

SIGNET JEWELERS LTD  
Form 10-Q  
September 06, 2018  
Table of Contents

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the quarterly period ended August 4, 2018 or  
 Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the transition period from to  
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)

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 such shorter period that the Registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one).  
Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Edgar Filing: SIGNET JEWELERS LTD - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date

Common Shares, \$0.18 par value, 51,910,956 shares as of August 31, 2018

---

1

---

Table of Contents

SIGNET JEWELERS LIMITED  
TABLE OF CONTENTS

	PAGE
PART I FINANCIAL INFORMATION	
ITEM 1. Financial Statements (Unaudited)	
Condensed Consolidated Income Statements	<u>3</u>
Condensed Consolidated Statements of Comprehensive Income (Loss)	<u>4</u>
Condensed Consolidated Balance Sheets	<u>5</u>
Condensed Consolidated Statements of Cash Flows	<u>6</u>
Condensed Consolidated Statement of Shareholders' Equity	<u>7</u>
Notes to the Condensed Consolidated Financial Statements	<u>8</u>
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>43</u>
ITEM 3. Quantitative and Qualitative Disclosures about Market Risk	<u>59</u>
ITEM 4. Controls and Procedures	<u>59</u>
PART II OTHER INFORMATION	
ITEM 1. Legal Proceedings	<u>60</u>
ITEM 1A. Risk Factors	<u>60</u>
ITEM 2. Unregistered Sales of Equity and Securities and Use of Proceeds	<u>60</u>
ITEM 6. Exhibits	<u>61</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## SIGNET JEWELERS LIMITED

## CONDENSED CONSOLIDATED INCOME STATEMENTS

(Unaudited)

(in millions, except per share amounts)	13 weeks ended		26 weeks ended		Notes
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017	
Sales	\$1,420.1	\$1,399.6	\$2,900.7	\$2,803.0	6
Cost of sales	(929.9 )	(941.7 )	(1,925.7 )	(1,853.9 )	
Restructuring charges - cost of sales	(63.2 )	—	(63.2 )	—	7
Gross margin	427.0	457.9	911.8	949.1	
Selling, general and administrative expenses	(444.8 )	(409.0 )	(927.6 )	(861.8 )	
Credit transaction, net	(23.9 )	14.8	(167.0 )	14.8	4
Restructuring charges	(19.6 )	—	(26.1 )	—	7
Goodwill and intangible impairments	—	—	(448.7 )	—	15
Other operating income, net	3.2	71.9	25.3	148.8	
Operating income (loss)	(58.1 )	135.6	(632.3 )	250.9	6
Interest expense, net	(9.4 )	(13.5 )	(18.3 )	(26.1 )	
Other non-operating income	0.5	—	1.1	—	
Income (loss) before income taxes	(67.0 )	122.1	(649.5 )	224.8	
Income taxes	44.0	(28.7 )	129.9	(52.9 )	12
Net income (loss)	\$(23.0 )	\$93.4	\$(519.6 )	\$171.9	
Dividends on redeemable convertible preferred shares	(8.2 )	(8.2 )	(16.4 )	(16.4 )	9
Net income (loss) attributable to common shareholders	\$(31.2 )	\$85.2	\$(536.0 )	\$155.5	
Earnings (loss) per common share:					
Basic	\$(0.56 )	\$1.34	\$(9.27 )	\$2.36	10
Diluted	\$(0.56 )	\$1.33	\$(9.27 )	\$2.36	10
Weighted average common shares outstanding:					
Basic	56.1	63.8	57.8	65.9	10
Diluted	56.1	70.5	57.8	66.0	10
Dividends declared per common share	\$0.37	\$0.31	\$0.74	\$0.62	9

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

## SIGNET JEWELERS LIMITED

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in millions)	13 weeks ended August 4, 2018			July 29, 2017		
	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Net income (loss)			\$ (23.0 )			\$ 93.4
Other comprehensive income (loss):						
Foreign currency translation adjustments	\$(15.3)	\$ —	(15.3 )	\$24.6	\$ —	24.6
Available-for-sale securities:						
Unrealized gain <sup>(1)</sup>	0.6	(0.1 )	0.5	0.5	(0.2 )	0.3
Cash flow hedges:						
Unrealized loss	(4.3 )	1.3	(3.0 )	(1.3 )	0.4	(0.9 )
Reclassification adjustment for (gains) losses to net income	(0.4 )	0.2	(0.2 )	(1.4 )	0.3	(1.1 )
Pension plan:						
Actuarial loss	(8.0 )	1.5	(6.5 )	—	—	—
Reclassification adjustment to net income for amortization of actuarial losses	—	—	—	0.8	(0.2 )	0.6
Reclassification adjustment to net income for amortization of net prior service credits	0.1	—	0.1	(0.5 )	0.1	(0.4 )
Total other comprehensive income (loss)	\$(27.3)	\$ 2.9	\$(24.4 )	\$22.7	\$ 0.4	\$ 23.1
Total comprehensive income (loss)			\$(47.4 )			\$ 116.5
(in millions)	26 weeks ended August 4, 2018			July 29, 2017		
	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Net income (loss)			\$(519.6)			\$ 171.9
Other comprehensive income (loss):						
Foreign currency translation adjustments	\$(37.0)	\$ —	(37.0 )	\$25.1	\$ —	25.1
Available-for-sale securities:						
Unrealized gain <sup>(1)</sup>	0.4	(0.1 )	0.3	0.8	(0.3 )	0.5
Impact from adoption of new accounting pronouncements <sup>(2)</sup>	(1.1 )	0.3	(0.8 )	—	—	—
Cash flow hedges:						
Unrealized gain (loss)	(2.4 )	0.9	(1.5 )	3.2	(1.4 )	1.8
Reclassification adjustment for (gains) losses to net income	(0.9 )	0.4	(0.5 )	(3.3 )	0.8	(2.5 )
Pension plan:						
Actuarial loss	(8.0 )	1.5	(6.5 )	—	—	—
Reclassification adjustment to net income for amortization of actuarial losses	0.3	—	0.3	1.5	(0.3 )	1.2
Reclassification adjustment to net income for amortization of net prior service credits	—	—	—	(0.9 )	0.2	(0.7 )
Total other comprehensive income (loss)	\$(48.7)	\$ 3.0	\$(45.7 )	\$26.4	\$(1.0 )	\$ 25.4
Total comprehensive income (loss)			\$(565.3)			\$ 197.3

(1)

Edgar Filing: SIGNET JEWELERS LTD - Form 10-Q

During the 13 and 26 weeks ended August 4, 2018, amounts represent unrealized gains related to the Company's available-for-sale debt securities. During the 13 and 26 weeks ended July 29, 2017, amounts represent unrealized gains related to the Company's available-for-sale debt and equity securities.

- (2) Adjustment reflects the reclassification of unrealized gains related to the Company's available-for-sale equity securities as of February 3, 2018 from AOCI into retained earnings associated with the adoption of ASU 2016-1. The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of ContentsSIGNET JEWELERS LIMITED  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(in millions, except par value per share amount)	August 4, 2018	February 3, 2018	July 29, 2017	Notes
Assets				
Current assets:				
Cash and cash equivalents	\$134.1	\$225.1	\$119.1	
Accounts receivable, held for sale	4.6	—	1,055.6	4
Accounts receivable, net	6.5	692.5	664.5	13
Other receivables	83.4	87.2	91.2	
Other current assets	155.9	158.2	128.5	
Income taxes	119.2	2.6	1.8	
Inventories	2,363.8	2,280.5	2,282.1	14
Total current assets	2,867.5	3,446.1	4,342.8	
Non-current assets:				
Property, plant and equipment, net of accumulated depreciation of \$1,249.2, \$1,197.6 and \$1,131.4, respectively	820.1	877.9	836.6	
Goodwill	509.0	821.7	519.9	15
Intangible assets, net	341.3	481.5	413.9	15
Other assets	169.6	171.2	165.1	
Deferred tax assets	2.2	1.4	—	
Retirement benefit asset	31.1	39.8	35.5	
Total assets	\$4,740.8	\$5,839.6	\$6,313.8	
Liabilities and Shareholders' equity				
Current liabilities:				
Loans and overdrafts	\$111.4	\$44.0	\$939.4	18
Accounts payable	236.7	237.0	148.2	
Accrued expenses and other current liabilities	440.4	448.0	426.6	
Deferred revenue	276.3	288.6	262.3	3
Income taxes	—	19.6	33.5	
Total current liabilities	1,064.8	1,037.2	1,810.0	
Non-current liabilities:				
Long-term debt	671.1	688.2	705.3	18
Other liabilities	236.1	239.6	247.1	
Deferred revenue	663.3	668.9	658.8	3
Deferred tax liabilities	91.0	92.3	103.3	
Total liabilities	2,726.3	2,726.2	3,524.5	
Commitments and contingencies				21
Series A redeemable convertible preferred shares of \$.01 par value: authorized 500 shares, 0.625 shares outstanding (February 3, 2018 and July 29, 2017: 0.625 shares outstanding)	614.4	613.6	612.7	8
Shareholders' equity:				
Common shares of \$0.18 par value: authorized 500 shares, 51.9 shares outstanding (February 3, 2018: 60.5 outstanding; July 29, 2017: 60.3 outstanding)	15.7	15.7	15.7	
Additional paid-in capital	287.6	290.2	282.2	
Other reserves	0.4	0.4	0.4	
	(2,418.0 )	(1,942.1 )	(1,949.7 )	9

