

SIGNET JEWELERS LTD
Form 10-K
March 16, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended January 28, 2017
Commission file number 1-32349

SIGNET JEWELERS LIMITED
(Exact name of Registrant as specified in its charter)

Bermuda
(State or other jurisdiction of incorporation) Not Applicable
(I.R.S. Employer Identification No.)
Clarendon House
2 Church Street
Hamilton HM11
Bermuda
(441) 296 5872
(Address and telephone number including area code of principal executive offices)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Shares of \$0.18 each	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate web site, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of regulation S-K is not contained herein, and will not be contained to the best of Registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer x Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No x

The aggregate market value of voting common shares held by non-affiliates of the Registrant (based upon the closing sales price quoted on the New York Stock Exchange) as of July 29, 2016 was \$6,638,040,057.

Number of common shares outstanding on March 10, 2017: 68,300,375

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant will incorporate by reference information required in response to Part III, Items 10-14, from its definitive proxy statement for its annual meeting of shareholders, to be held on June 28, 2017.

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REFERENCES

Unless the context otherwise requires, references to “Signet” or the “Company,” refer to Signet Jewelers Limited (and before September 11, 2008 to Signet Group plc) and its consolidated subsidiaries. References to the “Parent Company” are to Signet Jewelers Limited.

PRESENTATION OF FINANCIAL INFORMATION

All references to “dollars,” “US dollars,” “\$,” “cents” and “c” are to the lawful currency of the United States of America. Signet prepares its financial statements in US dollars. All references to “British pound,” “pounds,” “British pounds,” “£,” “pence” and “p” are to the lawful currency of the United Kingdom. All references to “Canadian dollar” or “C\$” are to the lawful currency of Canada.

Percentages in tables have been rounded and accordingly may not add up to 100%. Certain financial data may have been rounded. As a result of such rounding, the totals of data presented in this document may vary slightly from the actual arithmetical totals of such data.

Throughout this Annual Report on Form 10-K, financial data has been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). However, Signet gives certain additional non-GAAP measures in order to provide increased insight into the underlying or relative performance of the business. An explanation of each non-GAAP measure used can be found in Item 6.

Fiscal year and fourth quarter

Signet’s fiscal year ends on the Saturday nearest to January 31. As used herein, “Fiscal 2018,” “Fiscal 2017,” “Fiscal 2016,” “Fiscal 2015,” “Fiscal 2014,” and “Fiscal 2013” refer to the 53 week period ending February 3, 2018, the 52 week periods ending January 28, 2017, January 30, 2016, January 31, 2015, February 1, 2014, and the 53 week period ending February 2, 2013, respectively. Fourth quarter references the 13 weeks ended January 28, 2017 (“fourth quarter”) and the 13 weeks ended January 30, 2016 (“prior year fourth quarter”).

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements which are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, based upon management’s beliefs and expectations as well as on assumptions made by and data currently available to management, appear in a number of places throughout this Annual Report on Form 10-K and include statements regarding, among other things, Signet’s results of operation, financial condition, liquidity, prospects, growth, strategies and the industry in which Signet operates. The use of the words “expects,” “intends,” “anticipates,” “estimates,” “predicts,” “believes,” “should,” “potential,” “r,” “forecast,” “objective,” “plan,” or “target,” and other similar expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to a number of risks and uncertainties, including but not limited to general economic conditions, regulatory changes following the United Kingdom’s announcement to exit from the European Union, a decline in consumer spending, the merchandising, pricing and inventory policies followed by Signet, the reputation of Signet and its brands, the level of competition in the jewelry sector, the cost and availability of diamonds, gold and other precious metals, regulations relating to customer credit, seasonality of Signet’s business, financial market risks, deterioration in customers’ financial condition, exchange rate fluctuations, changes in Signet’s credit rating, changes in consumer attitudes regarding jewelry, management of social, ethical and environmental risks, the development and maintenance of Signet’s omni-channel retailing, security breaches and other disruptions to Signet’s information technology infrastructure and databases, inadequacy in and disruptions to internal controls and systems, changes in assumptions used in making accounting estimates relating to items such as extended service plans and pensions, risks relating to Signet being a Bermuda corporation, the impact of the acquisition of Zale Corporation on relationships, including with employees, suppliers, customers and competitors, an adverse decision in legal proceedings, and our ability to successfully integrate Zale Corporation’s operations and to realize synergies from the transaction.

For a discussion of these risks and other risks and uncertainties which could cause actual results to differ materially from those expressed in any forward looking statement, see Item 1A and elsewhere in this Annual Report on Form 10-K. Signet undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances, except as required by law.

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PART I

ITEM 1. BUSINESS

OVERVIEW

Signet Jewelers Limited (“Signet” or the “Company”) is the world’s largest retailer of diamond jewelry. Signet is incorporated in Bermuda and its address and telephone number are shown on the cover of this document. The Company, with 3,682 stores and kiosks at January 28, 2017, manages its business by store brand grouping, a description of which follows:

The Sterling Jewelers division is one reportable segment. It operated 1,588 stores in all 50 US states at January 28, 2017. Its stores operate nationally in malls and off-mall locations principally as Kay Jewelers (“Kay”), Kay Jewelers Outlet, Jared The Galleria Of Jewelry (“Jared”) and Jared Vault. The division also operates a variety of mall-based regional brands.

The Zale division, which was acquired in May 2014 (see Note 3 of Item 8 for additional information), consists of two reportable segments:

Zale Jewelry, which operated 970 jewelry stores at January 28, 2017, is located primarily in shopping malls in North America. Zale Jewelry includes the US store brand Zales (Zales Jewelers and Zales Outlet), which operates in all 50 US states, and the Canada store brand Peoples Jewellers, which operates in nine provinces. The division also operates the Gordon’s Jewelers and Mappins Jewellers regional brands.

Piercing Pagoda, which operated 616 mall-based kiosks at January 28, 2017, is located in shopping malls in the US and Puerto Rico.

The UK Jewelry division is one reportable segment. It operated 508 stores at January 28, 2017. Its stores operate in shopping malls and off-mall locations (i.e. high street) principally as H.Samuel and Ernest Jones.

Certain company activities (e.g. diamond sourcing) are managed as a separate operating segment and are aggregated with unallocated corporate administrative functions in the segment “Other” for financial reporting purposes. Signet’s diamond sourcing function includes our diamond polishing factory in Botswana. See Note 4 of Item 8 for additional information regarding the Company’s reportable segments.

MISSION & STRATEGY

Signet’s mission is to help guests “Celebrate Life and Express Love.” Our Vision 2020 and beyond strategy is to be the world’s premier jeweler by relentlessly connecting with customers, earning their trust with every interaction everywhere. Our five strategic pillars all center on a customer first omni-channel experience. These pillars included below define our key priorities and growth focus areas.

• Grow in the mid-market

• Best in bridal

• Win in fashion and gifting

• Digital first and data driven

• People, purpose and passion

Growing in the mid-market drives our competitive strengths focused on merchandising, marketing, omni-channel and productivity initiatives. We define the mid-market jewelry sector based on the value of products that consumers purchase. We consider this market to be defined by jewelry purchases with price points ranging from \$50 to \$10,000, which essentially excludes costume and luxury jewelry categories. The vast majority of Signet’s sales (over 95%) are in this range of price points. This subset of the total US jewelry market is approximately \$41 billion or about half the total US market. In pursuit of this strategic pillar, we continuously review our US national store brands performance and have concluded that our customer population has several distinct shopping and purchasing characteristics or customer identities. Consequently, we attempt to grow our share of the mid-market by differentiating customers based on attitudes and behaviors, versus demographic information. This approach to customer segmentation results in distinct customer identities:

• The “Sentimentalist” - a seeker of high-quality, timeless jewelry which invokes sentimental value.

• The “Gifter” - a customer that is not highly knowledgeable of jewelry but purchases for others.

• The “Influencer” - a customer that uses jewelry to show status and is knowledgeable of brands. The Influencer is a customer focused on both self-purchase and gifting.

