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# Signet Jewelers

FY26 Q3 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 Hutchinson**

*Bank of America; Analyst*

**Randal Konik**

*Jefferies; Analyst*

**Ike Boruchow**

*Wells Fargo; Analyst*

**Dana Telsey**

*Tesla Group; Analyst*

**Jeffrey Lick**

*Stephens; Analyst*

**Mauricio Serna**

*UBS; Analyst*

**Jim Sanderson**

*Northcoast Research; Analyst*

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## PRESENTATION:

Operator^ Good morning and welcome to the Signet Jewelers Third 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, JK Symancyk, Chief Executive Officer, Joan Hilson, Chief Operating and Financial Officer.

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

# Signet Jewelers

## FY26 Q3 Earnings

---

### **Robert Ballew**

*Senior Vice President of Investor Relations and Capital Markets*

Good morning. Welcome to Signet Jewelers' Third 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 the 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 measure to the most directly comparable GAAP measures, investors should review the news release we posted on our website at [ir.signetjewelers.com](http://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. I'd like to start the call this morning by thanking our team. Your efforts to date are delivering meaningful progress to this first year of Grow Brand Love while driving near-term momentum in our performance. Thank you for your hard work and commitment to our customers as we enter our critical holiday season.

There are three key takeaways I'd like to leave you with today. First, we delivered our third consecutive quarter of positive same-store sales and grew adjusted operating income double Q3 of last year. Second, our efforts to expand merchandise margin are delivering meaningful and sustainable results that have worked to drive operating margin expansion and offset pressure from tariffs and commodity pricing. Third, we believe we're well positioned for the holiday season with a focused assortment aligned to key categories and price points supported by a modernized marketing approach.

# Signet Jewelers

## FY26 Q3 Earnings

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Turning to the quarter. We delivered 3% same-store sales growth to this time last year. Our three largest brands, Kay, Zales, and Jared delivered a combined same-store sales performance of 6% to last year. That reflects our intentional focus on the core of our business with growth in both bridal and fashion categories.

The results that we delivered this quarter are also a reflection of our brand equity work, assortment strategy and a refined approach to pricing and promotion. Further, the reorganization under Grow Brand Love has empowered brand leaders to act swiftly on decisions that drive brand equity, fueled by a strengthened center of excellence that leverages our scale.

Building on that, I'd like to highlight a few of the more significant factors in our Q3 results. Within merchandise, we delivered growth across all categories, bridal, fashion, and watches. This performance underscores the strength of our assortment architecture and ability to respond to evolving consumer preferences. In bridal, continued focus on differentiated offerings and strategic pricing resonated most from mid-tier consumers with Kay, Zales, and Peebles, all delivering high single-digit sales growth or better. This strong growth was led by long-standing brand collections like Neil Lane, Vera Wang, and Monique Lhuillier.

In fashion, Jared delivered 10% comp sales growth, reflecting strong performance in diamond, gold and men's jewelry bolstered by strength of recent collections like Italia D'Oro. Alongside that, we continue to see runway in the fashion category, particularly in lab-grown diamonds or LGDs, which expanded penetration to 15% of fashion sales this quarter, roughly double last year's rate. In marketing this quarter, we are making progress on modernizing our playbook. This includes a more robust full funnel media strategy, amplified social media, and digital first-led content as well as brand ambassadors like Antonia Gentry and Chloe Fineman to drive buzzworthy campaigns.

We continue to see double-digit growth in impressions off a low to mid-single-digit increase in spend from this updated approach. At Jared, we're using story-led marketing to drive results. This quarter, Jared launched its storied diamond collection in partnership with DeBeers. This collection uses blockchain technology to track a stone's journey from its origin in Botswana all the way to its final setting in Jared's collection.

# Signet Jewelers

## FY26 Q3 Earnings

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Alongside this, we premiered A Diamond is Born, a documentary by Academy Award-winning filmmaker, Luc Jacquet. This documentary details the diamond's journey as well as the lives that it enhances along the way. We look forward to seeing the impact of this campaign over the holiday as early results are driving traffic.

My second key takeaway today relates to our efforts to expand merchandise margin. Year-to-date, we have delivered 50 basis points on merchandise margin expansion with 80 basis points for Q3 despite a significant impact from tariffs and increases in gold costs. We have been carefully rolling out a refined pricing and promotion strategy. While this has included select price increases, it's a much more fulsome playbook. We are carefully turning the dials on how many days our brands are on promo, what items are eligible, and depth of discount, particularly the periods where there is no preexisting consumer expectation for value shopping.

Promotion can be an effective traffic driver. But overreliance on it can impact brand equity and ultimately leave money on the table. Brand equity also helps drive margin expansion. Jared is furthest along with its brand identity work and overall pricing and promo strategy, leading to 25% reduced discounting to Q3 last year.

Lastly, our high-margin services business is also growing faster than merchandise and helping expand margins. It's the overall combination of these efforts driving year-to-date results despite pressure from tariffs and notable increases to gold costs. With regards to the current tariff landscape and specifically India, we believe that we have mitigated a majority of the higher rates through strategic sourcing and the merchandise margin actions I've detailed and will be the same levers we look to as we set our sights on the year ahead.

