steps, given maybe where we didn't deliver as strongly last year, are better positioned within key price points. We called it out in

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the script, but LGD fashion is 3x the inventory level or ownership levels below \$1,000 and even greater below \$500. We've put a particular focus on that \$250 to \$500 price point because that's really critical, especially as you get into those last 10 days.

So I think we're very well positioned to be able to maximize that. It's not just the ownership level, but when you look at the level of newness, that allocation of inventory is much more on trend and better positioned relative to what I think customers are looking for, and we'll be there ready for them because I think they'll still shop for the holiday.

The only other thing I'd add to it is from a marketing perspective, very focused on maximizing that investment in full funnel marketing across the year to really pulse demand during those last key time periods, and we'll continue to build upon the impression expansion that we've seen over the course of the year to best position ourselves to maximize the holiday season.

Robert Bischoff

Wells Fargo; Analyst

Great. One other follow-up on that. Can you talk about how your lab business did in the second quarter and how comps and margins are doing in it?

Joan Hilson

Chief Operating and Financial Officer

The lab-grown diamond business, yes, what we've said about fashion, Robert, is that it has a 14% penetration rate in fashion, and it's double what it was last year. Margins are quite nice. They're up somewhat in -- with respect to the lab-grown fashion performance. And frankly, we're seeing -- as we said in bridal, we're seeing the stabilization of pricing in lab grown. And just conversely on natural, it's actually up. So we're seeing a nice AUR movement in both of those businesses, and the penetration to an earlier point is we see runway for that to continue to grow in fashion.

Operator^ The next question comes from Mauricio Serna with UBS.

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Mauricio Serna

UBS; Analyst

I'd like to maybe ask on -- if you could elaborate on your third quarter performance. Quarter-to-date, like how does that look versus what you were seeing at the end of -- in July, which you pointed was like your strongest month? Then just kind of help us to also think about like the compares for the third quarter. I think I recall like last year, like August was actually like the strongest month of the quarter that -- if I'm correct. So just trying to understand like what does that imply for like the guidance for the sales guidance for Q3.

Joan Hilson

Chief Operating and Financial Officer

Yes. For Q3, we exited the quarter nicely. As we mentioned, July was our toughest comp, and we exited it nicely on a positive comp, highest comp in the month in the quarter -- in the second quarter. The comp has been fairly consistent across the last several months as we look into August. We like what we're seeing, and it's a positive comp trend for us. The only caveat I'd share with you is that we'll have some further pricing resets and cool downs that we'll experience in the third quarter as we prepare for the critical fourth quarter. But overall, top line trends have held and believe that the team has done a nice job in setting architecture as we land new product throughout the quarter.

Mauricio Serna

UBS; Analyst

Got it. Then just one quick follow-up on the guidance for -- the updated guidance for the year. Could you give us a sense of how much pressure from tariffs you're expecting in Q4 when you're thinking about like the high end and the low end of the guide?

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Joan Hilson

Chief Operating and Financial Officer

Yes. So Mauricio, as we think about the guidance range for operating income, what we've said that is if the Russian penalty remains, our -- on the Indian imports, we expect to be in the middle to lower end of our EBIT range. But if it's removed, we would expect to be in the upper half of the guidance range. So that's the dimension that we've put within our range. And so we were able to evaluate -- to the discussion earlier, evaluate and opportunities to offset as much of the tariff and mitigate as much of the tariff as we can with country of origin and pricing and promotion and so forth and believe that the teams have the right pricing in place for holiday. So that's why we were able to stay within that guidance range.

Mauricio Serna

UBS; Analyst

And just one point of clarification. For the high end of the guide, when you say they remove like the Russian penalty, does this mean like the tariff is 25% or 10% on?

Joan Hilson

Chief Operating and Financial Officer

Yes, exactly. The reciprocal tariffs remain intact, but the penalty, if that is removed, we would expect to be in the higher -- in the high end of the range.

Mauricio Serna

UBS; Analyst

And sorry, what would be that tariff, so 25%?