Edgar Filing: SIGNET JEWELERS LTD - Form 10-Q

Treasury shares at cost: 35.3 shares (February 3, 2018: 26.7 shares; July 29, 2017: 26.9 shares)

Retained earnings	3,820.7	4,396.2	4,110.3
Accumulated other comprehensive loss	(306.3 )	(260.6 )	(282.3 ) 11
Total shareholders' equity	1,400.1	2,499.8	2,176.6
Total liabilities, redeemable convertible preferred shares and shareholders' equity	\$4,740.8	\$ 5,839.6	\$6,313.8

The accompanying notes are an integral part of these condensed consolidated financial statements.



Table of Contents

SIGNET JEWELERS LIMITED  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

(in millions)	26 weeks ended August 4, July 29, 2018      2017	
Cash flows from operating activities		
Net (loss) income	\$(519.6)	\$171.9
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	93.7	98.4
Amortization of unfavorable leases and contracts	(4.1 )	(8.6 )
Pension benefit	(0.6 )	—
Share-based compensation	8.2	6.7
Deferred taxation	(0.3 )	2.6
Credit transaction, net	160.4	(20.7 )
Goodwill and intangible impairments	448.7	—
Restructuring charges	77.4	—
Amortization of debt discount and issuance costs	1.0	1.1
Other non-cash movements	(3.3 )	0.6
Changes in operating assets and liabilities:		
Decrease in accounts receivable held for investment	40.4	159.1
Decrease in accounts receivable held for sale	18.2	—
Proceeds from sale of in-house finance receivables	445.5	—
Decrease in other assets and other receivables	9.8	15.6
(Increase) decrease in inventories	(170.9 )	180.0
Increase (decrease) in accounts payable	3.6	(104.4 )
Decrease in accrued expenses and other liabilities	(2.0 )	(6.4 )
Decrease in deferred revenue	(17.0 )	(17.1 )
Decrease in income taxes payable	(134.9 )	(67.4 )
Pension plan contributions	(1.6 )	(1.6 )
Net cash provided by operating activities	452.6	409.8
Investing activities		
Purchase of property, plant and equipment	(56.1 )	(105.7 )
Proceeds from sale of assets	5.5	—
Purchase of available-for-sale securities	(0.6 )	(1.3 )
Proceeds from sale of available-for-sale securities	8.5	0.6
Net cash used in investing activities	(42.7 )	(106.4 )
Financing activities		
Dividends paid on common shares	(40.6 )	(39.0 )
Dividends paid on redeemable convertible preferred shares	(15.6 )	(19.1 )
Repurchase of common shares	(485.0 )	(460.0 )
Repayments of term loans	(13.4 )	(9.0 )
Proceeds from securitization facility	—	1,242.9
Repayments of securitization facility	—	(1,242.9)
Proceeds from revolving credit facility	308.0	550.0
Repayments of revolving credit facility	(237.0 )	(303.0 )
Repayments of bank overdrafts	(8.1 )	(3.1 )
Other financing activities	(2.1 )	(3.0 )
Net cash used in financing activities	(493.8 )	(286.2 )

Edgar Filing: SIGNET JEWELERS LTD - Form 10-Q

Cash and cash equivalents at beginning of period	225.1	98.7
(Decrease) increase in cash and cash equivalents	(83.9	) 17.2
Effect of exchange rate changes on cash and cash equivalents	(7.1	) 3.2
Cash and cash equivalents at end of period	\$134.1	\$119.1

The accompanying notes are an integral part of these condensed consolidated financial statements.

6

---

Table of Contents

SIGNET JEWELERS LIMITED  
 CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
 (Unaudited)

(in millions)	Common shares at par value	Additional paid-in capital	Other reserves	Treasury shares	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance at February 3, 2018	\$ 15.7	\$ 290.2	\$ 0.4	\$(1,942.1)	\$4,396.2	\$ (260.6 )	\$ 2,499.8
Impact from adoption of new accounting pronouncements <sup>(1)</sup>	—	—	—	—	0.8	(0.8 )	—
Net loss	—	—	—	—	(519.6 )	—	(519.6 )
Other comprehensive income	—	—	—	—	—	(44.9 )	(44.9 )
Dividends on common shares	—	—	—	—	(41.0 )	—	(41.0 )
Dividends on redeemable convertible preferred shares	—	—	—	—	(16.4 )	—	(16.4 )
Repurchase of common shares	—	—	—	(485.0 )	—	—	(485.0 )
Net settlement of equity based awards	—	(10.8 )	—	9.1	0.7	—	(1.0 )
Share-based compensation expense	—	8.2	—	—	—	—	8.2
Balance at August 4, 2018	\$ 15.7	\$ 287.6	\$ 0.4	\$(2,418.0)	\$3,820.7	\$ (306.3 )	\$ 1,400.1

<sup>(1)</sup> Adjustment reflects the reclassification of unrealized gains related to the Company's equity security investments as of February 3, 2018 from AOCI into beginning retained earnings associated with the adoption of ASU 2016-1.

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and principal accounting policies

Signet Jewelers Limited (“Signet” or the “Company”), a holding company incorporated in Bermuda, is the world’s largest retailer of diamond jewelry. The Company operates through its 100% owned subsidiaries with sales primarily in the United States (“US”), United Kingdom (“UK”) and Canada. During the first quarter of Fiscal 2019, the Company realigned its organizational structure. The new structure will allow for further integration of operational and product development processes and support growth strategies. In accordance with this organizational change, beginning with quarterly reporting for the 13 weeks ended May 5, 2018, the Company identified three reportable segments as follows: North America, which consists of the legacy Sterling Jewelers and Zale division; International, which consists of the legacy UK Jewelry division; and Other. The “Other” reportable segment 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 6 for additional discussion of the Company’s segments. On September 12, 2017, the Company completed the acquisition of R2Net Inc., a Delaware corporation (“R2Net”). See Note 5 for additional information regarding the acquisition.

In October 2017, the Company, through its subsidiary Sterling Jewelers Inc. (“Sterling”), completed the sale of the prime-only quality portion of Sterling’s in-house finance receivable portfolio to Comenity Bank (“Comenity”). In June 2018, the Company, through its subsidiary Sterling, completed the sale of all eligible non-prime in-house accounts receivable to CarVal Investors (“CarVal”) and Castlelake, L.P. (“Castlelake”). See Note 4 for additional information regarding these transactions.

Signet’s sales are seasonal, with 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 approximately 40% to 45% of the annual operating income in North America and nearly all of the annual operating income in the International segment. In Fiscal 2019, the Company expects to recognize an annual operating loss as a result of goodwill and intangible asset impairments recognized during the first quarter, as well as the impacts of the Company’s strategic credit outsourcing and transformation initiatives.

Basis of preparation

The condensed consolidated financial statements of Signet are prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with US generally accepted accounting principles (“US GAAP”) have been condensed or omitted from this report, as is permitted by such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes included in Signet’s Annual Report on Form 10-K for the fiscal year ended February 3, 2018 filed with the SEC on April 2, 2018. Related to the new accounting pronouncement adoptions discussed in Note 2 and the change in segments disclosed in Note 6, Signet has reclassified certain prior year amounts in its consolidated financial statements and notes to the consolidated financial statements to conform to the current year presentation.

Use of estimates

The preparation of these condensed consolidated financial statements, in conformity with US GAAP and SEC regulations for interim reporting, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are primarily made in relation to the valuation of accounts receivable, inventories, deferred revenue, derivatives, employee benefits, income taxes, contingencies, asset impairments, indefinite-lived intangible assets, depreciation and amortization of long-lived assets, as well as accounting for business combinations.

Fiscal year

The Company's fiscal year ends on the Saturday nearest to January 3<sup>rd</sup>. Fiscal 2019 and Fiscal 2018 refer to the 52 week period ending February 2, 2019 and the 53 week period ending February 3, 2018, respectively. Within these condensed consolidated financial statements, the second quarter of the relevant fiscal years 2019 and 2018 refer to the 13 weeks ended August 4, 2018 and July 29, 2017, respectively.