Turning to the holiday season. Based on customer insight and preferences as well as learnings from last holiday we have taken a decisive inventory position in key gifting items at targeted price points. This strategy includes on-trend categories like LGD fashion, men's fashion, gold jewelry and colored stones. For example, we've made a material investment in LGD fashion at price points below \$1,000 compared to last holiday.

# Signet Jewelers

## FY26 Q3 Earnings

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We're also being strategic in our marketing spend this holiday. More than 70% of adults now stream as a primary way to watch video. So we continue to rebalance the channels we spend into in order to drive efficient reach. This work will be even more important as we navigate a period of lower U.S. consumer confidence. We've taken action to meet the more pronounced value expectations of consumers this season with a well-balanced assortment and promotional cadence. Delivering on holiday is our highest near-term priority and our Grow Brand Love Strategy continues to set the stage for sustainable long-term growth.

Summarizing my key takeaways today. First, we delivered our third consecutive quarter of positive same-store sales and grew adjusted operating income double Q3 of last year. Second, our efforts to expand merchandise margin are delivering meaningful and sustainable results that have worked to drive operating margin expansion and offset pressure from tariffs and commodity pricing. Third, we believe we're well positioned for the holiday season with a focused assortment aligned to key categories and price points and supported by a modernized marketing approach.

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

### **Joan Hilson**

*Chief Operating and Financial Officer*

Thanks, JK. And good morning, everyone. Revenue for the quarter was approximately \$1.4 billion, with comp growth up 3% to last year. This reflects the expansion of average unit retail of 7%. Unit performance improved sequentially, while still down to last year, driven by a better performance at Banter and Zales. Fashion AUR grew 8%, largely on assortment mix to LGD fashion, which carries a higher AUR as well as higher gold prices. Bridal AUR grew 6% in the quarter reflecting a growing mix of LGD wedding and anniversary bands, which also carries a higher AUR than other bands. Importantly, services grew high single digits in the quarter with nearly five consecutive years of positive comps. We saw growth in extended service agreements, or ESAs which saw attachment rates up over 1.5 points in the quarter. This reflects higher attachment online for bridal and higher in-store attachment and fashion.

# Signet Jewelers

## FY26 Q3 Earnings

---

Moving on to gross margin. We delivered a rate expansion of 130 basis points to last year. This was led by merchandise margin expansion of 80 basis points which JK detailed a moment ago. We also delivered 30 basis points of occupancy leverage, reflecting the efficiency within our operating model to expand margins on a slightly positive comp. Lastly, we drove a 20 basis point improvement from distribution efficiencies, taking advantage of higher gold prices by accelerating scrap recovery as well as better shrink performance. The SG&A rate for the quarter was nearly flat despite a 70 basis point impact from higher incentive compensation.

Excluding the incentive compensation, SG&A improvement reflects more efficient marketing spend and store labor planning as well as favorability in transaction fee costs. Adjusted operating income was \$32 million for the quarter. This result is ahead of our guidance equally on higher sales and operating efficiencies across gross margin and SG&A. The combination of our capital allocation strategy, further tariff mitigation efforts, the improvements in our operating model and the focus on the three largest brands led to a more than 2.5x increase in adjusted EPS. Turning to real estate.

The work to refresh stores this year is already delivering mid-single-digit sales lift to stores recently renovated at Kay Jared and Zales. Additionally, early results from the repositioning of Kay stores are also showing positive traction, pacing towards just over a 2-year payback as we continue to relocate high-performing doors away from declining venues to better locations in otherwise strong markets.

Now turning to the balance sheet. Inventory ended the quarter at \$2.1 billion, down 1% to last year despite a nearly 50% increase in gold costs and higher tariffs. Cash ended the quarter at \$235 million with total liquidity of approximately \$1.4 billion with an undrawn ABL. Free cash flow improved by more than \$100 million for the quarter and by more than \$150 million year-to-date from timing of receipts that will shift payment to the fourth quarter and inventory discipline. We repurchased approximately \$28 million or roughly 300,000 shares in the quarter, bringing our year-to-date repurchases to nearly \$180 million or 2.8 million shares, which represents more than 6% of the diluted shares outstanding. Our remaining repurchase authorization is approximately \$545 million.

Turning to guidance. We are modestly updating our expectations. This includes raising the low end of our full year guide to reflect our beat in the third quarter,

# Signet Jewelers

## FY26 Q3 Earnings

---

further tariff mitigation efforts and a measured outlook for the fourth quarter. This measured outlook reflects external disruptions since late October and potential continued softness in consumer confidence. We believe it's prudent to have a cautious approach to guidance given we've seen softer traffic in the past five weeks, particularly among brands with more exposure to lower to middle income households. We are raising our full year same-store sales low guide to down 0.2% and maintaining our high guide of plus 1.75% and introducing a fourth quarter same-store sales range of plus 0.5% to down 5%.

