NEWS RELEASE

Fitch Upgrades Signet to 'BB+'; Outlook Stable

5/14/2024

Note: This release was originally published by Fitch Ratings on May 14, 2024. See **the original release here**.

Fitch Ratings - New York - 14 May 2024: Fitch Ratings has upgraded Signet Jewelers Limited's and Signet Group Limited's ratings, including their Long-Term Issuer Default Ratings to 'BB+' from 'BB'. The Rating Outlook is Stable.

The upgrade reflects Fitch's increased confidence that Signet will sustain EBITDAR leverage (capitalizing leases at 8x) below 4.0x over the medium term, with proforma EBITDAR leverage as of April 2024 around 3.5x. Although there could be some continued topline moderation in the near-term given a pullback in discretionary products spending, Fitch's operating projections, alongside management's evolving financial policy favoring debt reduction support expectations that Signet will sustain EBITDAR leverage below 4.0x.

Signet's rating reflects its leading market position as a U.S. specialty jeweler with approximately 9% share of a highly fragmented industry. The ratings consider Signet's good execution from a top-line and a margin standpoint, which support Fitch's longer-term expectations of low single-digit revenue and EBITDA growth.

KEY RATING DRIVERS

Moderate Leverage; Strong FCF: Proforma for the company's repurchase of 50% of its $655.5 million in outstanding preferred equity in April 2024, Signet has approximately $475 million in debt outstanding and a public leverage target of at or below 2.5x (capitalizing rent at 5x), which equates to a Fitch calculation of at or below 4.0x EBITDAR leverage (capitalizing leases at 8x). LTM proforma EBITDAR leverage stands at approximately 3.5x, and Fitch projects, assuming flat debt levels, that Signet's leverage could trend in the mid-3x range beginning in 2024. Per Signet's adjusted leverage calculations, this equates to leverage trending in the low-2x vicinity.

Signet has strong liquidity and financial flexibility with $1.38 billion of cash as of Feb. 3, 2024 and Fitch expects positive FCF of $320 million-$380 million across 2024 and 2025. The company could deploy FCF toward a combination of debt repayment, share repurchases, dividends and acquisitions. Signet repurchased an average of $275 million shares annually across 2021-2023. Signet has been acquisitive, purchasing Diamonds Direct in November 2021 for $503 million and Blue Nile in August 2022 for $390 million. Both transactions were funded with cash on hand.

Proforma for the recent preferred equity repurchase, Signet has approximately $475 million in outstanding debt, inclusive of approximately $148 million in unsecured notes due in June 2024 and the remaining portion of preferred shares which mature in November 2024. Fitch expects that Signet could address these maturities with cash when they come due. Given Signet's leverage target, Fitch expects that Signet could look to issue debt effectively refinancing these upcoming maturities.

Near-Term Topline Moderation: Signet's results have been impacted by a slowdown in consumer spending on discretionary products given moderating consumer fundamentals, as well as the ongoing impact of a pandemic-driven decline in engagements. Revenue is expected to decline in the mid-single digits in 2024 towards $6.8 billion after declining in the high single digits in 2023 to $7.2 billion.

Fitch projects that Signet's revenue could stabilize around $6.9 billion beginning in 2025 as engagement trends recover and the company benefits from its ongoing topline initiatives. Signet's projected revenue compares to 2019 levels of $6.1 billion. The company has closed approximately 20% of its store base since 2019 and this sales volume has been largely been offset by the acquisitions of Diamonds Direct in 4Q21 and Blue Nile in 3Q22, which together accounted for approximately $900 million in 2023 revenue. In addition, Signet has benefited from the introduction of a number of strategies in recent years to improve same-store sales (SSS), including increasing the pace of product innovation and investing in its omnichannel platform.

Focused Strategy Supports Margin Profile: EBITDA margins are expected to trend in the mid-11% range beginning in 2024, modestly lower than 2023 levels and well above the low-8% vicinity seen in 2019. Based on Fitch's topline assumptions this yields EBITDA in the upper $700 million to low $800 million range beginning in 2024, versus approximately $850 million in 2023 and $500 million in 2019. Signet achieved over $700 million in cost savings from 2019-2023 across a number of categories including store fleet optimization, sourcing optimization, and store labor rationalization. In 2024, Signet expects to achieve an additional $150 million-$180 million in cost savings. Fitch expects Signet to redeploy a significant level of these savings into topline investments as it has in the past.