8

---

## Table of Contents

### Foreign currency translation

The financial position and operating results of certain foreign operations, including certain subsidiaries operating in the UK as part of the International segment and Canada as part of the North America segment, are consolidated using the local currency as the functional currency. Assets and liabilities are translated at the rates of exchange on the balance sheet date, and revenues and expenses are translated at the monthly average rates of exchange during the period. Resulting translation gains or losses are included in the accompanying condensed consolidated statements of equity as a component of accumulated other comprehensive income (loss) ("AOCI"). Gains or losses resulting from foreign currency transactions are included within the condensed consolidated income statements.

See Note 11 for additional information regarding the Company's foreign currency translation.

### 2. New accounting pronouncements

The following section provides a description of new accounting pronouncements ("Accounting Standard Update" or "ASU") issued by the Financial Accounting Standards Board ("FASB") that are applicable to the Company.

#### New accounting pronouncements adopted during the period

##### Revenue recognition

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB has issued several updates to the standard that i) defer the original effective date; ii) clarify the application of principal versus agent guidance; iii) clarify the guidance on inconsequential and perfunctory promises and licensing; and iv) clarify the guidance on the de-recognition of non-financial assets. Signet adopted ASU No. 2014-09 and related updates effective February 4, 2018 using the modified retrospective approach applied only to contracts not completed as of the date of adoption with no restatement of prior periods and by recognizing the cumulative effect of initially applying the new standard as an adjustment to the opening balance of equity.

As a result of the adoption, the Company identified that the new standard required the Company to adjust its presentation related to customer trade-ins, accounting for returns reserves and treatment of the amortization of certain bonus and profit-sharing arrangements related to third-party credit card programs. After the adoption of ASU No. 2014-09, the fair value of customer trade-ins will be considered non-cash consideration when determining the transaction price, and therefore classified as revenue rather than its previous classification as a reduction to cost of goods sold. Also, the Company will record its current sales return reserve within separate refund liability and asset for recovery accounts within other current asset and liabilities, respectively. Further, subsequent amortization of certain signing bonuses and receipt of funds in connection with economic profit sharing arrangements will be recognized as a component of sales rather than as an offset to selling, general and administrative expense. The change in balance classification and change in amortization treatment were immaterial to the Company's consolidated financial statements. See additional disclosure requirements within Note 3. During the 13 and 26 weeks ended August 4, 2018, an additional \$23.9 million and \$48.4 million, respectively, of revenue was recognized primarily for non-cash consideration from customer trade-ins due to the adoption of ASU No. 2014-09.

#### New accounting pronouncements to be adopted in future periods

##### Leases

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." The new guidance primarily impacts lessee accounting by requiring the recognition of a right-of-use asset and a corresponding lease liability on the balance sheet for long-term lease agreements. The lease liability will be equal to the present value of all reasonably certain lease payments. The right-of-use asset will be based on the liability, subject to adjustment for initial direct costs. Lease agreements that are 12 months or less are permitted to be excluded from the balance sheet. In general, leases will be amortized on a straight-line basis with the exception of finance lease agreements. ASU No. 2016-02 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, with early adoption permitted.

Signet will adopt this guidance in the first quarter of our fiscal year ending February 1, 2020. Signet has established a cross-functional implementation team to evaluate and identify the impact of ASU No. 2016-02 on the Company's

consolidated financial position and results of operations. The Company currently anticipates using the additional transition method provided for in ASU No. 2018-11, "Leases (Topic 842): Targeted Improvements" which permits the Company as of the effective date of ASU No. 2016-02 to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Additionally, the Company intends to utilize the practical expedient relief package, as well as the short-term leases and portfolio approach practical expedients. The Company is currently working on implementing software to meet the new reporting requirements, as well as identifying potential changes to its business processes and controls to support adoption of the new guidance. While the Company is unable to quantify the impact of adoption at this time, the Company anticipates adoption of ASU No. 2016-02 to result in a significant increase in lease-related assets and liabilities on the Company's consolidated balance sheet. As of February 3, 2018, the aggregate undiscounted value of the Company's operating lease commitments was approximately \$2.8 billion, which were primarily related to properties, machinery and vehicles.

Table of Contents

The Company is also currently evaluating the impact on its financial statements of the following ASUs:

Standard	Description
ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, issued August 2017.	Expands the types of risk management strategies eligible for hedge accounting, refines the documentation and effectiveness assessment requirements and modifies the presentation and disclosure requirements for hedge accounting activities. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, with early adoption permitted.
ASU No. 2018-13, Fair Value Measurements (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement	Modifies the disclosure requirements on fair value measurements in Topic 820 and eliminates 'at a minimum' from the phrase 'an entity shall disclose at a minimum' to promote the appropriate exercise of discretion by entities when considering fair value disclosures and to clarify that materiality is an appropriate consideration. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted.
ASU No. 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans	Modifies the disclosure requirements for employers that sponsor defined benefit pension or other post-retirement plans and clarifies the disclosure requirements regarding projected benefit obligations and accumulated benefit obligations. The ASU is effective for fiscal years ending after December 15, 2020, with early adoption permitted.

## 3. Revenue recognition

The following tables provide the Company's revenue, disaggregated by major product and channel, for the 13 and 26 weeks ended August 4, 2018 and July 29, 2017:

(in millions)	13 weeks ended August 4, 2018				13 weeks ended July 29, 2017			
	North America	International	Other	Consolidated	North America	International	Other	Consolidated
Sales by product:								
Bridal	\$585.1	\$ 51.8	\$ —	\$ 636.9	\$518.6	\$ 52.6	\$ —	\$ 571.2
Fashion	420.5	27.2	—	447.7	400.8	29.2	—	430.0
Watches	58.0	46.8	—	104.8	55.1	44.0	—	99.1
Other <sup>(1)</sup>	223.1	5.7	1.9	230.7	287.7	6.1	5.5	299.3
Total sales	\$1,286.7	\$ 131.5	\$ 1.9	\$ 1,420.1	\$1,262.2	\$ 131.9	\$5.5	\$ 1,399.6

(in millions)	26 weeks ended August 4, 2018				26 weeks ended July 29, 2017			
	North America	International	Other	Consolidated	North America	International	Other	Consolidated
Sales by product:								
Bridal	\$1,203.0	\$ 107.4	\$ —	\$ 1,310.4	\$1,081.5	\$ 105.7	\$ —	\$ 1,187.2
Fashion	881.6	53.1	—	934.7	851.7	55.0	—	906.7
Watches	110.2	85.9	—	196.1	106.6	80.5	—	187.1
Other <sup>(1)</sup>	439.7	13.8	6.0	459.5	496.8	13.2	12.0	522.0
Total sales	\$2,634.5	\$ 260.2	\$ 6.0	\$ 2,900.7	\$2,536.6	\$ 254.4	\$12.0	\$ 2,803.0

(1) Other revenue primarily includes gift and other miscellaneous jewelry sales, repairs, warranty and other miscellaneous non-jewelry sales.



Table of Contents

(in millions)	13 weeks ended August 4, 2018				13 weeks ended July 29, 2017			
	North America	International	Other	Consolidated	North America	International	Other	Consolidated
Sales by channel:								
Store	\$1,150.2	\$ 117.7	\$ —	\$ 1,267.9	\$1,191.5	\$ 120.4	\$ —	\$ 1,311.9
E-commerce <sup>(1)</sup>	136.5	13.8	—	150.3	70.7	11.5	—	82.2
Other	—	—	1.9	1.9	—	—	5.5	5.5
Total sales	\$1,286.7	\$ 131.5	\$ 1.9	\$ 1,420.1	\$1,262.2	\$ 131.9	\$5.5	\$ 1,399.6

(in millions)	26 weeks ended August 4, 2018				26 weeks ended July 29, 2017			
	North America	International	Other	Consolidated	North America	International	Other	Consolidated
Sales by channel:								
Store	\$2,363.9	\$ 234.0	\$ —	\$ 2,597.9	\$2,394.8	\$ 233.0	\$ —	\$ 2,627.8
E-commerce <sup>(1)</sup>	270.6	26.2	—	296.8	141.8	21.4	—	163.2
Other	—	—	6.0	6.0	—	—	12.0	12.0
Total sales	\$2,634.5	\$ 260.2	\$ 6.0	\$ 2,900.7	\$2,536.6	\$ 254.4	\$12.0	\$ 2,803.0

North America includes \$54.4 million and \$107.7 million in the 13 and 26 weeks ended August 4, 2018, <sup>(1)</sup> respectively, from James Allen which was acquired during the third quarter of Fiscal 2018. See Note 5 for additional information regarding the acquisition.