With just over 70% of the quarter to go, we're well within that range. Our guidance assumes merchandise margin rate to be roughly flat to a slight increase in the quarter, providing some flexibility for the current macro environment. We are raising our full year adjusted operating income low guide by \$20 million to \$465 million and maintaining our high guide of \$515 million. This translates to an increased adjusted EPS range of \$8.43 to \$9.59 per diluted share, inclusive of share repurchases to date. Lastly, we're introducing a fourth quarter range of \$277 million to \$327 million of adjusted operating income. We also continue to expect \$145 million to \$160 million in capital expenditures for the year inclusive of pulling forward real estate spend to take advantage of the strong returns we've seen to date.

Before we turn to Q&A, I'd like to thank the team for your dedication, resilience and focus this year. I wish a happy and healthy holiday season to you and to your families.

Operator, let's now go to questions.

### QUESTIONS:

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

**Paul Lejuez**

*Citi; Analyst*

Curious if you could talk about what you've seen quarter-to-date and specifically over the Thanksgiving weekend, how that might have informed your comp guidance for 4Q? And maybe you could just dig in a little bit more about the



# Signet Jewelers

## FY26 Q3 Earnings

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external disruptions since late October that you referenced, just wanted to understand what you were referring to. If that was the traffic comments that you just made? Or if it was something else?

### **J.K. Symancyk**

*Chief Executive Officer*

Yes, Paul, thanks for the question. I think we've been pretty cautious as it relates to Q4 all year long. Our guide, we're maintaining a little bit of softness at the start of November, which, obviously you've seen everything from consumer confidence surveys to issues with government shutdown Snap, our consumers are dealing with a lot. What we saw quarter-to-date is really seeing that play out a little bit, most notably in the brands that have a greater density of lower and middle income customers.

Outside of the U.S., consistent trends in those brands of ours that have more exposure to high-income customers. We're still seeing spends be consistent. So while we've watched a moderation of that and really believe that the holiday is going to happen per normal and that we've got confidence in our plan moving forward. We also didn't feel like that, that prudence around Q4 was wrong. We've been pretty consistent in that guide all year. I think this is a reflection of that. As far as the weekend, we don't -- I don't know. What I've learned as I've looked through our data and seen play out is, first of all, Black Friday to Cyber Monday is just not as big of a of an impact on our quarter.

If you look at the month of November, it's 25% of our total quarter. So for us, December is a whole lot more important. And good Black Friday bad Black Friday in between really has very little bearing on our results. Our overall performance is so much more tied to those 10 days leading into to Christmas when you look at the volume, those days are more important than the whole month that we just finished. I think we've seen fairly consistent results quarter-to-date from all the way through Black Friday.

So no big change there and no call for pessimism, but I think we're right to be guarded. I do think we've got a customer that is going to be more intently focused on value as they come through the holiday and our guide and our actions are really focused on that.

# Signet Jewelers

## FY26 Q3 Earnings

---

### **Joan Hilson**

*Chief Operating and Financial Officer*

The only thing that I would to that, JK -- well I was going to add that the guide that we've given and what we've said in our prepared remarks is that we believe we're well within the top line guide for the fourth quarter, which is important. To JK's point, we have 70% of the quarter ahead of us. So at this position, we believe it's prudent to be conservatively positioned and provide for variability in consumer spending.

### **Paul Lejuez**

*Citi; Analyst*

Got it. Then I guess just a follow-up on the 10 days leading up to Christmas, obviously I think you kind of had a miss there last year. So is it your expectation that once we get to that point that you would see an acceleration in sales as we move to that period within the quarter?

### **J.K. Symancyk**

*Chief Executive Officer*

Yes. We think we're well positioned for it. I mean I would say the -- if you recall the opportunity that we had last year was we really were under inventoried relative to the sub-\$500 and sub-\$1,000 price points, particularly in the fashion side. I mean depending on what bucket you're looking at and what brand you're looking at, we've got anywhere from five to 8x the inventory there, well positioned on trends, same investment, particularly in LGD fashion at those lower price points that has been driving improvement all year, and we're really ready for the business and I think have the right promotional cadence set up to be able to support what's going to resonate with customers.

So we're certainly building towards that. And I think we're positioned to be able to deliver value to customers during that time period, which also should represent an opportunity for us to drive performance different than last year.

# Signet Jewelers

## FY26 Q3 Earnings

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

### **Lorraine Hutchinson**

*Bank of America; Analyst*

So last quarter, you spoke to the low end of guidance if the India tariffs remained. What were the key mitigating factors that had the biggest impact to allow you to raise that low end today?

### **J.K. Symancyk**

*Chief Executive Officer*

Yes. I appreciate the question, Lorraine. And maybe more importantly, I appreciate the work our team has done to deliver it. We've never fully dimensionalized a number as it relates to tariffs in part because it moved around a lot. I think one of our challenges has always been, if I gave you a number on Tuesday on Wednesday it might look a little bit different just based off of the volatility there. And even though even though we haven't seen the India tariffs pull back through a combination of a number of things, a lot of moves as it relates to country of origin to really partner with our supplier.

When I talk about our teams, I'm not just talking about our merchants and supply chain folks who've worked hard, but upstream, our supplier partners have really been nimble. We've moved some production to the U.S. We've moved some production to other countries. We've found ways to build efficiency in the supply chain. In this environment, given the commodities, there is a little bit of price that has moved through. I think we've been able to mitigate that and mute it ultimately to try to protect value for our customers along the way. And given what our team has worked through, particularly over the last couple of months, not only does that position us well for the holiday but ultimately, these are the same levers that we will use to drive the businesses next year.