¶The “Stylish Shopper” - a customer that wears jewelry often and considers it an essential aspect of fashion.

¶The “Practical Shopper” - a customer that focuses on inexpensive, everyday jewelry.

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Although each of our US national store brand customers share many of these five customer traits, each store brand attracts a heavier weighting of certain types of customers. This customer segmentation approach empowers Signet to define our highest-priority growth opportunities within the mid-market (i.e., where Signet will play), to differentiate and optimize our store brands, including guest experience, merchandise brands and marketing. Our brand discussion included within Item 1 includes alignment of these customer identities with our US national store brands.

Being the best in bridal is an ongoing journey, not a destination. In jewelry, bridal represents the closest thing to a necessity for our customers. We continuously look to develop differentiated bridal jewelry products, increasing targeted marketing programs, delivering the best guest experience by our sales associates, advancing vertical integration in our supply chain and offering credit financing. Additionally, we continue to evolve our best in bridal strategy to target millennials. With this target demographic shifting its marriage pattern to later in life, our focus on gaining market share during these peak spending years to come is key to our best in bridal strategy.

As fashion and behavioral trends evolve, we continue to adapt to ensure our strategies encompass all opportunities to drive profitable growth. Excellence in bridal categories is a mainstay in our success, however we have sharpened focus on fashion jewelry and gift merchandise to capture growing opportunities within demographic groups such as millennials. We believe executing against this strategic pillar will effectively compliment our other strategic pillars, as well as enhance traffic through all channels.

Operating in an evolving retail landscape requires a strategic focus on digital channels and interaction with our guests through a number of media to support our strategic pillar of “Digital First and Data Driven.” Our omni-channel approach to educating, selling and serving of customers is uniquely important in jewelry retail because the purchase of jewelry is personal, intimate and typically viewed as an important experience. The Internet often represents the first interaction a customer or prospective guest will have with us when a jewelry-buying occasion arises. As trust is the most important factor in why people buy jewelry where they do, customers overwhelmingly complete their purchases in our stores with our trusted knowledgeable sales associates. We continue to place increasing emphasis on data analytics to support our interactions with customers, enable our sales associates and optimize all aspects of our business. Being best in digital and data driven is a crucial step of our omni-channel approach.

In order to truly accomplish our core mission of helping our guests “Celebrate Life and Express Love,” we must have people with high capability and passion. We will continue our efforts to attract, develop and retain the best and the brightest individuals in the jewelry and watch industry. The expression of romance and appreciation through bridal jewelry and gift giving are very important to our guests, as is self-reward. Guests associate Signet’s brands with high quality jewelry and an outstanding guest experience. As a result, the training of sales associates to understand the guests’ requirements, communicate the value of the merchandise selected and ensure guest needs are met remains a high priority.

Competition and Signet Competitive Strengths

Jewelry retailing is highly fragmented and competitive. We compete against other specialty jewelers, as well as other retailers that sell jewelry, including department stores, mass merchandisers, discount stores, apparel and accessory fashion stores, brand retailers, online retail and auction sites, shopping clubs, home shopping television channels and direct home sellers. The jewelry category competes for customers’ share-of-wallet with other consumer sectors such as electronics, clothing and furniture, as well as travel and restaurants. This competition for consumers’ discretionary spending is particularly relevant to gift giving.

Signet’s competitive strengths include: strong store brands, outstanding guest experience, branded differentiated and exclusive merchandise, sector-leading advertising, diversified real estate portfolio, supply chain leadership, customer finance programs, and financial strength and flexibility. Signet increases the attraction of its store brands to guests through the use of branded differentiated and exclusive merchandise, while offering a compelling value proposition in more basic ranges. Signet accomplishes this by utilizing its supply chain and merchandising expertise, scale and balance sheet strength. The Company intends to further develop and refine its national television advertising, digital media and customer relationship marketing, which it believes are the most effective and cost efficient forms of marketing available to grow its market share. Management follows the operating principles of excellence in execution, testing before investing, continuous improvement and disciplined investment in all aspects of the business.

Operational Strategy

In setting financial objectives for Fiscal 2018, consideration was given to several factors including the continued integration of Zale, Signet's Vision 2020 strategy and the economic and retail environments in which the Company does business. Signet will execute on its strategic priorities and continue to make strategic investments for the future. Our focus in Fiscal 2018 will be on the following:

- Omni-Channel capabilities and repositioning of investments and resources to drive customer experience both in-store and on-line.

- Continued product innovation in both bridal and fashion.

- Further development and investments in IT infrastructure to enable future growth.

- Driving efficiencies across the organization in both processes and costs and maximizing return on investments.

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Financial objectives for the business in Fiscal 2018 are to position the Company for long-term growth by:

- Expanding our gross margin rate through merchandise initiatives, operating efficiencies and cost control. Signet anticipates the cost of diamonds, our most significant input cost, to increase at low-to-mid single digit rates.
- Investing to strengthen our customer service proposition and our infrastructure for the long-term. This is expected to result in de-leverage of selling, general and administrative expenses.
- Gaining profitable market share through brand differentiation and market segmentation, product cost control and asset management.
- Diversification of store portfolio weighted toward off-mall locations. This includes closure of 165-170 stores, primarily focused on mall-based regional brands and opening of 90-115 new stores, primarily Kay off-mall.
- Investing \$260 to \$275 million of capital in new stores, store remodels, information technology infrastructure and distribution facilities to drive future growth.
- Completion of Signet's strategic credit review previously announced in May 2016.

Capital Strategy

The Company expects to maintain a strong balance sheet that provides the flexibility to execute its strategic priorities, invest in its business, and then return excess cash to shareholders while ensuring adequate liquidity. Signet is committed to maintaining its investment grade rating because long-term, it intends to pursue value-enhancing strategic growth initiatives. Among the key tenets of Signet's capital strategy:

- Achieve adjusted debt⁽¹⁾/ adjusted EBITDAR⁽¹⁾ ("adjusted leverage ratio") of 3.5x or below. This would allow the Company to utilize available sources of debt in Fiscal 2018 and beyond.
- Distribute 70% to 80% of annual free cash flow⁽¹⁾ in the form of stock repurchases or dividends assuming no other strategic uses of capital.
- Consistently increase the dividend annually assuming no other strategic uses of capital.

The Company has a remaining share repurchase authorization as of the end of Fiscal 2017 of \$510.6 million.

(1) Adjusted debt, Adjusted EBITDAR, and free cash flow are non-GAAP measures. Signet believes they are useful measures to provide insight into how the Company intends to use capital. See Item 6 for reconciliation.

BACKGROUND

Operating segments

The business is managed as five reportable segments: the Sterling Jewelers division (61.3% of sales and 93.8% of operating income), the Zales division, which is comprised of the Zales Jewelry segment (24.2% of sales and 8.1% of operating income) and the Piercing Pagoda segment (4.1% of sales and 1.5% of operating income) and the UK Jewelry division (10.1% of sales and 6.0% of operating income). All divisions are managed by an executive committee, which is chaired by Signet's Chief Executive Officer, who reports to the Board of Directors of Signet (the "Board"). The executive committee is responsible for operating decisions within parameters established by the Board. Additionally, as a result of the acquisition of a diamond polishing factory in Gaborone, Botswana in Fiscal 2014, management established a separate reportable segment ("Other"). Other consists of all non-reportable segments, including subsidiaries involved in the purchasing and conversion of rough diamonds to polished stones and unallocated corporate administrative functions. See Note 4 of Item 8 for additional information regarding the Company's segments.

Trademarks and trade names

Signet is not dependent on any material patents or licenses in any of its divisions. Signet has several well-established trademarks and trade names which are significant in maintaining its reputation and competitive position in the jewelry retailing industry. Some of these registered trademarks and trade names include the following:

Kay Jewelers®; Kay Jewelers Outlet®; Jared The Galleria Of Jewelry®; Jared Vault®; Jared Jewelry Boutique®; JB Robinson® Jewelers; Marks & Morgan Jewelers®; Every kiss begins with Kay®; He went to Jared®; Celebrate Life.®; Express Love.®; the Leo® Diamond; Hearts Desire®; Artistry Diamonds®; Charmed Memories®; Diamonds in Rhythm®; Fourone™; Open Hearts by Jane Seymour®; Radiant Reflections®; Colors in Rhythm®; Chosen by Jared™; Now and Forever®; and Ever Us™.