For the majority of the Company's transactions, revenue is recognized when there is persuasive evidence of an arrangement, products have been delivered or services have been rendered, the sale price is fixed and determinable, and collectability is reasonably assured. The Company's revenue streams and their respective accounting treatments are discussed below.

**Merchandise sale and repairs**

Store sales are recognized when the customer receives and pays for the merchandise at the store with cash, in-house customer finance, private label credit card programs, a third-party credit card or a lease purchase option. For online sales shipped to customers, sales are recognized at the estimated time the customer has received the merchandise. Amounts related to shipping and handling that are billed to customers are reflected in sales and the related costs are reflected in cost of sales. Revenues on the sale of merchandise are reported net of anticipated returns and sales tax collected. Returns are estimated based on previous return rates experienced. Any deposits received from a customer for merchandise are deferred and recognized as revenue when the customer receives the merchandise. Revenues derived from providing replacement merchandise on behalf of insurance organizations are recognized upon receipt of the merchandise by the customer. Revenues on repair of merchandise are recognized when the service is complete and the customer collects the merchandise at the store.

**Extended service plans and lifetime warranty agreements ("ESP")**

The Company recognizes revenue related to ESP sales in proportion to when the expected costs will be incurred. The deferral period for ESP sales is determined from patterns of claims costs, including estimates of future claims costs expected to be incurred. Management reviews the trends in claims to assess whether changes are required to the revenue and cost recognition rates utilized. A significant change in estimates related to the time period or pattern in which warranty-related costs are expected to be incurred could materially impact revenues. All direct costs associated with the sale of these plans are deferred and amortized in proportion to the revenue recognized and disclosed as either other current assets or other assets in the consolidated balance sheets. Unamortized deferred selling costs as of August 4, 2018, February 3, 2018 and July 29, 2017 were as follows:

(in millions)	August 4, February 3, July 29,		
	2018	2018	2017
Deferred ESP selling costs			
Other current assets	\$ 30.3	\$ 30.9	\$29.7
Other assets	88.4	89.5	87.2

Total deferred ESP selling costs \$ 118.7    \$ 120.4    \$ 116.9

The North America segment sells ESP, subject to certain conditions, to perform repair work over the life of the product. Revenue from the sale of the lifetime ESP is recognized consistent with the estimated pattern of claim costs expected to be incurred by the Company in connection with performing under the ESP obligations. Based on an evaluation of historical claims data, management currently estimates that substantially all claims will be incurred within 17 years of the sale of the warranty contract.

Table of Contents

The North America segment sells a Jewelry Replacement Plan (“JRP”). The JRP is designed to protect customers from damage or defects of purchased merchandise for a period of three years. If the purchased merchandise is defective or becomes damaged under normal use in that time period, the item will be replaced. JRP revenue is deferred and recognized on a straight-line basis over the period of expected claims costs.

Signet also sells warranty agreements in the capacity of an agent on behalf of a third-party. The commission that Signet receives from the third-party is recognized at the time of sale less an estimate of cancellations based on historical experience.

**Sale vouchers**

Certain promotional offers award sale vouchers to customers who make purchases above a certain value, which grant a fixed discount on a future purchase within a stated time frame. The Company accounts for such vouchers by allocating the fair value of the voucher between the initial purchase and the future purchase using the relative-selling-price method. Sale vouchers are not sold on a stand-alone basis. The fair value of the voucher is determined based on the average sales transactions in which the vouchers were issued, when the vouchers are expected to be redeemed and the estimated voucher redemption rate. The fair value allocated to the future purchase is recorded as deferred revenue.

**Consignment inventory sales**

Sales of consignment inventory are accounted for on a gross sales basis as the Company is the primary obligor providing independent advice, guidance and after-sales service to customers. The products sold from consignment inventory are indistinguishable from other products that are sold to customers and are sold on the same terms. Supplier products are selected at the discretion of the Company. The Company is responsible for determining the selling price, physical security of the products and collections of accounts receivable.

**Deferred revenue**

Deferred revenue is comprised primarily of ESP and sale voucher promotions and other as follows:

(in millions)	August 4, February 3, July 29,		
	2018	2018	2017
ESP deferred revenue	\$ 906.6	\$ 916.1	\$ 902.2
Voucher promotions and other	33.0	41.4	18.9
Total deferred revenue	\$ 939.6	\$ 957.5	\$ 921.1

**Disclosed as:**

Current liabilities	\$ 276.3	\$ 288.6	\$ 262.3
Non-current liabilities	663.3	668.9	658.8
Total deferred revenue	\$ 939.6	\$ 957.5	\$ 921.1

(in millions)	13 weeks ended		26 weeks ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
ESP deferred revenue, beginning of period	\$ 913.5	\$ 903.7	\$ 916.1	\$ 905.6
Plans sold <sup>(1)</sup>	90.9	96.8	186.9	193.4
Revenue recognized	(97.8 )	(98.3 )	(196.4 )	(196.8 )
ESP deferred revenue, end of period	\$ 906.6	\$ 902.2	\$ 906.6	\$ 902.2

<sup>(1)</sup> Includes impact of foreign exchange translation.

Table of Contents

## 4. Credit transaction, net

During Fiscal 2018, Signet announced a strategic initiative to outsource its North America private label credit card programs and sell the existing in-house finance receivables. Below is a summary of the transactions the Company has entered into as a result of this strategic initiative:

## Fiscal 2018

In October 2017, Signet, through its subsidiary Sterling, completed the sale of the prime-only credit quality portion of Sterling's in-house finance receivable portfolio to Comenity. The following events summarize the credit transaction: Receivables reclassification: In the second quarter of Fiscal 2018, certain in-house finance receivables that met the criteria for sale to Comenity were reclassified from "held for investment" to "held for sale." Accordingly, the receivables were recorded at the lower of cost (par) or fair value, resulting in the reversal of the related allowance for credit losses.

Proceeds received: In October 2017, the Company received \$952.5 million in cash consideration reflecting the par value of the receivables sold. In addition, the Company recognized a beneficial interest asset representing the present value of the cash flows the Company expects to receive under the economic profit sharing agreement related to the receivables sold.

Asset-backed securitization facility termination: In October 2017, the Company terminated the asset-backed securitization facility in order to transfer the receivables free and clear. The asset-backed securitization facility had a principal balance outstanding of \$600.0 million at the time of termination. The payoff was funded through the proceeds received from the par value of receivables sold.

Program agreement: Comenity provides credit to prime-only credit quality customers for an initial term of seven years under the Program Agreement and, unless terminated by either party, additional renewal terms of two years. Under the Program Agreement, Comenity established a program to issue Sterling credit cards to be serviced, marketed and promoted in accordance with the terms of the agreement. Subject to limited exceptions, Comenity is the exclusive issuer of private label credit cards or an installment or other closed end loan product in the United States bearing specified Company trademarks, including "Kay", "Jared" and specified regional brands, but excluding "Zale", during the term of the agreement. The pre-existing arrangement with Comenity for the issuing of Zale credit cards will be unaffected by the execution of the Program Agreement. Upon expiration or termination by either party of the Program Agreement, Sterling retains the option to purchase, or arrange the purchase by a third party of, the program assets from Comenity on terms that are no more onerous to Sterling than those applicable to Comenity under the Purchase Agreement, or in the case of a purchase by a third party, on customary terms. Additionally, the Company received a signing bonus, which may be repayable under certain conditions if the Program Agreement is terminated, and a right to receive future payments related to the performance of the credit program under an economic profit sharing agreement. The Program Agreement contains customary representations, warranties and covenants.

Additionally, Signet and Genesis Financial Solutions ("Genesis") entered into a five-year servicing agreement in October 2017, under which Genesis will provide credit servicing functions for Signet's existing non-prime accounts receivable, as well as future non-prime account originations.

## Fiscal 2019

During March 2018, the Company, through its subsidiary Sterling, entered into a definitive agreement with CarVal to sell all eligible non-prime in-house accounts receivable. In May 2018, the Company exercised its option to appoint a minority party, Castlake, to purchase 30% of the eligible receivables sold to CarVal under the Receivables Purchase Agreement. In June 2018, the Company completed the sale of the non-prime in-house accounts receivable at a price expressed as 72% of the par value of the accounts receivable. The purchase price was settled with 95% received as cash upon closing. The remaining 5% of the purchase price was deferred until the second anniversary of the closing date. Final payment of the deferred purchase price is contingent upon the non-prime in-house finance receivable portfolio achieving a pre-defined yield. The agreement contains customary representations, warranties and covenants. Receivables reclassification: In March 2018, the eligible non-prime in-house accounts receivables that met the criteria for sale were reclassified from "held for investment" to "held for sale" on the condensed consolidated balance sheet. Accordingly, the receivables were recorded at the lower of cost (par) or fair value as of the date of the reclassification with subsequent adjustments to the asset fair value as required through the closing date of the transaction. During the

13 and 26 weeks ended August 4, 2018, total valuation losses of \$19.4 million and \$160.4 million, respectively, were recorded within credit transaction, net in the condensed consolidated income statement.