But I'm -- I love you asked the question because I think it really does point to the fact that despite this disruption and moving from effectively a low of 5% tariff to north of 50% tariff in India. Our team has been able to do that, grow the business and actually raise the bottom side of guide and take that downside off of the table

# Signet Jewelers

## FY26 Q3 Earnings

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which I just think is great work across our business and also puts us in a position of strength as we're moving into this next year.

### **Lorraine Hutchinson**

*Bank of America; Analyst*

Then can we just talk a little bit more about pricing. With gold prices and tariffs, it sounds like you are pulling the pricing lever a little bit. How do you tread carefully enough, given that you're seeing that pressure at the low-income consumer, I guess how do you balance the need to offset some of these cost pressures with the consumer struggles that you're seeing?

### **J.K. Symancyk**

*Chief Executive Officer*

Yes. It's -- thank you. I think that's the art and science of running a retail business right now. And for us, I'll break it into two parts. Gold as a straight commodity is -- and when you think about that, think about more go-forward pieces or things like gold chain, for example, that are all about gold. I think historically, we've seen that customers understand that's a commodity market. They understand the value associated with it. And as we as we pass along the fluctuations of price on the -- that are purely commodity driven, we generally see customers recognize that value.

We are obviously tethered to a market and look to leverage our scale and strength of supply chain to make sure that we're offering the right value proposition relative to the rest of the market. I think our team does that well. And historically, we've -- every time we see what we think may be a ceiling, we recognize the consumer understands that commodity price and tends to be resilient because of the residual value of what they're buying.

So we may see a little bit of a drop off in units in gold as a result of some of those price increases. But from that plays out across the market, and we know how to navigate that pretty well. In the case of tariffs and/or other -- the other side of that coin, that's where it really becomes important for us to think about design, all of the elements of a piece of jewelry and how do we leverage design and our supply chain and supplier partner base. to really drive sharp adherence to some of these key price points. And I think that is more important this time of year than ever.

# Signet Jewelers

## FY26 Q3 Earnings

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If I look at a business like Kay for example, sub-\$500. We're significantly higher on inventory and positioning than where we were last year because we know that's going to be critically important to that customer. That customer we'll understand those key price points, whether it's that item that I buy for \$199 or \$299 or \$500 and we work hard to engineer a product that still delivers value proposition and carries that emotional value but can stay within the price point ranges that make sense for the holiday.

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

### **Randal Konik**

*Jefferies; Analyst*

I guess Joan, maybe what would be helpful is to kind of hindsight fourth quarter last year. Maybe give us a little bit more color on, if not quantitatively, more qualitatively how the quarter played out and kind of how you think about that as it pertains to fourth quarter this year, I think you said that the 10 days, 14 days, whatever it was before Christmas last year were pretty difficult, providing opportunity. So it'd just be helpful to kind of get some perspective on how everything kind of played out last year to give some perspective how things should maybe play out this year?

Then as a follow-up to that, commentary. Maybe JP can give us some perspective of what you're kind of constructing teams to do to execute the holiday season to make it a success. You've done a good job or done work around marketing and merchandising. So just kind of just give us your thoughts on what you're instructing everyone to kind of get done over the next 30 to 60 days.

### **Joan Hilson**

*Chief Operating and Financial Officer*

So thanks, Randy. With respect to last year, I mean it was clear that we had assortment gaps in key gift-giving price points, particularly under 1,000 and even more so under 500. We did not have the lab-grown penetration in fashion that, particularly in fashion somewhat in bridal, but we didn't have that penetration last year. This year, lab diamonds are roughly 40% of our bridal business and they're up

# Signet Jewelers

## FY26 Q3 Earnings

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to 15%, double last year in our lab-grown fashion business. So we've closed that gap and really responded to what the customer is -- was asking for last year that we didn't have, and we've now bridged that gap. So we feel strongly about the assortment architecture that we've been able to put forward.

Importantly, Randy, the next step of that is our -- we need to be in depth position in key price points in key styles. The team has worked very diligently to ensure that as we progress through the holiday selling period and we approach the last 10 days before Christmas, which we know is critically important, we're in stock in the key items that the customer is responding to. One of the things that we're seeing that gives us confidence is that our conversion from quarter-to-quarter has been relatively consistent. So we believe as we get closer to the holiday selling period, we're seeing strength in our traffic in brick-and-mortar. It's stronger, that, that will bode well for us on top of the conversion metric that has remained relatively consistent.

So that speaks to for us, the strength of our assortment and closing that gap. We also have fortified post holiday selling -- it's -- as you'll recall we lead up to Valentine's Day in the month of January. It's not as big of a holiday for us, but it's an important holiday for us. We've ensured that we are in stock and have received flow post the holiday selling season, which will bode well for the first quarter of next year.

### **J.K. Symancyk**

*Chief Executive Officer*

I think as far as the next 30 to 60 days, I mean Joan touched on it. December is a critically important month, and it is particularly important because that's when that's when customers who shop our category really do come more into the mindset of making a purchase. We are a great last-minute option, whether that's because people save for it or because it's a simple solution at the end.