Zales®; Zales Jewelers™; Zales the Diamond Store®; Zales Outlet®; Gordon's Jeweler®; Peoples Jewellers®; Peoples the Diamond Store®; Peoples Outlet the Diamond Store®; Mappins®; Piercing Pagoda®; Arctic Brilliance Canadian

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Diamonds®; Brilliant Buy®; Brilliant Value®; Celebration Diamond®; Expressionist™; From This Moment®; Let Love Shine®; The Celebration Diamond Collection®; Unstoppable Love®; and Endless Brilliance®.
H.Samuel®; Ernest Jones®; Ernest Jones Outlet Collection™; Leslie Davis®; Commitment®; Forever Diamonds®; Kiss Collection®; Princessa Collection®; Radiance®; Secrets of the Sea®; Shades of Gold®; and Viva Colour®.

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Store locations

Signet operates retail jewelry stores in a variety of real estate formats including mall-based, free-standing, strip center and outlet store locations. As of January 28, 2017, Signet operated 3,066 stores and 616 kiosks across 5.1 million square feet of retail space in the US, UK, Canada and Puerto Rico. This represented an increase of 1.6% and 2.6% in locations and retail space, respectively, from Fiscal 2016 due to new store growth as Signet opened 162 stores and closed 105 stores during Fiscal 2017. Store locations by country and territory as of January 28, 2017 are disclosed in Item 2.

Guest experience

The guest experience is an essential element in the success of our business and Signet strives to continually improve the quality of the guest experience. Therefore the ability to recruit, develop and retain qualified jewelry consultants is an important element in enhancing guest satisfaction. We have comprehensive recruitment, training and incentive programs in place, including an annual flagship training conference in advance of the holiday season.

Signet continues to invest in technology to enhance the guest experience, such as a clienteling system that we have initially implemented in our Sterling Jewelers division. This technology provides a single view of the guest with the capability to holistically capture guest information for the purpose of driving incremental sales to our guests. This allows jewelry consultants to improve and personalize their interactions with guests before, during and after store visits, to inform them of the latest merchandise offerings and fashion trends. Additionally, in Fiscal 2018, Signet will complete the roll out of digital gemsopes to every store location in North America. These gemsopes leverage proprietary software to provide an enhanced digital view of gem stones and include the ability to email the image to the guest and the Jared Design & Service Center when sent for repair.

We use employee and guest satisfaction metrics to monitor and improve performance.

Omni-Channel

As a specialty jeweler, Signet's business differs from many other retailers such that a purchase of merchandise from any of Signet's stores is personal, intimate and typically viewed as an important experience. Due to this dynamic, guests often invest time on Signet websites and social media to experience the merchandise assortments prior to visiting brick-and-mortar stores to execute a purchase transaction. Particularly related to high value transactions, guests will supplement their online experience with an in-store visit prior to finalizing a purchase.

Through Signet's websites, we educate guests and provide them with a source of information on products and brands, available merchandise, as well as the ability to buy online. Our websites are integrated with each division's stores, so that merchandise ordered online may be picked up at a store or delivered to the guest. Brand websites continue to make an important and growing contribution to the guest experience, as well as to each division's marketing programs.

For Fiscal 2018, the Company is focused on:

Investments in technology, including eCommerce platforms, focused on improving the online journey. Customer journey enhancements include user generated content, enhanced personalization / behavioral targeting, creative execution and brand differentiation. In addition, we are focused on omni-channel wishlist, online merchandising, in-store appointment booking, bridal configuration and much more.

Optimization of marketing through prioritizing dollars to digital spend and targeted marketing through traditional media.

Increased use of data analytics, clienteling and other key touch points to achieve a more comprehensive view of the customer and allow us to anticipate their needs.

Signet's supplier relationships allow it to display suppliers' inventories on the brand websites for sale to guests without holding the items in its inventory until the products are ordered by guests, which are referred to as "virtual inventory." Virtual inventory expands the choice of merchandise available to guests both online and in-store.

Raw materials

The jewelry industry generally is affected by fluctuations in the price and supply of diamonds, gold and, to a much lesser extent, other precious and semi-precious metals and stones. Diamonds account for about 45%, and gold about 14%, of Signet's cost of merchandise sold, respectively.

Signet undertakes hedging for a portion of its requirement for gold through the use of net zero-cost collar arrangements, forward contracts and commodity purchasing. It is not possible to hedge against fluctuations in the cost

of diamonds. The cost of raw materials is only part of the costs involved in determining the retail selling price of jewelry, with labor costs also being a significant factor.

Diamond sourcing

Signet procures its diamonds mostly as finished jewelry and, to a smaller extent, as loose polished diamonds and rough diamonds which are in turn polished in Signet's Botswana factory.

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Finished jewelry

Signet purchases finished product where management has identified compelling value based on product design, cost and availability, among other factors. Under certain types of arrangements, this method of purchasing also provides the Company with the opportunity to reserve inventory held by vendors and to make returns or exchanges with suppliers, which reduces the risk of over- or under-purchasing. Signet's scale, strong balance sheet and robust procurement systems enable it to purchase merchandise at advantageous prices and on favorable terms.

Loose diamonds

Signet purchases loose polished diamonds in global markets (e.g. India, Israel) from a variety of sources (e.g. polishers, traders). Signet mounts stones in settings purchased from manufacturers using third parties and in-house resources. By using these approaches, the cost of merchandise is reduced and the consistency of quality is maintained enabling Signet to provide better value to guests. Buying loose diamonds helps allow Signet's buyers to gain a detailed understanding of the manufacturing cost structures and, in turn, leverage that knowledge with regard to negotiating better prices for the supply of finished products.

Rough diamonds

Signet continues to take steps to advance its vertical integration, which includes rough diamond sourcing and processing. Signet's objective with this initiative is to secure additional, reliable and consistent supplies of diamonds for guests worldwide while achieving further efficiencies in the supply chain. In Fiscal 2014, Signet acquired a diamond polishing factory in Gaborone, Botswana. The Company is a DeBeers sightholder, and receives contracted allocations of rough diamonds from Rio Tinto, DeBeers and Alrosa. Signet has also established a diamond liaison office in India and a diamond trading office in New York to further support its sourcing initiative.

Rough diamonds are purchased directly from the miners and then have the stones marked, cut and polished in Signet's own polishing facility. Any stones deemed unsuitable for Signet's needs are sold to third parties with the objective of recovering the original cost of the stones.

Merchandising and purchasing

Management believes that a competitive strength is our industry-leading merchandising. Merchandise selection, innovation, availability and value are all critical success factors. The range of merchandise offered and the high level of inventory availability are supported centrally by extensive and continuous research and testing. Signet's jewelry design center in New York evaluates global design trends, innovates, and helps our merchant teams develop new jewelry collections that resonate with guests.

Best-selling products are identified and replenished rapidly through analysis of sales by stock keeping unit. This approach enables Signet to deliver a focused assortment of merchandise to maximize sales and inventory turn, and minimize the need for discounting. Signet believes it is able to offer greater value and consistency of merchandise than its competitors due to its supply chain strengths. The scale and information systems available to us and the evolution of jewelry fashion trends allow for the careful testing of new merchandise in a range of representative stores. This enables us to make informed decisions about which merchandise to select, thereby increasing our ability to satisfy guests' requirements while reducing the likelihood of having to discount merchandise.