Leading Jeweler Position: Signet is the leading U.S. specialty jeweler with an approximately 9% share of a fragmented $63 billion U.S. market. As of Feb. 3, 2024, Signet operated 2,698 stores across well-known brands like Kay, Jared, Zales and Banter by Piercing Pagoda in the U.S.; Peoples in Canada; and H. Samuel and Ernest Jones in the U.K.

Signet benefits from its scale and ability to invest in its omnichannel platform. If executed effectively, these investments could provide competitive advantages against smaller and independent jewelers with limited capacity to invest. Longer term, the ability to grow its share of the fragmented mid-tier jewelry market will depend on execution against its omnichannel and other growth initiatives.

Parent Subsidiary Linkage: Fitch's analysis includes a strong subsidiary/weak parent approach between the parent, Signet Jewelers Limited and its subsidiaries Signet UK Finance, PLC and Signet Group Limited. Fitch assesses the quality of the overall linkage as high, which results in an equalization of the ratings. The equalization reflects open legal ring-fencing and open access and control between the stronger subsidiaries and the parent.

DERIVATION SUMMARY

Signet's ratings consider good execution from a topline and margin standpoint, which support Fitch's longer-term expectations of low single-digit revenue and EBITDA growth. The rating reflects its leading market position as a U.S. specialty jeweler with an approximately 9% share of a highly fragmented industry. Fitch expects Signet will be able to sustain EBITDAR leverage below 4.0x as appropriate for the 'BB+' rating. Similarly rated peers include Capri Holdings Limited (Capri; BBB-/Rating Watch Negative), Levi Strauss & Co. (BB+/Stable) and Samsonite International S.A. (Samsonite; BB/Stable).

Samsonite's rating is one notch lower than Signet's, reflecting Samsonite's relatively higher leverage with expectations that EBITDAR leverage will trend in the high-3x range over the next few years. Samsonite's rating also considers its status as the world's largest travel luggage company, with strong brands and historically good organic growth. Samsonite's topline rebounded strongly, following weak pandemic-era performance in 2020, led by a continued strong recovery in global travel.

Levi's rating is in line with Signet's and considers the company's good execution both from a topline and a margin standpoint, which support Fitch's longer-term expectations of low-single digit revenue and EBITDA growth. Although there could be some near-term pressure to operating results given ongoing shifts in consumer behavior, difficult comparisons, and global macroeconomic uncertainty, Fitch expects that Levi will be able to maintain EBITDAR leverage (adjusted debt/EBITDAR, capitalizing leases at 8x) below 3.5x over time.

Capri's rating is one notch higher than Signet's, in-part reflecting expectations that Capri will sustain EBITDAR leverage in the low-3x range longer-term. The rating reflects Capri's strong positioning in the U.S. handbag market and, good growth at its various brands along with its demonstrated commitment to debt reduction. The rating also considers the fashion risk inherent in the accessories and apparel space. The Negative Watch reflects the potential for a sustained increase in leverage, pro forma for the acquisition by Tapestry, Inc., above Fitch's current expectations for EBITDAR leverage to sustain in the low-3x range.

KEY ASSUMPTIONS

--Signet's revenue is expected to decline in the mid-single digits in 2024 driven by ongoing soft demand for discretionary goods, including jewelry, a challenging macroeconomic environment, and the negative impact of the loss of a 53rd week. Thereafter, revenue is expected to grow in the low single digits, supported by the company's topline initiatives, including its omnichannel focus, along with a general improvement in engagement levels after a pandemic-driven trough. Revenue is expected to trend around $6.9 billion-$7.0 billion, beginning in 2025, compared with 2019 levels of $6.1 billion. Across 2021 and 2022, the company made two sizable acquisitions of Diamonds

Direct and Blue Nile, which, together, accounted for approximately $900 million in revenue in 2023.

--EBITDA is expected to decline approximately 8% to $780 million in 2024 from approximately $850 million in 2023, largely driven by mid-single digit topline declines expected for the year. EBITDA is expected to grow modestly beginning in 2025 in the low-$800 million range relative to 2019 levels of $504 million. EBITDA margins could trend in the mid-11% range beginning in 2024, slightly below 2023 levels and well above the low-8% range seen in 2019 given effective expense management initiatives.