I think it's incumbent on us to make sure that we make that as frictionless for customers as possible. I think if -- of anything, this category can be a little bit intimidating to customers. And at a time period where I think there's a little bit more going on with a little bit more uncertainty in our lives leading up to the

# Signet Jewelers

## FY26 Q3 Earnings

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holiday as consumers the more we can simplify and focus our message for them, I think the better off we are.

To Joan's point, that really does mean honing in on simple value propositions, trying to really streamline promotions so that it's less complex, and we're much more straightforward with customers around what the value proposition is. I think that's a risk. One of the things we've learned as we've looked at the consumer response this month is simpler is better. So the more we can simplify that and be straightforward the better off we are.

Then from an operational standpoint, it is about making sure we've got inventory in the right place that we maintain depth and in particular, have product available, not only for shipment online, particularly in the first half of the month. But as we move towards the end of the month, it's about having product available in store so that we can focus on the biggest opportunity we have, which is conversion.

What we're seeing is some modest improvements in conversion. So if we -- and that was really -- that was the opportunity last year. If we're really honest about our shortfall, particularly in those 10 days. It was not a traffic opportunity for us. It was a conversion opportunity. There was a very clear message from customers that we were not as good at delivering the merchandise that they needed to solve that the gift that they were looking for, we're much better positioned today to do that. I think you see that playing out and in our Q3 results when you look at strength across all categories.

So now it really is about making sure that we get that message in front of people simply. We're executing tightly and have that inventory we've invested in available at the point of purchase. Then ultimately, we're doing what we can from an operational standpoint within all the brands to convert and get them on their way to celebrate the holiday with their love ones.

**Randal Konik**

*Jefferies; Analyst*

Great. Then when you think about the bridal category versus the fashion category, just as an industry, how do you think -- how do you feel about those two different sectors? Then when you think about architecting the business over the next -- and

# Signet Jewelers

## FY26 Q3 Earnings

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changes to it over the next 12 to 24 months, are you thinking about changing the balance between bridal and fashion at all any changes you're contemplating thoughts on the portfolio? You keep talking to a distortion of capital towards the mega brands of Kay Zales and Jared, just kind of curious on how you're thinking about the next 12 to 24 months moving things around the chessboard?

### **J.K. Symancyk**

*Chief Executive Officer*

Yes. It's a great question. I'll answer part of it and probably push part of it until after the holiday because I -- the last thing I want to do is introduce a lot of hypotheticals to our team as we should be really focused on closing with customers and really delivering the holiday. To your point, we love the balance of the two, honestly. I mean given the share we have in bridal, we want to maintain that dominance. But we recognize that, that it is harder to gain outsized growth there because we do set in a position of dominance.

We certainly don't want to see that. We love that balance within our business. We love being there for customers with that important point in their life, and we're going to continue to be dominant and bridal across the business. No question about that. We talk a lot about fashion just because it's underdeveloped relative to our business, and that's where the opportunity for outsized growth is.

So mathematically, that may change the mix over time. It isn't about a pivot away from fashion, and it's absolutely about a pivot -- or excuse me, a pivot away from bridal. It's more about a pivot into the opportunity that fashion presents for our business and the overall lift that can provide to the total portfolio. I think the work we're doing to further delineate and position our brands to be complementary in that regard, give us degrees of freedom to lean a little more heavily in some brands into fashion and also stay a little more staunchly in the bridal focused area for other brands.

As far as the portfolio is concerned and capital, I think once we get through the holidays, it's a great time for us to talk about some of the other strategic opportunities that we have. We've alluded to a few of them. I think given -- as we've said all along with some of the other noncore brand decisions once we get through Q4, we'll be in a position to lay out thoughts. But I think the focus we've had on our



# Signet Jewelers

## FY26 Q3 Earnings

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core brands to really reignite growth across our business is what gives us not only confidence, but the degrees of freedom to really think a little more aggressively around how we deploy capital strategically across the business to continue to generate growth.

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

### **Ike Boruchow**

*Wells Fargo; Analyst*

To the first question is really just about promo. Maybe JK or Joan, could you talk about the Black Friday week, what your strategies were. Did you deviate from those at all? Then kind of how does promo play into comment -- the cautious commentary. So understanding that the comp guide, just kind of curious how your markdown strategy is planned for the holiday today?

### **Joan Hilson**

*Chief Operating and Financial Officer*

So over the weekend, Cyber 5, we stayed on plan. We were -- in terms of our promotional strategy, we were pleased with how we were able to lean out some discount in the appropriate places within our business. And really believe that, that strategy served us well from -- particularly from a margin perspective. As we head into the holiday selling season, I would say that we are into peak selling, we are -- we have a plan that gives us flexibility.

I noted that our guide for the fourth quarter is -- gives us some allows for some variability in consumer spending. And I believe and we believe as a team that, that's a prudent measure, just as we navigate our way through the next 70% of business in our quarter. So it's important that we retain that flexibility. The discounting, as we think about it, one of the things from an earlier question, is our assortment architecture that we've created for the fourth quarter gives us those price points buckets like that really allow us to serve customers at different levels under \$1,000, and it provides for the variability in consumer household incomes that our portfolio spans in terms of the mid-market.