Merchandise mix

Details of merchandise mix (excluding repairs, warranty and other miscellaneous sales) are shown below:

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	Sterling Jewelers division		Zale division		UK Jewelry division		Total Signet	
Fiscal 2017								
Diamonds and diamond jewelry	77	%	60	%	35	%	68	%
Gold and silver jewelry, including charm bracelets	9	%	28	%	17	%	15	%
Other jewelry, including gift category	8	%	9	%	16	%	9	%
Watches	6	%	3	%	32	%	8	%
	100	%	100	%	100	%	100	%
Fiscal 2016								
Diamonds and diamond jewelry	77	%	61	%	34	%	65	%
Gold and silver jewelry, including charm bracelets	9	%	27	%	16	%	17	%
Other jewelry, including gift category	8	%	9	%	18	%	9	%
Watches	6	%	3	%	32	%	9	%
	100	%	100	%	100	%	100	%
Fiscal 2015								
Diamonds and diamond jewelry	76	%	61	%	31	%	63	%
Gold and silver jewelry, including charm bracelets	10	%	26	%	19	%	14	%
Other jewelry, including gift category	8	%	9	%	17	%	11	%
Watches	6	%	4	%	33	%	12	%
	100	%	100	%	100	%	100	%

The bridal category, which includes engagement, wedding and anniversary purchases, is predominantly diamond jewelry. Like fashion jewelry and watches, bridal is to an extent dependent on the economic environment as guests can trade up or down price points depending on their available budget. In Fiscal 2017, bridal sales declined in-line with merchandise sales overall. Declines in the Sterling and Zale divisions were partially offset by growth in the UK. An important element in enabling Signet's bridal business is customer financing. Bridal represented approximately 50% of Signet's total merchandise sales. The performance difference between branded and non-branded bridal was immaterial.

Gift giving is particularly important during the Holiday Season, Valentine's Day and Mother's Day. In Fiscal 2017, Signet had several successful fashion jewelry collections including Ever Us™ and Vera Wang® (not all collections are sold in every store brand).

Merchandise is categorized as non-branded, third party branded, and branded differentiated and exclusive.

Non-branded merchandise includes items and styles such as bracelets, gold necklaces, solitaire diamond rings, and diamond stud earrings. Third party branded merchandise includes mostly watches, but also includes ranges of charm bracelets. Branded differentiated and exclusive merchandise are items that are branded and exclusive to Signet within its marketplaces, or that are not widely available in other jewelry retailers (e.g Ever Us, Vera Wang Love, Neil Lane). Branded differentiated and exclusive ranges

Management believes that the development of branded differentiated and exclusive merchandise raises the profile of Signet's brands, helps to drive sales and provides its well-trained sales associates with a powerful selling proposition. National television advertisements include elements that drive brand awareness and purchase intent of these ranges. Signet's scale and proven record of success in developing branded differentiated and exclusive merchandise attracts offers of such programs from jewelry manufacturers, designers and others ahead of competing retailers, and enables it to leverage its supply chain strengths.

Merchandise held on consignment

Merchandise held on consignment is used to enhance product selection and test new designs. This minimizes exposure to changes in fashion trends and obsolescence, and provides the flexibility to return non-performing merchandise.

Virtually all of Signet's consignment inventory is held in the US.

Suppliers

In Fiscal 2017, the five largest suppliers collectively accounted for 20.4% of total purchases, with the largest supplier comprising 5.5%. Signet transacts business with suppliers on a worldwide basis at various stages of the supply chain with third party diamond cutting and jewelry manufacturing being predominantly carried out in Asia.

Marketing and advertising

Customers' confidence in our retail brands, store brand name recognition and advertising of branded differentiated and exclusive ranges are important factors in determining buying decisions in the jewelry industry where the majority of merchandise is unbranded. Therefore, Signet continues to strengthen and promote its store brands and merchandise brands by delivering superior customer service and building brand name

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recognition. The Company's omni-channel approach leverages marketing investments in television, digital media (desktop, mobile and social), radio, print, catalog, direct mail, point of sale signage and in-store displays, as well as coupon books and outdoor signage for the Outlet channels.

While marketing activities are undertaken throughout the year, the level of activity is concentrated at periods when guests are expected to be most receptive to marketing messages, which is ahead of Christmas Day, Valentine's Day and Mother's Day. A majority of the expenditure is spent on national television advertising, which is used to promote the store brands. Within such advertisements, Signet also promotes certain merchandise ranges, in particular its branded differentiated and exclusive merchandise and other branded products. Statistical and technology-based systems are employed to support customer relationship marketing programs that use a proprietary database to build guest loyalty and strengthen the relationship with guests through mail, email, social media and telephone communications. The programs target current guests with special savings and merchandise offers during key sales periods. Our targeted marketing efforts are aligned with our customer segmentation approach which, as discussed previously, differentiates our brands by focusing on customer attitudes and behaviors, rather than demographic information. In addition, invitations to special in-store promotional events are extended throughout the year.

Details of gross advertising, advertising before vendor contributions, by division is shown below:

	Fiscal 2017		Fiscal 2016		Fiscal 2015	
	Gross advertising spending (in millions)	as a % of divisional sales	Gross advertising spending (in millions)	as a % of divisional sales	Gross advertising spending (in millions)	as a % of divisional sales
Sterling Jewelers division	\$258.66.6	%	\$261.26.5	%	\$246.66.6	%
Zale division	100.2	5.5 %	98.7	5.4 %	64.6	5.3 %
UK Jewelry division	21.8	3.4 %	24.3	3.3 %	21.8	2.9 %
Signet	\$380.65.9	%	\$384.25.9	%	\$333.05.8	%

Customer finance

In our North American markets, Signet sells products for cash and for payment through major credit cards and third-party financing like PayPal. In addition, customer financing is offered through proprietary credit programs that are provided either in-house or through outsourced relationships with select major lenders.

Consumer credit programs are an integral part of our business and enable incremental retail sales as well as building customer loyalty. Our in-house credit programs also generate revenues from finance charges and other fees on these credit programs, while saving on interchange fees that Signet would incur if our customers used major credit cards only.

Real estate

Management has specific operating and financial criteria that have to be satisfied before investing in new stores or renewing leases on existing stores. Substantially all the stores operated by Signet are leased. In Fiscal 2017, global net store space increased 2.6% as a result of new store growth focused on off-mall locations. The greatest opportunity for new stores is in locations outside traditional covered malls which further diversifies Signet's real estate portfolio.

Recent investment in the store portfolio is set out below:

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(in millions)	Sterling Jewelers division	Zale division	UK Jewelry division	Total Signet
Fiscal 2017				
New store capital investment	\$ 42.9	\$ 22.2	\$ 2.5	\$67.6
Remodels and other store capital investment	47.9	35.1	15.3	98.3
Total store capital investment	\$ 90.8	\$ 57.3	\$ 17.8	\$ 165.9
Fiscal 2016				
New store capital investment	\$ 48.3	\$ 12.1	\$ 3.3	\$63.7
Remodels and other store capital investment	50.6	25.0	16.3	91.9
Total store capital investment	\$ 98.9	\$ 37.1	\$ 19.6	\$ 155.6
Fiscal 2015				
New store capital investment	\$ 52.6	\$ 4.4	\$ 2.4	\$59.4
Remodels and other store capital investment	52.6	15.1	11.3	\$79.0
Total store capital investment	\$ 105.2	\$ 19.5	\$ 13.7	\$ 138.4

Seasonality

Signet's sales are seasonal, with the first quarter slightly exceeding 20% of annual sales, the second and third quarters each approximating 20% and the fourth quarter accounting for almost 40% of annual sales, with December being by far the most important month of the year. The "Holiday Season" consists of results for the months of November and December. As a result, approximately 45% to 55% of Signet's annual operating income normally occurs in the fourth quarter, comprised of nearly all of the UK Jewelry and Zale divisions' annual operating income and about 40% to 45% of the Sterling Jewelers division's annual operating income.

Employees

In Fiscal 2017, the average number of full-time equivalent persons employed was 29,566. In addition, Signet usually employs a limited number of temporary employees during its fourth quarter. None of Signet's employees in the UK and less than 1% of Signet's employees in the US and Canada are covered by collective bargaining agreements. Signet considers its relationship with its employees to be excellent.