Joan Hilson

Chief Operating and Financial Officer

Yes, for India. So -- and with the Russian penalty, it's 50%. So we would expect to be in the upper half of the range if that penalty would be removed.

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Operator^ Your next question comes from Dana Telsey with Telsey Group.

Dana Telsey

Telsey Group; Analyst

As you think about the learnings from the fourth quarter applied to this year, I remember last year, some of it was not having enough of the right inventory at the price points of \$200 to \$500. Obviously you had growth in lab grown fashion diamonds. How do you think of the playbook for holiday this year? And what is marketing spend going to look like this year versus last year?

J.K. Symancyk

Chief Executive Officer

Sure. Dana, thanks for the question. We feel good about the holiday. We've kept our eye on the ball relative to those assortment gaps from last year and have really invested to make sure that we are covering the right price points. Lab-grown diamond fashion is a big part of that because of the on-trend nature and customer relevance of it, particularly in the fashion category.

We've tripled our ownership of lab-grown diamond fashion below \$1,000, have bigger increases below \$500 and with particular focus on that \$250 to \$500 price point. We've also looked at what's the -- within existing SKUs, what's the content of the assortment look like relative to trend. It was -- we sold through the on-trend merchandise we had last year.

We did have other merchandise, but it was dated, and we've worked hard coming out of last year and into the first part of this year to be clean from an inventory perspective and then make the assortment adjustments. And depending on the brand, you're looking at as much as 40% to 50% of an assortment shift, particularly within those price points.

So it's not just about the depth of ownership that was a big opportunity last year, but the content within it is something that we've been mindful of, particularly as we've tried to wed the assortment changes to the brand positioning for each. And so within Kay that means really doubling down on milestone gifting as the big driver of assortment differentiation along with men's.

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With Zales, it really is about more on-trend fashion assortment with particular focus on self-expression, and stacking is a big part of that trend. Within Jared, you really have both of those trends at play but at a more elevated price point for a more discerning higher-end customer who likely has the essentials in their jewelry box already and are looking to add to their collection. And so I think the focus that our teams have brought to the table, particularly in this environment, where we've worked on shifting the long-term strategy and have made an awful lot of changes to our operating model, but to balance that with driving performance in the near term, I'm really pleased with where we are despite maybe all the external noise that's going on in the environment. I think our team is really well positioned and is navigating this dynamic environment well on behalf of our customers who I think will reward us, but also the impact that it can have on shareholders.

Dana Telsey

Telsey Group; Analyst

And two quick follow-ups. JK, is the team fully built out now? Any other holes that you're seeking to fill? Then on square footage, Joan, I think it's now down 1%. Previously it was down 1% to flat. Anything to take away there?

J.K. Symancyk

Chief Executive Officer

Sure. Let me take the first part of that question, Dana. I'm really pleased with the leadership team and the way that we've come together. I think the mix of experience, both Signet experience as well as industry experience, and the diversity of thought that we've added to the team just makes us stronger. And I think we're well positioned.

We do have one leadership position that we are still interviewing for. It's a technology leader for the organization. I think that's going to be the last critical piece for us to fill. But as I alluded in the last calls, that process is ongoing. We're getting close to a final decision there. And just like with the addition of Julie and Lisa and the elevation of Stacey, I'm confident that we'll add strength to the team, not only with the expertise in the area that we're looking for, but also that someone

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who's going to be additive to culture and really be aligned with our purpose and our strategy in a way that can be a catalyst moving forward.

So stay tuned, but we're -- team is largely set, to the point of your question, more succinctly, and I'm excited about how well everybody is working together and our alignment on the strategy moving forward.

Joan Hilson

Chief Operating and Financial Officer

And Dana, to your question on square footage, it's really just the refinement of our store closure plan for the balance of the year. So nothing more to take from that than just a refinement.

Operator^ (Operator Instructions) Your next question comes from Jim Sanderson with Northcoast Research.