--Fitch expects that FCF, post-dividends, could trend around $320 million-$380 million annually beginning in 2024 assuming modest EBITDA expansion and neutral working capital.

--Signet could use its strong cash balance of $1.38 billion as of Feb. 3, 2024 and good FCF to reinvest in its business, continue share buybacks and repay debt. On April 1, 2024, Signet repurchased 50% of its outstanding preferred shares. The company's $148 million of unsecured notes mature in June 2024 and the remaining $328 million of preferred equity is due in November 2024. Signet could address these maturities with cash on hand. Given Signet's leverage target, Fitch expects that Signet could issue new debt in the medium-term, keeping debt levels near April 2024 proforma levels. Signet has historically also deployed FCF towards acquisitions including the Diamonds Direct and Blue Nile acquisitions in 2021 and 2022.

--EBITDAR leverage (capitalizing leases at 8x) is expected to trend in the mid-3x area across the forecast assuming EBITDA remains in the low-$800 million range and the company refinances upcoming maturities. Signet has a public leverage target of maintaining adjusted leverage (capitalizing rent at 5x) at or below 2.5x, which equates to at or below 4.0x EBITDAR leverage on a Fitch adjusted basis.

--The company's unsecured notes are a fixed-rate instrument at 4.7%. The revolving credit facility is floating rate (SOFR + 1.5%).

RECOVERY ANALYSIS

Recovery Considerations

Fitch does not employ a waterfall recovery analysis for issuers' assigned ratings in the 'BB' category. The further up the speculative-grade continuum a rating moves, the more compressed the notching between the specific classes of issuances becomes. Fitch has affirmed Signet's secured asset-backed lending facility at 'BBB-'/'RR1' indicating outstanding recovery prospects. Fitch has upgraded the unsecured notes to 'BB+'/'RR4' from 'BB'/'RR4' indicating average recovery prospects. Fitch has upgraded the preferred equity to 'BB'/'RR5' from 'BB-'/'RR5', indicating below average recovery prospects.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--To support an upgrade, Signet would need to show a demonstrated commitment and ability to sustain EBITDAR leverage below 3.5x while generating low single-digit revenue growth and EBITDA at or above $800 million.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--A downgrade could occur if operating performance is below expectations, yielding EBITDA declines toward $600 million and EBITDAR leverage sustained above 4.0x.

LIQUIDITY AND DEBT STRUCTURE

Strong Liquidity: Signet had $1.38 billion in cash and cash equivalents as of Feb. 3, 2024 and no borrowings on its $1.5 billion asset-backed lending facility due July 2026, with $1.1 billion in available borrowing capacity. The company's capital structure as of Feb. 3, 2024, consisted of $147.7 million in unsecured notes due June 2024 and $655.5 million of preferred equity, which receives 0% equity credit.

Permanence in the capital structure, in this case permanence of the preferreds, is necessary for equity credit recognition. On April 1, 2024, Signet announced that it had repurchased 50% of the outstanding preferred shares using cash on hand. The remaining $328 million in outstanding preferred equity matures in November 2024.

ISSUER PROFILE

Signet, incorporated in Bermuda, is the world's largest diamond jewelry retailer, with 2,698 stores and kiosks (as of Feb. 3, 2024) in the U.S., U.K. and Canada operating under a variety of national and regional brands. Signet's largest brands include Kay (36% of 2023 sales), Zales (18%), and Jared (17%), all of which operate in North America.

SUMMARY OF FINANCIAL ADJUSTMENTS

Historical and projected EBITDA is adjusted to add back non-cash stock-based compensation expense and exclude non-recurring charges. For the YE Feb. 3, 2024, Fitch added back $41 million in stock-based compensation expense. Fitch has adjusted the historical and projected debt by adding 8x annual gross rent expense.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Corporate Hybrids Treatment and Notching Criteria (pub. 12 Nov 2020)

Parent and Subsidiary Linkage Rating Criteria (pub. 16 Jun 2023)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 13 Oct 2023) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 03 Nov 2023)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Signet Group Limited	EU Endorsed, UK Endorsed
Signet Jewelers Ltd.	EU Endorsed, UK Endorsed
Signet UK Finance plc	EU Endorsed, UK Endorsed

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