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Average number of employees: ⁽¹⁾			
Sterling Jewelers	16,342	16,140	16,147
Zale ⁽²⁾	9,602	9,309	9,241
UK Jewelry	3,398	3,370	3,292
Other ⁽³⁾	224	238	269
Total	29,566	29,057	28,949

⁽¹⁾ Full-time equivalents ("FTEs").

⁽²⁾ Includes 1,051 FTEs, 1,201 FTEs and 1,217 FTEs employed in Canada in Fiscal 2017, Fiscal 2016 and Fiscal 2015, respectively.

⁽³⁾ Includes corporate employees and employees employed at the diamond polishing plant located in Botswana.

Regulation

Signet is required to comply with numerous laws and regulations covering areas such as consumer protection, consumer privacy, data protection, consumer credit, consumer credit insurance, health and safety, waste disposal, supply chain integrity, truth in advertising and employment. Management monitors changes in these laws to endeavor to comply with applicable requirements.

Markets

Signet operates in the US, Canada and UK markets.

US

According to the US Bureau of Economic Analysis and Census Bureau, the total jewelry and watch market was approximately \$80 billion at the end of 2016, up nearly 5% from the prior year. This implies a Signet jewelry market share of approximately 7%. Since 2000, the industry average annual growth rate is 3.2%. Nearly 90% of the market is represented by jewelry, with the balance being attributable to watches. According to the latest data from the US Labor Department, there were nearly 21,000 jewelry stores in the country, down approximately 1.6% from the prior year.

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Canada

The jewelry market in Canada, according to Euromonitor, has grown steadily over the past five years, rising to an estimated C\$7.2 billion in 2014, the latest data available to Signet. This represents a compound annual growth rate of 4.6%. Euromonitor estimates that 2014 was up 3% in dollars and 2% in units.

UK

In the UK, the jewelry and watch market stands at about £4.1 billion, according to Mintel. That market saw a recovery in 2015 with growth of 1.2%. Self-purchasing among young women and gifting among men represent the largest parts of the precious jewelry market. The growth represents a slight slowdown from that achieved in 2014 due to a shift towards lighter-weight pieces and a decrease in average selling prices.

STERLING JEWELERS DIVISION

The Sterling Jewelers division operates jewelry stores in malls and off-mall locations in all 50 US states under national brands including Kay, Kay Jewelers Outlet, Jared and Jared Vault, as well as a variety of mall-based regional brands.

Sterling Jewelers store brand reviews

Store activity by brand

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Kay	68	42	58
Jared	8	18	17
Regional brands	—	—	—
Total stores opened or acquired during the year	76	60	75
Kay	(5)	(7)	(20)
Jared	(3)	(1)	—
Regional brands	(20)	(16)	(22)
Total stores closed during the year	(28)	(24)	(42)
Kay	1,192	1,129	1,094
Jared	275	270	253
Regional brands	121	141	157
Total stores open at the end of the year	1,588	1,540	1,504
Kay	\$2.124	\$2.178	\$2.112
Jared ⁽¹⁾	\$4.379	\$4.650	\$4.794
Regional brands	\$1.242	\$1.333	\$1.318
Average sales per store (millions) ⁽²⁾	\$2.449	\$2.518	\$2.467
Kay	1,826	1,697	1,597
Jared	1,177	1,153	1,089
Regional brands	151	175	196
Total net selling square feet (thousands)	3,154	3,025	2,882

Increase in net store selling space 4.3 % 5.0 % 4.9 %

⁽¹⁾ Includes sales from all Jared store formats, including the smaller square footage and lower average sales per store concepts of Jared 4.0, Jared Jewelry Boutique and Jared Vault.

⁽²⁾ Based only upon stores operated for the full fiscal year and calculated on a 52-week basis.

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Sales data by brand

Fiscal 2017	Sales (millions)	Change from previous year	
		Same store sales	Total sales
Kay	\$ 2,539.7	(1.4)%	0.4 %
Jared	1,227.5	(4.1)%	(2.0)%
Regional brands	163.2	(9.6)%	(20.6)%
Sterling Jewelers	\$ 3,930.4	(2.6)%	(1.5)%

Kay Jewelers

Kay accounted for 40% of Signet's sales in Fiscal 2017 (Fiscal 2016: 39%) and operated 1,192 stores in 50 states as of January 28, 2017 (January 30, 2016: 1,129 stores). Since 2004, Kay has been the largest specialty retail jewelry store brand in the US based on sales, and has subsequently increased its leadership position. Like the rest of our store banners, Kay targets a mid-market jewelry customer. But where Kay differs is that it particularly targets a customer, we identify as a "gifter," who knows they need to buy jewelry but does not enjoy shopping and needs help to get it done right.

Details of Kay's performance over the last three years is shown below:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Sales (millions)	\$2,539.7	\$2,530.3	\$2,346.2
Average sales per store (millions)	\$2.124	\$2.178	\$2.112
Stores at year end	1,192	1,129	1,094
Total net selling square feet (thousands)	1,826	1,697	1,597

Kay mall stores typically occupy about 1,600 square feet and have approximately 1,300 square feet of selling space, whereas Kay off-mall stores typically occupy about 2,200 square feet and have approximately 1,800 square feet of selling space. Kay operates in malls and off-mall stores. Off-mall stores primarily are located in outlet malls and power centers. The Sterling Jewelers store footprint will continue to diversify in Fiscal 2018 as new stores will be principally Kay stores in off-mall locations.

The following table summarizes the current composition of stores as of January 28, 2017 and net openings (closures) in the past three years:

	Stores at January 28, 2017	Net openings (closures)		
		Fiscal 2017	Fiscal 2016	Fiscal 2015
Mall	751	(4)	6	2
Off-mall and outlet	441	67	29	37
Total	1,192	63	35	39

Jared The Galleria Of Jewelry

With 275 stores in 40 states as of January 28, 2017 (January 30, 2016: 270 stores), Jared is a leading off-mall destination specialty retail jewelry store chain, based on sales. Jared accounted for 19% of Signet's sales in Fiscal 2017 (Fiscal 2016: 19%). Jared is the fourth largest US specialty retail jewelry brand by sales. Like the rest of our store banners, Jared targets a mid-market jewelry customer. But where Jared differs is that it particularly targets a customer, we identify as a "sentimentalist," who enjoys shopping for jewelry and cares very much about the details of the product and shopping process.

Details of Jared's performance over the last three years is shown below:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Sales (millions)	\$1,227.5	\$1,252.9	\$1,188.8

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Average sales per store (millions) ⁽¹⁾	\$4.379	\$4.650	\$4.794
Stores at year end	275	270	253
Total net selling square feet (thousands)	1,177	1,153	1,089

⁽¹⁾ Includes sales from all Jared store formats, including the smaller square footage and lower average sales per store concepts of Jared 4.0, Jared Jewelry Boutique and Jared Vault.

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Jared offers superior guest service and enhanced selection of merchandise. Every Jared store has an on-site design and service center where most repairs are completed within the same day. Each store also has at least one diamond salon, a children's play area, and complimentary refreshments.

The typical Jared store has about 4,800 square feet of selling space and approximately 6,000 square feet of total space. Jared locations are normally free-standing sites with high visibility and traffic flow, positioned close to major roads within shopping developments. Jared stores usually operate in retail centers that contain strong retail co-tenants, including big box, destination stores and some smaller specialty units.

Jared also operates Jared Jewelry Boutiques within malls. These mall stores have a smaller footprint than standard Jared locations and generally less than 2,000 square feet of selling space. A similar off-mall concept known as Jared 4.0, which utilizes approximately 3,600 square feet of selling space, allows for store openings in smaller markets, expands the Jared brand and increases the return on Jared advertising investment. Finally, Jared operates an outlet-mall concept known as Jared Vault which utilizes approximately 1,600 square feet of selling space. These stores are smaller than off-mall Jareds and offer a mix of identical products as Jared, as well as different, outlet-specific products at lower prices.