Jim Sanderson

Northcoast Research; Analyst

I wanted to go back to the fashion category for the quarter. Could you provide us what the unit decline was for the quarter?

J.K. Symancyk

Chief Executive Officer

Yes. We --

Joan Hilson

Chief Operating and Financial Officer

The decline in the unit performance, sorry, JK, was down high single digit in the fashion category. What you should take from that, Jim, is that the gold pricing in Banter had slowed the units there, which is typically what we see over time. Then the change in the promotional item strategy, particularly in Zales, which was a strategic decision to move away from some of those lower price points and one

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that we would expect to continue in the back half of the year. So pleased with the overall fashion performance and the refinement of strategy, and the gold prices was generally -- the external commodity gold pricing was really the impact that we saw in the Banter brand.

Jim Sanderson

Northcoast Research; Analyst

Okay. The bridal category, as far as your outlook for the fiscal year, do you expect the units in bridal to remain relatively flat? Or do you anticipate some pickup or momentum heading into the back half of the year for units, not AUR?

Joan Hilson

Chief Operating and Financial Officer

Yes. It's relatively flat on the higher end, Jim. Might be like up a low single-digit level, but it's -- that's where -- that's the guidance, and it's really remained unchanged from where we were last quarter in terms of our outlet feel.

Jim Sanderson

Northcoast Research; Analyst

Okay. Then one follow-up question more broadly on your assortment changes. Where do you think lab-grown diamond assortment mix will land as you build up the kind of value fashion assortments going forward? I think you said it was 7%, now up to 14% of sales mix. What's the right mix for the assortment you have in mind?

J.K. Symancyk

Chief Executive Officer

Yes. Jim, I appreciate the question. We haven't really given a penetration target in part because it's a function of both numerator and denominator, and we'd like to grow both. So I'm probably not going to give you a target there. I do think we're -- when you look at our penetration from a share perspective, it is still relatively low in fashion. And when you look at the growth that's driving the category, lab-grown

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diamonds are really the impetus for that, and I'll underscore the point around category expansion. These are not replacements for something that exists today. Largely, the customer that is buying something like a lab-grown diamond tennis bracelets, for example, is not a core traditionalist that is choosing between a natural diamond or a lab-grown diamond. This is really about expansion of consumption overall for much of where that growth is.

So we still feel like there's runway there from a penetration standpoint. It is -- I think it's going to take a little bit of dimensionalizing, and we'll probably answer this question on future calls because a lot of our fashion unit performance has been disproportionately grown through a brand like Banter at a much lower price point. And as we move into what is really on-trend fashion, it will juice AUR, if you will, but it's almost apples and oranges because you're adding to the category.

And I think we're going to -- questions like yours in terms of how do you put to a model is probably going to be something we'll talk about for a little bit as we find what the baseline for this can be. But still expect a lot of growth there. Interestingly, as we routinize it, particularly in those core brands of ours, we're seeing overall balance across sort of AUR and unit growth, especially in Kay and Jared.

Jim Sanderson

Northcoast Research; Analyst

Okay. Okay. Just one last follow-up question on marketing spending. I think this quarter, you reported spending was a little bit higher than revenue growth. Is that the trend we should look at for the back half of the year?

J.K. Symancyk

Chief Executive Officer

No. Not necessarily. I mean I -- we haven't really changed our budget for the year. What we have done is feed it if -- I mean we're very focused from a performance standpoint. We were up 4% in spend. But if we can see that, that pulls through and we're going to grow profit based on that investment, then I think we're -- we've got our feet on the gas and the brake appropriately there, and I would call it neutral overall.

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Operator^ There are no further questions at this time. I will now turn the call over to JK Symancyk for closing remarks.

J.K. Symancyk

Chief Executive Officer

Thank you. Thank you, everybody, for joining us today. In closing, I'd like to again thank our team for their commitment to delivering results this quarter. We are laser-focused on holiday preparations, and we look forward to sharing further results with you in December. Thank you.

Operator^ Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.