Proceeds received: In June 2018, the Company received \$445.5 million in cash consideration for the receivables sold based on the terms of the agreements with CarVal and Castlake described above. The Company also recorded a receivable related to the deferred purchase price payment within other assets and will adjust the asset to fair value in each period of the performance period. See Note 17 for additional information regarding the fair value of deferred purchase price.

Expenses: During the 13 and 26 weeks ended August 4, 2018, the Company incurred \$4.5 million and \$6.6 million, respectively, of transaction-related costs, which were recorded within credit transaction, net in the condensed consolidated income statement.

Table of Contents

In addition, for a five-year term, Signet will remain the issuer of non-prime credit with investment funds managed by CarVal and Castlake purchasing forward receivables at a discount rate determined in accordance with their respective agreements. Signet will hold the newly issued non-prime credit receivables on its balance sheet for two business days prior to selling the receivables to the respective counterparty in accordance with the agreements. Servicing of the non-prime receivables, including operational interfaces and customer servicing, will continue to be provided by Genesis.

#### 5. Acquisition

On September 12, 2017, the Company acquired the outstanding shares of R2Net, the owner of online jewelry retailer JamesAllen.com and Segoma Imaging Technologies. The acquisition rapidly enhanced the Company's digital capabilities and accelerated its OmniChannel strategy, while adding a millennial-focused online retail brand to the Company's portfolio. The Company paid \$331.7 million, net of acquired cash of \$47.3 million, for R2Net.

The transaction was accounted for as a business combination during the third quarter of Fiscal 2018 with R2Net becoming a wholly-owned consolidated subsidiary of Signet. The results of R2Net subsequent to the acquisition date are reported as a component of the results of the North America segment. Pro forma results of operations have not been presented, as the impact on the Company's consolidated financial results was not material.

Under the acquisition method of accounting, the identifiable assets acquired and liabilities assumed are recorded at their estimated fair values on the acquisition date, with the remaining unallocated net purchase price recorded as goodwill. The following table summarizes the fair values identified for the assets acquired and liabilities assumed in the R2Net acquisition as of September 12, 2017:

(in millions)	Fair values
Cash and cash equivalents	\$47.3
Inventories	12.1
Other current assets	9.7
Property, plant and equipment	3.5
Intangible assets:	
Trade names	70.6
Technology-related	4.2
Current liabilities	(42.4 )
Deferred tax liabilities	(25.1 )
Fair value of net assets acquired	79.9
Goodwill	299.1
Total consideration transferred	\$379.0

During the second quarter of Fiscal 2019, the Company finalized the valuation of net assets acquired. The goodwill generated from the acquisition is primarily attributable to expected synergies and will not be deductible for tax purposes.

#### 6. Segment information

Financial information for each of Signet's reportable segments is presented in the tables below. Signet's chief operating decision maker utilizes sales and operating income, after the elimination of any inter-segment transactions, to determine resource allocations and performance assessment measures. During the first quarter of Fiscal 2019, the Company realigned its organizational structure. The new structure will allow for further integration of operational and product development processes and support growth strategies. In accordance with this organizational change, beginning with quarterly reporting for the 13 weeks ended May 5, 2018, the Company reported three reportable segments as follows: North America, which consists of the legacy Sterling Jewelers and Zales division; International, which consists of the legacy UK Jewelry division; and Other. Signet's sales are derived from the retailing of jewelry, watches, other products and services as generated through the management of its reportable segments.

The North America reportable segment operates across the US and Canada. Its US stores operate nationally in malls and off-mall locations principally as Kay (Kay Jewelers and Kay Jewelers Outlet), Jared (Jared The Galleria Of Jewelry and Jared Vault), Zales (Zales Jewelers and Zales Outlet) and Piercing Pagoda, which operates through

mall-based kiosks. Its Canadian stores operate as the Peoples Jewellers store banner. The segment also operates a variety of mall-based regional brands, including Gordon's Jewelers in the US and Mappins in Canada, and the JamesAllen.com website, which was acquired in the R2Net acquisition.

The International reportable segment operates stores in the UK, Republic of Ireland and Channel Islands. Its stores operate in shopping malls and off-mall locations (i.e. high street) principally as H.Samuel and Ernest Jones.

Table of Contents

The Other reportable segment consists of all non-reportable segments that are below the quantifiable threshold for separate disclosure as a reportable segment, including subsidiaries involved in the purchasing and conversion of rough diamonds to polished stones and unallocated corporate administrative functions.

(in millions)	13 weeks ended		26 weeks ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Sales:				
North America segment	\$1,286.7	\$1,262.2	\$2,634.5	\$2,536.6
International segment	131.5	131.9	260.2	254.4
Other	1.9	5.5	6.0	12.0
Total sales	\$1,420.1	\$1,399.6	\$2,900.7	\$2,803.0

## Operating (loss) income:

North America segment <sup>(1)</sup>	\$(4.2 )	\$161.6	\$(541.5 )	\$296.4
International segment <sup>(2)</sup>	(6.1 )	2.3	(13.7 )	(0.2 )
Other <sup>(3)</sup>	(47.8 )	(28.3 )	(77.1 )	(45.3 )
Total operating (loss) income	\$(58.1 )	\$135.6	\$(632.3 )	\$250.9

Operating (loss) income during the 13 weeks ended August 4, 2018 includes \$53.7 million and \$19.4 million related to inventory charges recorded in conjunction with the Company's restructuring activities and valuation losses related to the sale of eligible non-prime in-house accounts receivable, respectively.

- (1) Operating (loss) income during the 26 weeks ended August 4, 2018 includes \$448.7 million, \$53.7 million and \$160.4 million related to the goodwill and intangible impairments recognized in the first quarter, inventory charges recorded in conjunction with the Company's restructuring activities, and valuation losses related to the sale of eligible non-prime in-house accounts receivable, respectively. See Note 15, Note 7 and Note 4 for additional information.

- (2) Operating (loss) income during the 13 and 26 weeks ended August 4, 2018 includes \$3.8 million related to inventory charges recorded in conjunction with the Company's restructuring activities. See Note 7 for additional information.

- (3) Operating (loss) income during the 13 weeks ended August 4, 2018 includes \$25.3 million and \$4.5 million related to charges recorded in conjunction with the Company's restructuring activities, including inventory charges, and transaction costs associated with the sale of the non-prime in-house accounts receivable, respectively. Operating (loss) income during the 26 weeks ended August 4, 2018 includes \$31.8 million and \$6.6 million related to charges recorded in conjunction with the Company's restructuring activities including inventory charges, and transaction costs associated with the sale of the non-prime in-house accounts receivable, respectively. See Note 7 and Note 4 for additional information.

(in millions)	August 4, February 3, July 29,		
	2018	2018	2017
Total assets:			
North America segment	\$4,171.9	\$5,309.0	\$5,826.3
International segment	366.6	420.3	384.8
Other	202.3	110.3	102.7
Total assets	\$4,740.8	\$5,839.6	\$6,313.8

## 7. Restructuring Plans

## Signet Path to Brilliance Plan

During the first quarter of Fiscal 2019, Signet launched a three-year comprehensive transformation plan, the "Signet Path to Brilliance" plan (the "Plan"), to reposition the Company to be a share gaining, OmniChannel jewelry category leader. The Plan is expected to result in pre-tax charges in the range of \$170 million - \$190 million over the duration of the plan of which \$80 million - \$95 million are expected to be cash charges. In Fiscal 2019, the Company's preliminary estimates for pre-tax charges related to cost reduction activities and inventory charges ranges from \$125



million - \$135 million, of which \$40 million - \$45 million are expected to be cash charges. Signet also expects a net reduction in net selling square footage of 4.0% - 5.0% related to a net reduction in stores in Fiscal 2019. Restructuring charges of \$82.8 million and \$89.3 million were recognized in the 13 and 26 weeks ended August 4, 2018, respectively, primarily related to inventory charges associated with discontinued brands and collections, professional fees for legal and consulting services, severance and impairment of information technology assets related to the Plan. No Plan liabilities were recorded as of August 4, 2018.

Table of Contents

Restructuring charges and other Plan related costs are classified in the condensed consolidated income statements as follows:

(in millions)	Income statement location	13 weeks ended		26 weeks ended	
		August 2018	July 2017	August 2018	July 2017
Inventory charges <sup>(1)</sup>	Restructuring charges - cost of sales	\$ 63.2	\$ —	—\$ 63.2	\$ —
Other Plan related expenses	Restructuring charges	19.6	—	26.1	—
<b>Total Signet Path to Brilliance Plan expenses</b>		<b>\$ 82.8</b>	<b>\$ —</b>	<b>—\$ 89.3</b>	<b>\$ —</b>

(1) See Note 14 for additional information related to inventory and inventory reserves.