The following table summarizes the current composition of stores as of January 28, 2017 and net openings (closures) in the past three years:

	Stores at January 28, 2017	Net openings (closures) Fiscal 2017	Fiscal 2016	Fiscal 2015
Mall	10	(1)	3	8
Off-mall and outlet	265	6	14	42
Total	275	5	17	50

Sterling Jewelers regional brands

The Sterling Jewelers division also operates mall stores under a variety of established regional nameplates. Regional brands in the Sterling Jewelers division accounted for 3% of Signet's sales in Fiscal 2017 (Fiscal 2016: 3%) and as of January 28, 2017, include 121 regional brand stores in 29 states (January 30, 2016: 141 stores in 31 states). The leading brands include JB Robinson Jewelers, Marks & Morgan Jewelers and Belden Jewelers. Also included in the regional nameplates are Goodman Jewelers, LeRoy's Jewelers, Osterman Jewelers, Rogers Jewelers, Shaw's Jewelers and Weisfield Jewelers. The Company's strategy is to reduce regional brand locations through conversion to national store brands or through closure upon lease expiration.

Details of the regional brands' performance over the last three years is shown below:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Sales (millions)	\$163.2	\$205.5	\$230.0
Average sales per store (millions)	\$1.242	\$1.333	\$1.318
Stores at year end	121	141	157
Total net selling square feet (thousands)	151	175	196

Sterling Jewelers operating review

Other sales

Custom design services represent less than 5% of sales but provide higher than average profitability. Our custom jewelry initiative has a proprietary computer selling system and in-store design capabilities. Design & Service Centers, located in Jared stores, are staffed with skilled artisans who support the custom business generated by other Sterling Jewelers division stores, as well as the Jared stores in which they are located. The custom design and repair function has its own field management and training structure.

Repair services represent less than 5% of sales, approximately 30% of transactions and are an important opportunity to build customer loyalty. The Jared Design & Service Centers, open the same hours as the store, also support other Sterling Jewelers and Zale division stores' repair business.

The Sterling Jewelers division sells extended service plans covering lifetime repair service for jewelry and jewelry replacement plans. The lifetime repair service plans cover services such as ring sizing, refinishing and polishing, rhodium plating of white gold, earring repair, chain soldering and the resetting of diamonds and gemstones that arise due to the normal usage of the merchandise. Jewelry replacement plans require the issuance of new replacement merchandise if the original merchandise is determined to be defective or damaged within a defined period in accordance with the plan agreement. Any repair work is performed in-house.

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Customer finance

General

Our in-house consumer financing program provides Signet with a competitive advantage through the enabling of incremental profitable sales that would not occur without a consumer financing program. Several factors inherent in the US jewelry business support the circumstances through which Signet is uniquely positioned to generate profitable incremental business through its consumer financing program. These factors include a high average transaction value; a significant population of customers seeking to finance merchandise primarily in the bridal category; and the minimum scale necessary to administer credit programs efficiently. In addition, our credit program provides other benefits to our business overall, including:

- complementing our “Best in Bridal” strategy in that 50% of merchandise sales are bridal and 75% of Sterling Jewelers division bridal sales utilize our credit as form of tender.

- providing a database of regular guests and spending habits.

- establishing collection policies designed to minimize risk and maximize future sales as opposed to a focus on maximizing earnings from outstanding balances.

For our in-house credit program, as of January 28, 2017 and January 30, 2016, 55% and 53%, respectively, of balances due were from customers who were acquired as users of our credit program more than 12 months prior to their most recent purchase.

Our in-house consumer financing program has been centralized since 1990 and is fully integrated into the management of the Sterling Jewelers division. It is not a separate operating division nor does it report separate results. All assets and liabilities relating to consumer financing are shown on the balance sheet and there are no associated off-balance sheet arrangements. In addition to interest-bearing transactions that involve the use of in-house customer finance, a portion of credit sales are made using interest-free financing for one year and at a reduced rate for up to 36 months in select offers, subject to certain conditions. In most US states, guests also are offered optional third-party credit insurance.

As part of our operational strategy discussed previously, management continues to review strategic options related to its in-house consumer financing programs, which include optimizing our current in-house program or utilizing a full-outsourced model.

Underwriting

The majority of credit applications originate in one of our retail locations and are approved or denied automatically based on proprietary origination models. Origination and purchase authorization strategies are designed by a dedicated Risk Management team, which is separate and distinct from our retail sales organization ensuring that financing decisions are not influenced by sales driven objectives. Our underwriting process considers one or more of the following elements: credit bureau information; income and address verification; current income and debt levels. We have developed and refined proprietary statistical models that provide standardized credit decisions, and drive the optimization of credit limit assignment, down payment requirements and more significant debt service requirements as compared to general consumer lending standards. For certain credit applicants that may have past credit problems or lack credit history, we use stricter underwriting criteria. These additional requirements may include items such as verification of employment and minimum down payment levels. Part of our ability to control delinquency and net charge-offs is based on the level of required down payments, tailored credit limits and more significant debt service requirements as mentioned above. Underwriting risk tolerance has not been altered in the past 10 years. Several factors can influence portfolio risk outside of the initial origination and subsequent authorization decisions including macro-economic conditions, regulatory environment, operational system stability and strategy execution, store execution, and the ability of marketing and prospecting activities to attract a consistent risk weighted mix of new applicants to the receivable.

The scores of Fair Isaac Corporation (“FICO”), a widely-used financial metric for assessing a person’s credit rating are used to benchmark portfolio and origination risk over time. Ten to twenty point ranges tend to be grouped together to form tiers of risk and scores can range from a low of 0 to over 800. The following aggregate FICO metrics for the portfolio demonstrate the overall consistency of our financing strategy approach:

Fiscal 2017 Fiscal 2016 Fiscal 2015

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Balance weighted FICO score - New Additions	684	684	685
Balance weighted FICO score - Portfolio	661	662	663

Credit monitoring and collections

Our objective is to facilitate the sale of jewelry and to collect the outstanding credit balance as quickly as possible, minimizing risk and enabling the customer to make additional jewelry purchases using their credit facility. On average, our receivable portfolio turns every 9-10 months. We closely monitor the credit portfolio to identify delinquent accounts early, and dedicate resources to contacting customers concerning past due accounts when they are as few as 5 days in arrears. Collectors are focused on a quality customer experience using risk-based calling and strategic account segmentation.

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The quality of our credit loan portfolio at any time reflects, among other factors: 1) the creditworthiness of our customers, 2) general economic conditions, 3) the success of our account management and collection activities, and 4) a variety of variables that change over time such as the proportion of new versus seasoned accounts or changes in the relative growth rate in sales between our various retail brands or formats. Cash flows associated with the granting of credit to guests of the individual store are included in the projections used when considering store investment proposals.

Portfolio aging

Since inception of its in-house financing, Signet measures delinquency and establishes loss allowances using a form of the recency method. This form of the recency method relies upon qualifying payments determined by management to measure delinquency. In general, an account will not remain current unless a qualifying payment is received. A customer is aged to the next delinquency level if they fail to make a qualifying payment by their monthly aging. A customer's account ages each month five days after their due date listed on their statement, allowing for a grace period before collection efforts begin. A qualifying payment can be no less than 75% of the scheduled payment, increasing with the delinquency level. If an account holder is two payments behind, then they must make a full minimum payment to return to current status. If an account holder is three payments behind, then they must make three full payments before returning to a current status. If an account holder is more than three payments behind, then the entire past due amount is required to return to a current status. Establishing qualifying payment methods in accounting for delinquencies is appropriate considering the high minimum payments that are required of customers. The weighted average minimum payment required as a percentage of the outstanding balance was 8% at year end Fiscal 2017. The minimum payment does not decline as the balance declines. These two facts combined (higher scheduled payment requirement and no decline in payment requirement as balance decreases) allow Signet to collect on the receivable significantly faster than other retail/bank card accounts, which require a 5% or less minimum payment, reducing risk and more quickly freeing up customer open to buy for additional purchases. Of all payments received in Fiscal 2017, 97% were equal to or greater than the scheduled monthly payment, which is in line with experience during Fiscal 2016.