# Signet Jewelers

## FY26 Q3 Earnings

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So our strategy allows for that not only in promotion, but in assortment architecture. We believe that's just as important. We have a nice assortment in what we would consider desirable price points in -- with depth in those styles that can serve customers under \$1,000 and under \$500. So it's really about understanding the customer for each of the brands.

### **Ike Boruchow**

*Wells Fargo; Analyst*

Got it. Then within that, Joan, could you maybe for 4Q specifically, the gross margin plan? And could you kind of intertwine your promo plan along with whatever the tariff headwind is? Like basically, you stack the puts and takes for 4Q gross margin that's embedded in the EBIT guide?

### **Joan Hilson**

*Chief Operating and Financial Officer*

So for the fourth quarter, our GMM rate, our gross merchandise margin rate considered flat to flat to a slightly up view. That's what's giving us the flexibility that we may need depending on those consumer spending patterns. You'll recall like leading into the third quarter, we had an expansion of 50 basis points. And again you heard our results this quarter were very good in terms of margin expansion. Some of that came from pricing and a large part of it also came from architecture within the assortment. So we're continuing through that but giving our continue with the architecture, but giving ourselves that pricing flexibility.

So that's the overall view of a GMM. As you know and we've said in the past that our gross margin, we're able to leverage gross margin on a slightly positive comp. So that considers just some of the work that we've been doing in our operating model efficiency within our distribution centers, we actually took advantage of and will continue to do so in the fourth quarter. We took advantage of the gold price and accelerated some planned scrap recovery that we typically do in our business, but we accelerated it to take advantage of the pricing. So we're taking all of those measures in hand and bringing those forward into the fourth quarter as well.

### **Ike Boruchow**

# Signet Jewelers

## FY26 Q3 Earnings

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*Wells Fargo; Analyst*

Just so I'm clear. So the merchant margin flat to up, but the comp is negative, would gross margin be down due to deleverage on fixed costs within comps?

**Joan Hilson**

*Chief Operating and Financial Officer*

Yes. That's accurate.

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

**Dana Telsey**

*Tesla Group; Analyst*

Nice to see the progress. I think you had mentioned about some of the smaller banners like James Allen or Banter for the second half of the year, a guide towards the 60 to 90 basis point margin drag. Is that still in place? Or has anything changed there? And two other things, given the upcoming holiday season and the opportunity for this year, what is the percentage of newness that you're thinking about in the assortment, whether for bridal or fashion for this fourth quarter? And Joan, any updates on the real estate optimization plans?

**Joan Hilson**

*Chief Operating and Financial Officer*

So I'll start with James Allen. Right now our guide would assume that we are -- it would negatively impact comps by 120 basis points. It's been relatively consistent throughout the back half. We've seen some slight improvement in certain periods of time. But overall, that's the negative impact that we would see on overall comp in the -- we saw it in this quarter, and we would expect the same in the fourth quarter.

With respect to newness, we target roughly 30%, Dana. The most important part of that is what is the content of the newness and the depth in styles. So in the past, we may -- as we saw last year, we had a breadth of assortment, but weren't deep enough in styles that we're resonating with the customers. So while the factor -- the

# Signet Jewelers

## FY26 Q3 Earnings

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percentage is important, it's the content and depth of the key item that's most important.

Then the real estate update, I mentioned it in my prepared remarks, but we're very pleased with the results in our refresh program. And it's up mid-single-digit comps from the brands that we've refreshed and largely our largest brands. The renovations have been particularly strong for us, just over a 2-year payback. You can really see the results of that within our Jared business. The team has done a terrific job in bringing to the customer a more modern view of that brand and upscale the interior to meet the product assortment that has been leveled up from an offering perspective. But obviously while maintaining the right assortment architecture to cover a wide range of price points.

So really pleased with that. We still intend to close up to 100 stores this year over the next two years, we think it's roughly 150 stores. Several of those, Dana, are in Banter which are -- have been in declining malls and we'll understand if there's a repositioned strategy for those locations. Banter is a highly productive brand for us, and it has a strong 4-wall contribution. So we'll really evaluate where that -- the future might be in terms of newer locations for that brand.

Operator^ Your next question comes from Jeff Lick with Stephens.

### **Jeffrey Lick**

*Stephens; Analyst*

I was wondering if you could maybe unpack a little bit more. I think those of us have been following the story. We've all looked at Q4 as this kind of this battle between the consumer versus the improvements you're making. If I use last year's EBITDA of 394 and then the high end of your EBITDA this year at 374, it kind of implies that almost no matter what the consumer element is a bigger factor than the improvements that you're making. It kind of seems like your improvements are whether it's a fashion or just the [lab] in diamonds we have. Could you maybe just unpack? Are we -- is that how it should be read? Or is it possible that things could come in much better because from the get-go, it seems like the consumer element seems to be a much bigger factor than the -- what was thought to be pretty sizable improvements potential for Q4 this year?