8. Redeemable preferred shares

On October 5, 2016, the Company issued 625,000 shares of Series A Convertible Preference Shares (“preferred shares”) to Green Equity Investors VI, L.P., Green Equity Investors Side VI, L.P., LGP Associates VI-A LLC and LGP Associates VI-B LLC, all affiliates of Leonard Green & Partners, L.P., (together, the “Investors”) for an aggregate purchase price of \$625.0 million, or \$1,000 per share (the “Stated Value”) pursuant to the investment agreement dated August 24, 2016. Preferred shareholders are entitled to a cumulative dividend at the rate of 5% per annum, payable quarterly in arrears. Refer to Note 9 for additional discussion of the Company’s dividends on preferred shares.

(in millions, except conversion rate and conversion price)	August 4, 2018	February 3, 2018	July 29, 2017
Conversion rate	11.1190	10.9409	10.7707
Conversion price	\$89.9361	\$ 91.4002	\$92.8445
Potential impact of preferred shares if-converted to common shares	6.9	6.8	6.7
Liquidation preference	\$632.8	\$ 632.8	\$632.8

In connection with the issuance of the preferred shares, the Company incurred direct and incremental expenses of \$13.7 million. These direct and incremental expenses originally reduced the preferred shares carrying value, and will be accreted through retained earnings as a deemed dividend from the date of issuance through the first possible known redemption date, November 2024. Accumulated accretion recorded in the condensed consolidated balance sheets was \$3.1 million as of August 4, 2018 (February 3, 2018 and July 29, 2017: \$2.3 million and \$1.4 million, respectively).

Accretion of \$0.4 million and \$0.8 million was recorded to preferred shares in the condensed consolidated balance sheets during the 13 and 26 weeks ended August 4, 2018, respectively (\$0.4 million and \$0.8 million for the 13 and 26 weeks ended July 29, 2017, respectively).

9. Shareholders’ equity

Share repurchases

Common shares repurchased during the 26 weeks ended August 4, 2018 and July 29, 2017 were as follows:

(in millions, except per share amounts)	Amount authorized	26 weeks ended August 4, 2018			26 weeks ended July 29, 2017		
		Shares repurchased	Amount repurchased	Average repurchase price per share	Shares repurchased	Amount repurchased	Average repurchase price per share
2017 Program <sup>(1)</sup>	\$ 600.0	7.5	\$ 434.4	\$ 57.64	n/a	n/a	n/a
2016 Program <sup>(2)</sup>	\$ 1,375.0	1.3	\$ 50.6	\$ 39.76	8.1	\$ 460.0	\$ 56.91
<b>Total</b>		<b>8.8</b>	<b>\$ 485.0</b>	<b>\$ 55.06</b>	<b>8.1</b>	<b>\$ 460.0</b>	<b>\$ 56.91</b>

(1) The 2017 Program had \$165.6 million remaining as of August 4, 2018.

(2) The 2016 Program was completed in March 2018.

n/a Not applicable.



Table of Contents

## Dividends on common shares

Dividends declared on common shares during the 26 weeks ended August 4, 2018 and July 29, 2017 were as follows:

(in millions, except per share amounts)	Fiscal 2019		Fiscal 2018	
	Cash dividend per share	Total dividends	Cash dividend per share	Total dividends
First quarter	\$0.37	\$ 21.8	\$0.31	\$ 21.3
Second quarter <sup>(1)</sup>	0.37	19.2	0.31	18.7
Total	\$0.74	\$ 41.0	\$0.62	\$ 40.0

Signet's dividend policy for common shares results in the dividend payment date being a quarter in arrears from the declaration date. As a result, as of August 4, 2018 and July 29, 2017, \$19.2 million and \$18.7 million, respectively,

<sup>(1)</sup> has been recorded in accrued expenses and other current liabilities in the condensed consolidated balance sheets reflecting the cash dividends on common shares declared for the second quarter of Fiscal 2019 and Fiscal 2018, respectively.

## Dividends on preferred shares

Dividends declared on preferred shares during the 26 weeks ended August 4, 2018 and July 29, 2017 were as follows:

(in millions)	Fiscal 2019	Fiscal 2018
	Total cash dividends	Total cash dividends
First quarter	\$ 7.8	\$ 7.8
Second quarter <sup>(1)</sup>	7.8	7.8
Total	\$ 15.6	\$ 15.6

Signet's preferred shares dividends results in the dividend payment date being a quarter in arrears from the declaration date. As a result, as of August 4, 2018 and July 29, 2017, \$7.8 million and \$7.8 million, respectively,

<sup>(1)</sup> has been recorded in accrued expenses and other current liabilities in the condensed consolidated balance sheets reflecting the cash dividends on preferred shares declared for the second quarter of Fiscal 2019 and Fiscal 2018, respectively.

There were no cumulative undeclared dividends on the preferred shares that reduced net (loss) income attributable to common shareholders during the 13 and 26 weeks ended August 4, 2018 or July 29, 2017. In addition, deemed dividends of \$0.4 million and \$0.8 million related to accretion of issuance costs associated with the preferred shares was recognized during the 13 and 26 weeks ended August 4, 2018, respectively (\$0.4 million and \$0.8 million for the 13 and 26 weeks ended July 29, 2017, respectively). See Note 8 for additional discussion of the Company's preferred shares.

## 10. Earnings (loss) per common share ("EPS")

During Fiscal 2019, basic EPS is computed by dividing net (loss) income attributable to common shareholders by the weighted average number of common shares outstanding for the period. The computation of basic EPS is outlined in the table below:

(in millions, except per share amounts)	13 weeks ended		26 weeks ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Numerator:				
Net (loss) income attributable to common shareholders	\$(31.2)	\$ 85.2	\$(536.0)	\$ 155.5
Denominator:				
Weighted average common shares outstanding	56.1	63.8	57.8	65.9
EPS – basic	\$(0.56)	\$ 1.34	\$(9.27)	\$ 2.36

The dilutive effect of share awards represents the potential impact of outstanding awards issued under the Company's share-based compensation plans, including restricted shares and restricted stock units issued under the Omnibus Plan and stock options issued under the Share Saving Plans. The dilutive effect of preferred shares represents the potential

impact for common shares that would be issued upon conversion. Potential common share dilution related to share awards and preferred shares is determined using the treasury stock and if-converted methods, respectively. Under the if-converted method, the preferred shares are assumed to be converted at the beginning of the period, and the resulting common shares are included in the denominator of the diluted EPS calculation for the entire period being presented, only in the periods in which such effect is dilutive. Additionally, in periods in which preferred shares are dilutive, cumulative dividends and accretion for issuance costs associated with the preferred shares are added back to net (loss) income attributable to common shareholders. See Note 8 for additional discussion of the Company's preferred shares.

Table of Contents

The computation of diluted EPS is outlined in the table below:

(in millions, except per share amounts)	13 weeks ended		26 weeks ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Numerator:				
Net (loss) income attributable to common shareholders	\$(31.2)	\$ 85.2	\$(536.0)	\$ 155.5
Add: Dividends on preferred shares	—	8.2	—	—
Numerator for diluted EPS	\$(31.2)	\$ 93.4	\$(536.0)	\$ 155.5
Denominator:				
Weighted average common shares outstanding	56.1	63.8	57.8	65.9
Plus: Dilutive effect of share awards	—	—	—	0.1
Plus: Dilutive effect of preferred shares	—	6.7	—	—
Diluted weighted average common shares outstanding	56.1	70.5	57.8	66.0
EPS – diluted	\$(0.56)	\$ 1.33	\$(9.27)	\$ 2.36

The calculation of diluted EPS excludes the following items for each respective period on the basis that their effect would be anti-dilutive.