See Note 1 of Item 8 for additional information regarding qualifying payments.

Allowances for uncollectible amounts are recorded as a charge to cost of goods sold in the income statement. The allowance is calculated using a model that analyzes factors such as delinquency rates and recovery rates. An allowance for amounts 90 days aged and under on a recency basis is established based on historical loss experience and payment performance information. A 100% allowance is made for any amount aged more than 90 days on a recency basis and any amount associated with an account the owner of which has filed for bankruptcy. An account is 90 days aged on a recency basis when there has not been a qualifying payment made within 90 days of the billing date. The net bad debt expensed on the income statement is equal to the sum of the total change in the allowance for uncollectible accounts and the total amount of charged off balances less any recoveries for accounts previously charged off. The allowance calculation is reviewed by management to assess whether, based on economic events, additional analysis is required to appropriately estimate losses inherent in the portfolio.

We deem accounts to be uncollectible and charge off when the account is both more than 120 days aged on a recency basis and 240 days aged on a contractual basis at the end of a month. Over the last 12 months, we have recovered 16% of charged-off amounts through our collection activities and the sale of previously charged off accounts. We track our charge-offs both gross, before recoveries, and net, after recoveries.

Table of ContentsCustomer financing statistics⁽¹⁾

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Total sales (millions)	\$3,930.4	\$3,988.7	\$3,765.0
Credit sales (millions)	\$2,438.3	\$2,451.2	\$2,277.1
Credit sales as % of total Sterling Jewelers sales ⁽²⁾	62.0 %	61.5 %	60.5 %
Net bad debt expense (millions) ⁽³⁾	\$212.1	\$190.5	\$160.0
Opening receivables (millions)	\$1,855.9	\$1,666.0	\$1,453.8
Closing receivables (millions)	\$1,952.0	\$1,855.9	\$1,666.0
Number of active credit accounts at year end ⁽⁴⁾⁽⁷⁾	1,401,456	1,423,619	1,352,298
Average outstanding account balance at year end ⁽⁷⁾	\$1,405	\$1,319	\$1,245
Average monthly collection rate	11.0 %	11.5 %	11.9 %
Ending bad debt allowance as a % of ending accounts receivable ⁽¹⁾	7.1 %	7.0 %	6.8 %
Net charge-offs as a % of average gross accounts receivable ⁽¹⁾⁽⁵⁾⁽⁷⁾	10.7 %	9.9 %	9.3 %
Non performing receivables as a % of ending accounts receivable ⁽¹⁾	4.1 %	4.0 %	3.8 %
Credit portfolio impact:			
Net bad debt expense (millions) ⁽³⁾	\$(212.1)	\$(190.5)	\$(160.0)
Late charge income (millions)	\$36.0	\$33.9	\$31.3
Interest income from in-house customer finance programs (millions) ⁽⁶⁾	\$277.6	\$252.5	\$217.9
	\$101.5	\$95.9	\$89.2

(1) See Note 11 of Item 8 for additional information.

(2) Including any deposits taken at the time of sale.

(3) Net bad expense is defined as the charge for the provision for bad debt less recoveries.

(4) The number of active accounts is based on credit cycle end date closest to the fiscal year end date.

(5) Net charge-offs calculated as gross charge-offs less recoveries. See Note 11 of Item 8 for additional information.

(6) See Note 10 of Item 8. Primary component of other operating income, net, on the consolidated income statement.

(7) See the liquidity and capital resources section of Item 7 for additional discussion regarding this metric.

ZALE DIVISION

The Zale division consists of two reportable segments: Zale Jewelry and Piercing Pagoda. Zale Jewelry operates jewelry stores located primarily in shopping malls throughout the US, Canada and Puerto Rico. Piercing Pagoda operates through mall-based kiosks throughout the US and Puerto Rico. In Fiscal 2017, approximately 14% of goods purchased in the Zale division were denominated in Canadian dollars (Fiscal 2016: 9%).

On May 29, 2014, Signet acquired 100% of the outstanding shares of Zale Corporation and Zale Corporation became a wholly-owned consolidated subsidiary of Signet (the "Acquisition", see Note 3 in Item 8 for additional information related to the Acquisition). As such, Fiscal 2016 reflects the first full year of results as Fiscal 2015 reflects only the results since the acquisition date.

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Zale store brand reviews

Store activity by brand

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Zales	40	24	731
Peoples	2	2	146
Regional brands	—	—	139
Total Zale Jewelry	42	26	1,016
Piercing Pagoda	35	12	615
Total stores opened or acquired during the year	77	38	1,631
Zales	(19)	(10)	(15)
Peoples	(4)	(1)	(2)
Regional brands	(26)	(10)	(27)
Total Zale Jewelry	(49)	(21)	(44)
Piercing Pagoda	(24)	(12)	(10)
Total stores closed during the year	(73)	(33)	(54)
Zales	751	730	716
Peoples	143	145	144
Regional brands	76	102	112
Total Zale Jewelry	970	977	972
Piercing Pagoda	616	605	605
Total stores open at the end of the year	1,586	1,582	1,577
Zales	\$1.327	\$1.467	\$0.942 ⁽³⁾
Peoples	\$1.267	\$1.353	\$1.096 ⁽³⁾
Regional brands	\$0.982	\$0.942	\$0.682 ⁽³⁾
Total Zale Jewelry	\$1.290	\$1.394	\$0.934 ⁽³⁾
Piercing Pagoda	\$0.506	\$0.376	\$0.228 ⁽³⁾
Average sales per store (millions) ⁽¹⁾	\$0.988	\$1.003	\$0.662 ⁽³⁾
Zales	1,039	1,010	990
Peoples	190	193	192
Regional brands	82	112	125
Total Zale Jewelry ⁽²⁾	1,311	1,315	1,307
Piercing Pagoda	115	114	115
Total net selling square feet (thousands) ⁽²⁾	1,426	1,429	1,422

Decrease (increase) in net store selling space (0.2)% 0.5 % n/a

⁽¹⁾ Based only upon stores operated for the full fiscal year and calculated on a 52-week basis.

⁽²⁾ Includes 227 thousand, 240 thousand and 240 thousand square feet of net selling space in Canada in Fiscal 2017, Fiscal 2016 and Fiscal 2015, respectively.

⁽³⁾ Fiscal 2015 average sales per store calculated based on sales since date of Acquisition.

n/a Not applicable as Zale division was acquired in Fiscal 2015.

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Sales data by brand

Sales (in millions)	Change from previous year	
	Same store sales	Total sales
Zales	(1.4)%	1.3 %
Peoples	(4.6)%	(4.6) %
Regional brands	(9.6)%	(22.2)%
Total	(2.4)%	(1.2) %
Zale Jewelry		
Piercing Pagoda	6.6 %	8.2 %
Zale division ⁽¹⁾	(1.2)%	0.1 %

(1) The Zale division same store sales includes merchandise and repair sales and excludes warranty and insurance revenues.

Zale Jewelry

Zale Jewelry is comprised of three core national brands, Zales Jewelers, Zales Outlet and Peoples Jewellers and two regional brands, Gordon's Jewelers and Mappins Jewellers. Each brand specializes in jewelry and watches, with merchandise and marketing emphasis focused on diamond products.

Zales Jewelers, including Zales Outlet

Zales Jewelers operates primarily in shopping malls and offers a broad range of bridal, diamond solitaire and fashion jewelry. Zales Outlet operates in outlet malls and neighborhood power centers and capitalizes on Zales Jewelers' national marketing and brand recognition. Like the rest of our store banners, Zales targets a mid-market jewelry customer. But where Zales differs is that it particularly targets a customer, we identify as a "stylish shopper," for whom trend and leading styles are very important. Zales Jewelers and Zales Outlet are collectively referred to as "Zales." Zales accounted for 20% of Signet's sales in Fiscal 2017 (Fiscal 2016: 19%) and operated a total of 751 stores, including 744 stores in the United States and 7 stores in Puerto Rico as of January 28, 2017 (January 30, 2016: 730 total stores). Zales is positioned as "The Diamond Store" given its emphasis on diamond jewelry, especially in bridal and fashion.