# Signet Jewelers

## FY26 Q3 Earnings

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### **J.K. Symancyk**

*Chief Executive Officer*

Yes, Jeff, maybe Joan and I can tag team this one. I think there's two things to unpack there. As far as any sort of guardedness on Q4. I do think from day one of this year, we have -- despite the opportunity for improvement in top line for Q4, we've been a little bit guarded just knowing that -- some of the consumer uncertainty, what that may mean to the competitive landscape, we want to retain the flexibility to be responsive in the market to their needs as well as some of the curve balls as it relates to costs, not just on the commodity side, but especially with tariffs. Those have all been considerations and led to what has been actually a pretty consistent guide for Q4 from day one. When you're looking at EBIT for that quarter, incentive comp is a pretty big factor when you start thinking about the reload of incentive comp and how that plays out.

So it's -- you've got a little bit of apples and oranges that may be going into the comparison there. But listen, I think this is an environment where we also want to retain the ability to be responsive to the consumer at a time period where they have been dealing with a lot. We feel like maintaining that flexibility to continue to drive momentum is really important for us. I think our guide reflects that. And so I don't know Joan, if there's anything you want to add to it. But that's -- if I were trying to summarize or give you a synopsis of maybe how to square up those two parts of the story, that's the intersection that makes sense to me.

### **Joan Hilson**

*Chief Operating and Financial Officer*

The only thing I'd add is that our Q3 momentum, we feel the business had momentum, has momentum. We are seeing a stronger we're seeing a slightly increase -- a slight increase in conversion rate, which, to us, speaks to the architecture and the assortment that we're bringing forward, we are able to reset some of the -- with respect to tariffs, we've been able to offset those while driving in the assortment architecture that continues to aid us in merchandise margins.

So that's a positive, Jeff. Then I think some deleverage on fixed costs that the lower end of our guide is part of that. But to JK's point, almost at the high, we expect deleverage in SG&A. But it's entirely related to the incentive comp reset, much of

# Signet Jewelers

## FY26 Q3 Earnings

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what we saw in third quarter. And at the low end of the guide, it's really, to a lesser degree, incentive comp, but also that fixed cost to leverage. So we'd like the assortment. We like the position and just responding to what might happen at the range of our guide.

### **Jeffrey Lick**

*Stephens; Analyst*

Yes, don't misunderstand the question. I think it's prudent to get the guidance that you gave. We're just trying to handicap those two kind of opposing forces. One quick question on the Indian tariffs. Is there any chance you can give us a sense of the dollar amount if, let's say tariffs were to go back to, say 25%, 20%, which is kind of what the other countries are getting? How much of an eventual obviously it won't be instant because of the way inventory turns? But how much of a get back -- or how much dollars have you absorbed or could you get back?

### **J.K. Symancyk**

*Chief Executive Officer*

That is -- in this world, that is a what should be a simple question, but is actually much harder only because in some cases, we made decisions around relocating to a different country of origin or even potentially changing design and what we would buy to maintain not just assortment architecture but margin architecture in some of those things. So it's -- I would say the -- gosh, it's -- because we haven't dimensionalized a headwind, I can't as easily articulate what the giveback may be, I would say the plus of that pullback would be the range of product and the predictability of supply chain relative to really being able to lean into top line driving performance is greatly aided by a reduction in tariffs.

I think one of the challenges that many retailers, not just us are facing as it relates to the timing of some of the tariff announcements is literally running out of runway relative to Q4 and having to make decisions on what do you pass on, what do you absorb, what do you not do that maybe you would have considered before.

So above all, I mean listen, I think our team has done a an exceptional job of navigating that uncertainty and positioning us to be there for the consumer, not just for Q4, but delivering this performance throughout the year. And honestly,

# Signet Jewelers

## FY26 Q3 Earnings

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some of what we've had to develop in terms of nimbleness and responsiveness within the supply chain. That's going to carry a benefit for us moving forward. I mean the better we are controlling our inventory and really mastering all of the input costs that come along with the supply chain for a scale player like us gives us a competitive advantage.

So in the classic sense of that which does not kill you makes you stronger. Like this is one of those things that we're finding the blessing in it and going to leverage that to our benefit moving forward. But that uncertainty and the short runway leading up to Q4, certainly hamstrings some of the degrees of freedom relative to assortment planning and would only benefit from stability, particularly if that stability comes with a more moderate tariff than what we've been dealing with. And so I know I didn't answer your question relative to the dollar amount.

It's hard because we never gave you a dollar amount on the front side, but I at least want to convey to you that we're thoughtful around what levers there are for us to pull that can be accretive to the business ultimately when we land at a little more normalized state relative to the tariff environment.

### **Jeffrey Lick**

*Stephens; Analyst*

So I guess to close that, from a qualitative basis, if the only thing in the tariff landscape that changes next year is that the Indian tariffs go down, obviously because the other tariffs seem to be a little more set at this point, so you can kind of have an idea of the landscape. But if the Indian tariffs go down, all things being equal, that's going to be a positive for 2027 and beyond.

### **J.K. Symancyk**

*Chief Executive Officer*

Yes. It should. I mean I think inherently, quantifying the overall dollar impact, I think it's a little bit harder thing to do. But absolutely, that gives you more opportunity to play offense.