(in millions)	13 weeks ended		26 weeks ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Share awards	0.3	—	0.3	—
Potential impact of preferred shares	6.8	—	6.8	6.7
Total anti-dilutive shares	7.1	—	7.1	6.7

#### 11. Accumulated other comprehensive income (loss)

The following tables present the changes in AOCI by component and the reclassifications out of AOCI, net of tax:

(in millions)	Foreign currency translation	Losses on available-for-sale securities, net	Gains (losses) on cash flow hedges	Pension plan		Accumulated other comprehensive loss
				Actuarial losses	Prior service credits	
Balance at February 3, 2018	\$(212.5 )	\$ (0.1 )	\$ 0.7	\$(51.1)	\$ 2.4	\$(260.6 )
Other comprehensive income (loss) (“OCI”) before reclassifications	(37.0 )	0.3	(1.5 )	(6.5 )	—	(44.7 )
Amounts reclassified from AOCI to net income	—	—	(0.5 )	0.3	—	(0.2 )
Impact from adoption of new accounting pronouncements <sup>(1)</sup>	—	(0.8 )	—	—	—	(0.8 )
Net current period OCI	(37.0 )	(0.5 )	(2.0 )	(6.2 )	—	(45.7 )
Balance at August 4, 2018	\$(249.5 )	\$ (0.6 )	\$ (1.3 )	\$(57.3)	\$ 2.4	\$(306.3 )

<sup>(1)</sup> Adjustment reflects the reclassification of unrealized gains related to the Company’s equity security investments as of February 3, 2018 from AOCI into retained earnings associated with the adoption of ASU 2016-1.

Table of Contents

The amounts reclassified from AOCI were as follows:

(in millions)	Amounts reclassified from AOCI				Income statement caption
	13 weeks ended		26 weeks ended		
	August 2018	July 29, 2017	August 2018	July 29, 2017	
(Gains) losses on cash flow hedges:					
Foreign currency contracts	\$0.4	\$(1.2 )	\$0.7	\$(2.2 )	Cost of sales (see Note 16)
Interest rate swaps	(0.4 )	0.1	(0.7 )	0.4	Interest expense, net (see Note 16)
Commodity contracts	(0.4 )	(0.3 )	(0.9 )	(1.5 )	Cost of sales (see Note 16)
Total before income tax	(0.4 )	(1.4 )	(0.9 )	(3.3 )	
Income taxes	0.2	0.3	0.4	0.8	
Net of tax	(0.2 )	(1.1 )	(0.5 )	(2.5 )	
Defined benefit pension plan items:					
Amortization of unrecognized actuarial losses	—	0.8	0.3	1.5	Other non-operating income
Amortization of unrecognized net prior service credits	0.1	(0.5 )	—	(0.9 )	Other non-operating income
Total before income tax	0.1	0.3	0.3	0.6	
Income taxes	—	(0.1 )	—	(0.1 )	
Net of tax	0.1	0.2	0.3	0.5	
Total reclassifications, net of tax	\$(0.1)	\$(0.9 )	\$(0.2)	\$(2.0 )	

## 12. Income taxes

	26 weeks ended	
	August 4, 2018	July 29, 2017
Effective tax rate	32.2 %	23.0 %
Discrete items recognized	(12.2)%	0.5 %
Effective tax rate recognized in income statement	20.0 %	23.5 %

During the 26 weeks ended August 4, 2018, the Company's effective tax rate was lower than the US federal income tax rate primarily due to the unfavorable impact of the impairment of goodwill which was not deductible for tax purposes partially offset by the favorable impact of foreign tax rate differences and benefits from global reinsurance and financing arrangements. The effective tax rate excludes the effects of any discrete items that may be recognized in future periods.

On December 22, 2017, the US government enacted "An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018" (the "TCJ Act"). The TCJ Act provides for comprehensive tax legislation that reduces the US federal statutory corporate tax rate from 35.0% to 21.0% effective January 1, 2018, limits certain deductions, including limiting the deductibility of interest expense to 30.0% of US Earnings Before Interest, Taxes, Depreciation, and Amortization, broadens the US federal income tax base, requires

companies to pay a one-time repatriation tax on earnings of certain foreign subsidiaries that were previously tax deferred (“transition tax”), and creates new taxes on certain foreign sourced earnings. As we have a 52-53-week tax year ending the Saturday nearest October 31, the lower corporate income tax rate is administratively phased in, resulting in a blended U.S. federal statutory rate of approximately 23.4% for our fiscal tax year from October 29, 2017 through November 3, 2018 and 21.0% for our fiscal tax years thereafter.

The SEC issued rules to allow a measurement period of up to 12 months following the enactment of the TCJ Act for registrants to finalize their accounting for the related income tax effects.

During the fourth quarter of Fiscal 2018, we recorded a provisional net tax benefit associated with the TCJ Act.

During the 13 weeks ended May 5, 2018, we recorded a provisional benefit of \$0.6 million as an adjustment to the amounts recorded at February 3, 2018 related to the re-measurement of deferred tax balances recorded in purchase accounting with respect to the R2Net acquisition.



Table of Contents

As of August 4, 2018, the amounts recorded for the TCJ Act remain provisional for the re-measurement of deferred taxes. Within our calculations of the income tax effects of the TCJ Act, we used assumptions and estimates that may change as a result of future guidance and interpretation from the Internal Revenue Service, the SEC, the FASB and/or various other taxing jurisdictions. In particular, we anticipate that the US state jurisdictions will continue to determine and announce their conformity or decoupling from the Act, either in its entirety or with respect to specific provisions. All of these potential legislative and interpretive actions could result in adjustments to any of the provisional estimates when the accounting for the income tax effects of the TCJ Act is completed.

Tax effects for these items will be recorded in subsequent quarters, as discrete adjustments to our income tax provision, once complete. We elected to adopt the SEC issued guidance that allows for a measurement period, not to exceed one year after the enactment date of the TCJ Act, to finalize the recording of related tax impacts. We currently anticipate finalizing and recording any resulting adjustments during the fourth quarter.

There has been no material change in the amounts of unrecognized tax benefits, or the related accrued interest and penalties (where appropriate), in respect of uncertain tax positions identified as of February 3, 2018.

### 13. Accounts receivable

Prior to the second quarter of Fiscal 2019, Signet's accounts receivable primarily consisted of US customer in-house financing receivables. This accounts receivable portfolio historically consisted of a population that was of similar characteristics and was evaluated collectively for impairment.

In October 2017, the Company completed the sale of the prime portion of the Sterling Jewelers customer in-house finance receivables. The receivables sold, which were classified as "held for sale" as of the second quarter of Fiscal 2018, are no longer reported within the condensed consolidated balance sheets. See Note 4 for additional information regarding the sale of the prime portion of the customer in-house finance receivable portfolio.

In June 2018, the Company completed the sale of the remaining Sterling Jewelers and Zale customer in-house finance receivables. See Note 4 for additional information regarding the agreement. For a five-year term, Signet will remain the issuer of non-prime credit with investment funds managed by CarVal and Castlelake purchasing forward flow receivables at a discount rate determined in accordance with their respective agreements. Receivables issued by the Company but pending transfer to CarVal and Castlelake as of period end are classified as "held for sale" in the condensed consolidated balance sheet. As of August 4, 2018, the accounts receivable held for sale were recorded at fair value. See Note 17 for additional information regarding the assumptions utilized in the calculation of fair value of the finance receivables held for sale.

(in millions)	August 4, 2018	February 3, 2018	July 29, 2017
Accounts receivable by portfolio segment, net:			
Legacy Sterling Jewelers customer in-house finance receivables	\$ —	\$ 649.4	\$622.6
Legacy Zale customer in-house finance receivables	\$ —	33.5	34.0
North America customer in-house finance receivables	\$ —	\$ 682.9	\$656.6
Other accounts receivable	6.5	9.6	7.9
Total accounts receivable, net	\$ 6.5	\$ 692.5	\$664.5

Accounts receivable, held for sale	\$ 4.6	\$ —	\$1,055.6
------------------------------------	--------	------	-----------

Prior to the end of the second quarter of Fiscal 2019, Signet granted credit to customers based on a variety of credit quality indicators, including consumer financial information and prior payment experience. Management monitored the credit exposure based on past due status and collection experience, as it had found a meaningful correlation between the past due status of customers and the risk of loss.

Other accounts receivable is comprised primarily of accounts receivable relating to the insurance loss replacement business in the International segment of \$5.8 million (February 3, 2018 and July 29, 2017: \$9.3 million and \$6.9 million, respectively).

Table of Contents

The activity in the allowance for credit losses on Sterling Jewelers customer in-house finance receivables is shown below:

(in millions)	26 weeks ended	
	August 4, 2018	July 29, 2017
Beginning balance	\$(113.5)	\$(138.7)
Charge-offs, net	56.3	103.9
Recoveries	4.2	17.8
Provision	(54.6 )	(118.0 )
Reversal of allowance on receivables previously held for sale	107.6	20.7
Ending balance	\$—	\$(114.3)
Ending receivable balance evaluated for impairment	—	736.9
Sterling Jewelers customer in-house finance receivables, net	\$—	\$622.6

Amounts reflected for Fiscal 2019 represent activity for the period prior to the reclassification of the in-house (1) finance receivables portfolio to held for sale during the first quarter of Fiscal 2019 when the allowance was reversed.