Details of Zales' performance since the Acquisition in Fiscal 2015 is shown below:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Sales (millions)	\$1,257.4	\$1,241.0	\$800.9
Average sales per store (millions)	\$1.327	\$1.467	\$0.942 ⁽¹⁾
Stores at year end	751	730	716
Total net selling square feet (thousands)	1,039	1,010	990

(1) Fiscal 2015 average sales per store calculated based on sales since date of the Acquisition.

Zales mall stores typically occupy about 1,700 square feet and have approximately 1,300 square feet of selling space, whereas Zales off-mall stores typically occupy about 2,400 square feet and have approximately 1,700 square feet of selling space.

The following table summarizes the current composition of stores as of January 28, 2017 and net openings (closures) since the Acquisition:

Stores at	Net openings (closures)
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	January 28, Fiscal	Fiscal	Fiscal
	2017	2016	2015
Mall	588	12 9	(6)
Off-mall and outlet	163	9 5	—
Total	751	21 14	(6)

Peoples Jewellers

Peoples Jewellers (“Peoples”) is Canada’s largest jewelry retailer, offering jewelry at affordable prices. Peoples accounted for 3% of Signet’s sales in Fiscal 2017 (Fiscal 2016: 3%) and operated 143 stores in Canada as of January 28, 2017 (January 30, 2016: 145 stores). Peoples is positioned as “Canada’s #1 Diamond Store” emphasizing its diamond business while also offering a wide selection of gold jewelry, gemstone jewelry and watches.

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Details of Peoples' performance since the Acquisition in Fiscal 2015 is shown below:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Sales (millions)	\$204.9	\$214.8	\$174.5
Average sales per store (millions) ⁽¹⁾	\$1.267	\$1.353	\$1.096(1)
Stores at year end	143	145	144
Total net selling square feet (thousands)	190	193	192

⁽¹⁾ Fiscal 2015 average sales per store calculated based on sales since date of the Acquisition.

Peoples stores typically occupy about 1,600 square feet and have approximately 1,300 square feet of selling space.

Zale Jewelry regional brands

The Zale division also operates the regional store brands Gordon's Jewelers ("Gordon's"), in the US, and Mappins Jewellers ("Mappins"), in Canada. Regional brands in the Zale Jewelry segment accounted for 1% of Signet's sales in Fiscal 2017 (Fiscal 2016: 2%) and operated a total of 76 stores, including 42 stores in the US and 34 stores in Canada as of January 28, 2017 (January 30, 2016: 102 total stores). The Company expects the number of regional brands locations to continue to decline through conversion to national store brands or through closure upon lease expiration.

Details of the regional brands' performance since the Acquisition is shown below:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Sales (millions)	\$87.4	\$112.4	\$93.3
Average sales per store (millions) ⁽¹⁾	\$0.982	\$0.942	\$0.682 ⁽¹⁾
Stores at year end	76	102	112
Total net selling square feet (thousands)	82	112	125

⁽¹⁾ Fiscal 2015 average sales per store calculated based on sales since date of the Acquisition.

Piercing Pagoda

Piercing Pagoda operates through mall-based kiosks in the US and Puerto Rico. Piercing Pagoda accounted for 4% of Signet's sales in Fiscal 2017 (Fiscal 2016: 4%) and operated a total of 616 stores, including 609 stores in the United States and 7 stores in Puerto Rico as of January 28, 2017 (January 30, 2016: 605 total stores). Details of Piercing Pagoda's performance since the Acquisition in Fiscal 2015 is shown below:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Sales (millions)	\$263.1	\$243.2	\$146.9
Average sales per store (millions) ⁽¹⁾	\$0.506	\$0.376	\$0.228 ⁽¹⁾
Stores at year end	616	605	605
Total net selling square feet (thousands)	115	114	115

⁽¹⁾ Fiscal 2015 average sales per store calculated based on sales since date of the Acquisition.

Piercing Pagodas are generally located in high traffic areas that are easily accessible and visible within regional shopping malls. The typical customer is the female self-purchaser. Piercing Pagoda offers a selection of gold, silver and diamond jewelry in basic styles at moderate prices.

Zale operating review

Other sales

Repair services represent approximately 2% of sales and 4% of transactions and are an important opportunity to build customer loyalty. During Fiscal 2017, Zale utilized the Jared Design & Service Centers to support its repair business for all US locations, which was an increase from approximately 200 stores in Fiscal 2016.

The Zale division sells extended service plans on certain products covering lifetime repair service and jewelry replacement. The lifetime extended service plans cover services such as ring sizing, refinishing and polishing, rhodium plating of white gold, earring repair, chain soldering and the resetting of diamonds and gemstones that arise due to the normal usage of the merchandise or a replacement option if the merchandise cannot be repaired. Zale Jewelry also offers guests a two year fine watch warranty. Additionally, Zale Jewelry and Piercing Pagoda offer a one year jewelry replacement program, which requires the issuance of new replacement merchandise if the original

merchandise is determined to be defective or damaged in accordance with the plan agreement.

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Customer finance

Our consumer credit program is an integral part of our business and is a major driver of customer loyalty. Guests are offered revolving and interest free credit plans under our private label credit card programs offered in conjunction with Comenity Bank and TD Bank Services in Canada, in conjunction with other alternative finance vehicles, including Signet's in-house consumer credit program beginning in late Fiscal 2016. These provide guests of the Zale division with a wide variety of financing options. Participation of the Zale division in Signet's in-house consumer credit program was immaterial in Fiscal 2017. Nearly 47% of Zale sales in the US were financed by private label customer credit in Fiscal 2017 (Fiscal 2016: 42%). Canadian private label credit card sales represented 32% of Canadian sales in Fiscal 2017 (Fiscal 2016: 29%).

UK JEWELRY DIVISION

The UK Jewelry division transacts mainly in British pounds, as sales and the majority of operating expenses are incurred in that currency and its results are then translated into US dollars for external reporting purposes. In Fiscal 2017, approximately 25% of goods purchased were made in US dollars (Fiscal 2016: 25%). The following information for the UK Jewelry division is given in British pounds as management believes that this presentation assists in understanding the performance of the UK Jewelry division. Movements in the US dollar to British pound exchange rate therefore may have an impact on the results of Signet, particularly in periods of exchange rate volatility. See Item 6 for analysis of results at constant exchange rates; non-GAAP measures.

UK market

Ernest Jones and H.Samuel compete with a large number of independent jewelry retailers, as well as discount jewelry retailers, online retail and auction sites, apparel and accessory fashion stores, catalog showroom operators and supermarkets.

UK Jewelry store brand reviews

Store activity by brand

	Fiscal 2017	Fiscal 2016	Fiscal 2015
H.Samuel	6	2	—
Ernest Jones	3	8	8
Total stores opened or acquired during the year	9	10	8
H.Samuel	(3)	(3)	(2)
Ernest Jones	(1)	(2)	(1)
Total stores closed during the year	(4)	(5)	(3)
H.Samuel	304	301	302
Ernest Jones	204	202	196
Total stores open at the end of the year	508	503	498
H.Samuel	£0.748	£0.763	£0.760
Ernest Jones	£1.114	£1.142	£1.092
Average sales per store (millions) ⁽¹⁾	£0.894	£0.910	£0.887
H.Samuel	329	326	327
Ernest Jones	197	194	185
Total net selling square feet (thousands)	526	520	512
Increase in net store selling space	1.0	% 1.5	% 1.8

⁽¹⁾ Based only upon stores operated for the full fiscal year and calculated on a 52-week basis.

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Sales data by brand

Fiscal 2017	Sales (millions)	Change from previous year			
		Same store sales	Total sales at constant exchange rates ⁽¹⁾		Total sales
H.Samuel	£ 245.0	(1.3)%	(0.9)%	(13.9)%
Ernest Jones	244.4	1.6 %	2.8	%	(10.6)%
UK Jewelry	£ 489.4	0.1 %	0.9	%	(12.3)%

(1)