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

# Signet Jewelers

## FY26 Q3 Earnings

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### **Mauricio Serna**

*UBS; Analyst*

Just a point of clarification on the Q4 guidance. When you said that you are within -- well within the range, does that mean you're at the top end, midpoint? I'm just trying to understand that part of the guidance. Then also in Q4, thinking about the promotional environment, can you talk about what you've seen so far in terms of like at an industry level, what you've seen in promotions? And do you expect that to maybe year-over-year be more intense, be in line? Just any thoughts on what you're thinking about that the promotional environment would be great.

### **Joan Hilson**

*Chief Operating and Financial Officer*

So we articulated that we were well within the range of our top line guidance, Mauricio. The reason that we can position ourselves with that statement is that historically, when you think about the fact that the Black Friday weekend is a very small piece of the overall quarter and that from the run rate of the November month-to-date into the holiday selling period even last year as well with some of the assortment gaps that we've had, we see improved run rate historically from November to December as historical and we've seen over the last several years.

So it's really -- it's more pertinent to think about the overall guide and understanding the variability in the range is just giving us a range of outcome that gives flexibility for some of the pricing actions, particularly with the EBIT. So without being specific, we feel that our business has momentum. And as we look into December, based on our assortment, we are cautious optimistic about the outcome.

### **J.K. Symancyk**

*Chief Executive Officer*

And I think as far as promotion is concerned, I just think in this kind of consumer environment, it's wise for us to be prepared for it. We've seen a little bit more promotional response, I think with some of the consumer confidence questions that have emerged in November. I think we're well positioned to be able to deliver on the right value propositions as we get into the real crunch time for our business.



# Signet Jewelers

## FY26 Q3 Earnings

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So nothing exceptional that I would quantify at this point, Mauricio. But I think any time you've got a consumer that's dealing with uncertainty, it's wise for us to plan for it and to remain flexible to be responsive so that we can drive top line during a really important time of the year.

Operator^ Next question comes from Jim Sanderson with Northcoast Research.

### **Jim Sanderson**

*Northcoast Research; Analyst*

Congratulations on the great third quarter. I wanted to dig in a little bit more to the fourth quarter guidance, the lower range, the negative 5%. Given the strength you've had in average unit revenues to date, what would it take with respect to average unit volume declines to get to that negative 5% in fourth quarter, both in bridal and in fashion? Just trying to get a sense of where the greatest risk or weakness can emerge for the fourth quarter.

### **Joan Hilson**

*Chief Operating and Financial Officer*

I'll take that, Jim. With respect to the low end of our guide, bridal units would be down roughly mid-single digit and -- which would also -- fashion units would also be down similarly. So that's the view of units. We feel that even at the high end of the guide, bridal can be down low single digit in Q4 and achieve our guidance. So we feel very good about the performance that we're seeing in bridal, particularly in our large brands. We're seeing a high single-digit comp in bridal, in Kay and Peoples, which is not on the larger brands, but it's doing quite nicely. So I feel good about the positioning of where the guidance is positioned relative to bridal and to fashion.

### **Jim Sanderson**

*Northcoast Research; Analyst*

All right. So -- but to make sure I understand it, even at the higher end, you would expect units to be down, let's say low single digits for the bridal category? That's the kind of way to look at it?

# Signet Jewelers

FY26 Q3 Earnings

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**Joan Hilson**

*Chief Operating and Financial Officer*

That's right.

**Jim Sanderson**

*Northcoast Research; Analyst*

Okay. Understood. And just a question on the promotional environment. Are you satisfied with your price position, promotional price position relative to peers as you entered into the December holiday season?

**J.K. Symancyk**

*Chief Executive Officer*

Yes. It's a great question. We are. But I would also tell you, this is a time period where as people adjust, we also scrape the market and make sure that we're really well positioned. I think the dynamic nature of this environment and just given the, not only what we've talked about relative to consumer, but just the compression that happens between now and the holiday I think we're focused on staying vigilant. And particularly when everybody is dealing with some input cost changes, I think that creates a little more focus, certainly on our part to make sure that in these commodity-based categories or in any of the key price point offerings that we really maintain the kind of competitive positioning that makes sense. And so we've - I think we balance that really nicely over the course of the year being less promotional, more broadly, focusing promotion where it makes sense, but also not being gratuitous and eroding brand equity in the process.

I think the other benefit of that is it enables us to really focus our value messaging to customers in a stronger way. We obviously watch the landscape and want to make sure we're maintaining that momentum as we go into such a critical time period, also not losing the progress that we've made relative to some of the discipline around pricing architecture that's paying dividends for us. So that's where we're focused, I think more than not. We feel like we're in the right position. Win or if we have found any categories or subcategories within a brand where we don't like, then we've got the flexibility to also remix and manage it accordingly. So we're delivering the right value.

# Signet Jewelers

## FY26 Q3 Earnings

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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*

Okay. Thank you, everyone, for joining us today and for your interest in our business. We are fully focused on the critical holiday selling period, and we're confident in our strategy and our team's commitment to deliver results. However you celebrate, I want to wish everyone, our employees, partners, shareholders, all of you holiday season full of joy piece and, of course love. Look forward to speaking with you next quarter. Good-bye.

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