As a result of the sale of the prime-only credit portion of the customer in-house finance receivable portfolio and the outsourcing of the credit servicing on the remaining in-house finance receivable portfolio in October 2017 as disclosed in Note 4, the Company revised its methodology for measuring delinquency to be based on the contractual basis.

As of August 4, 2018, the customer in-house finance receivables were held for sale and recorded at fair value in the condensed consolidated balance sheet. As such, no valuation allowance for credit losses was required to be recorded. The credit quality indicator and age analysis of customer in-house finance receivables as of February 3, 2018 are shown below under the contractual basis:

(in millions)	February 3, 2018	
	Gross	Valuation allowance
Performing (accrual status):		
0 - 120 days past due	\$703.4	\$(54.0 )
121 or more days past due	59.5	(59.5 )
	\$762.9	\$(113.5 )

Valuation allowance as a % of ending receivable balance 14.9 %

Prior to the fourth quarter of Fiscal 2018, the Company's calculation of the allowance for credit losses was based on a recency measure of delinquency. The credit quality indicator and age analysis of customer in-house finance receivables prior to the sale of the prime-only credit portion of the in-house receivable portfolio as of July 29, 2017 are shown below under the recency basis:

(in millions)	July 29, 2017	
	Gross	Valuation allowance
Performing (accrual status):		
Current, aged 0 – 30 days	\$1,394.2	\$(42.8 )
Past due, aged 31 – 60 days	264.6	(8.6 )
Past due, aged 61 – 90 days	52.5	(2.4 )
Non Performing:		
Past due, aged more than 90 days	81.2	(81.2 )
	\$1,792.5	\$(135.0 )

Valuation allowance as a % of ending receivable balance 7.5 %



Table of Contents

## 14. Inventories

The following table summarizes the Company's inventory by classification:

(in millions)	August 4, 2018	February 3, 2018	July 29, 2017
Raw materials	\$76.2	\$72.0	\$56.1
Finished goods	2,287.6	2,208.5	2,226.0
Total inventories	\$2,363.8	\$2,280.5	\$2,282.1

During the 13 and 26 weeks ended August 4, 2018, as a part of the "Signet Path to Brilliance" restructuring plan, the Company recorded inventory charges of \$63.2 million primarily associated with discontinued brands and collections within the restructuring charges - cost of sales line item on the condensed consolidated income statements. See Note 7 for additional information.

As of August 4, 2018, inventory reserves were \$100.9 million (February 3, 2018 and July 29, 2017: \$40.6 million and \$42.5 million, respectively).

## 15. Goodwill and intangibles

In connection with the acquisition of R2Net on September 12, 2017, the Company recognized \$299.1 million of goodwill, which is reported in the North America segment.

Goodwill and other indefinite-lived intangible assets, such as indefinite-lived trade names, are evaluated for impairment annually. Additionally, if events or conditions were to indicate the carrying value of a reporting unit or an indefinite-lived intangible asset may not be recoverable, the Company would evaluate the asset for impairment at that time. Impairment testing compares the carrying amount of the reporting unit or other intangible assets with its fair value. When the carrying amount of the reporting unit or other intangible assets exceeds its fair value, an impairment charge is recorded.

Due to a sustained decline in the Company's market capitalization during the 13 weeks ended May 5, 2018, the Company determined a triggering event had occurred that required an interim impairment assessment for all of its reporting units and indefinite-lived intangible assets. As part of the assessment, it was determined that an increase in the discount rate applied in the valuation was required to align with market-based assumptions and company-specific risk. This higher discount rate, in conjunction with revised long-term projections associated with finalizing certain initial aspects of the Company's Path to Brilliance transformation plan in the first quarter, resulted in lower than previously projected long-term future cash flows for the reporting units which negatively affected the valuation compared to previous valuations. Due to the inherent uncertainties involved in making the estimates and assumptions used in the fair value analysis, actual results may differ, which could alter the fair value of the reporting units and trade names, and possibly result in impairment charges in future periods. As a result of the interim impairment assessment, the Company recognized pre-tax impairment charges totaling \$448.7 million in the 13 weeks ended May 5, 2018.

## Goodwill

Using a combination of discounted cash flow and guideline public company methodologies, the Company compared the fair value of each of its reporting units with their carrying value and concluded that a deficit existed. Accordingly, in the 13 weeks ended May 5, 2018, the Company recognized pre-tax impairment charges in operations of \$23.2 million and \$285.6 million at its' legacy Sterling Jewelers and Zale Jewelry segments, which are within the Company's current North America segment.

The following table summarizes the Company's goodwill by reportable segment:

(in millions)	North America	Other	Total
Balance at January 28, 2017	\$514.0	\$3.6	\$517.6
Acquisitions	301.7	—	301.7
Impact of foreign exchange and other adjustments	2.4	—	2.4
Balance at February 3, 2018	818.1	3.6	821.7
Impairment	(308.8)	—	(308.8)
Impact of foreign exchange and other adjustments <sup>(1)</sup>	(3.9)	—	(3.9)

Edgar Filing: SIGNET JEWELERS LTD - Form 10-Q

Balance at August 4, 2018 \$ 505.4 \$ 3.6 \$ 509.0

During the 26 weeks ended May 5, 2018, other adjustments include a purchase price accounting adjustment of \$2.6 (1) million related to a revised valuation of acquired intangible assets from the R2Net acquisition. Refer to Note 5 for additional details.

22

---

Table of Contents

## Intangibles

Definite-lived intangible assets include trade names and favorable lease agreements. Indefinite-lived intangible assets include trade names. Both definite and indefinite-lived assets are recorded within intangible assets, net on the consolidated balance sheets. Intangible liabilities, net is comprised of unfavorable lease agreements and contracts and is recorded within other liabilities on the consolidated balance sheets.

In conjunction with the interim goodwill impairment tests, the Company reviewed its indefinite-lived intangible assets for potential impairment by calculating the fair values of the assets using the relief from royalty method and comparing the fair value to their respective carrying amounts. The interim impairment test resulted in the determination that the fair values of indefinite-lived intangible assets related to certain Zales trade names were less than their carrying value. Accordingly, in the 13 weeks ended May 5, 2018, the Company recognized pre-tax impairment charges in operations of \$139.9 million at its' legacy Zale Jewelry segment, which is within the Company's current North America segment.

The following table provides additional detail regarding the composition of intangible assets and liabilities:

(in millions)	August 4, 2018				February 3, 2018			July 29, 2017		
	Gross carrying amount	Accumulated amortization	Accumulated impairment loss	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Intangible assets, net:										
Definite-lived intangible assets	53.4	(48.6 )	—	4.8	49.8	(46.7 )	3.1	49.8	(43.6 )	6.2
Indefinite-lived intangible assets	476.2	—	(139.7 )	336.5	478.4	—	478.4	407.7	—	407.7
Total intangible assets, net	\$529.6	\$ (48.6 )	\$ (139.7 )	\$341.3	\$528.2	\$ (46.7 )	\$481.5	\$457.5	\$ (43.6 )	\$413.9
Intangible liabilities, net	\$(114.0)	\$88.8	\$—	\$(25.2 )	\$(114.5)	\$85.2	\$(29.3 )	\$(114.5)	\$80.5	\$(34.0 )

During the second quarter of Fiscal 2019, the Company performed its annual evaluation of its indefinite-lived intangible assets, including goodwill and trade names identified in the Zale acquisition, for impairment indicators. No indicators were identified during this assessment indicating that it is more likely than not that impairment in excess of the amount recorded during the 13 weeks ended May 5, 2018 exists.

## 16. Derivatives

Derivative transactions are used by Signet for risk management purposes to address risks inherent in Signet's business operations and sources of financing. The main risks arising from Signet's operations are market risk including foreign currency risk, commodity risk, liquidity risk and interest rate risk. Signet uses derivative financial instruments to manage and mitigate certain of these risks under policies reviewed and approved by the Board of Directors. Signet does not enter into derivative transactions for speculative purposes.

## Market risk

Signet generates revenues and incurs expenses in US dollars, Canadian dollars and British pounds. As a portion of the International segment purchases and purchases made by the Canadian operations of the North America segment are denominated in US dollars, Signet enters into forward foreign currency exchange contracts and foreign currency swaps to manage this exposure to the US dollar.

Signet holds a fluctuating amount of British pounds and Canadian dollars reflecting the cash generative characteristics of operations. Signet's objective is to minimize net foreign exchange exposure to the income statement on non-US dollar denominated items through managing cash levels, non-US dollar denominated intra-entity balances and foreign currency swaps. In order to manage the foreign exchange exposure and minimize the level of funds denominated in British pounds and Canadian dollars, dividends are paid regularly by subsidiaries to their immediate holding companies and excess British pounds and Canadian dollars are sold in exchange for US dollars.

Signet's policy is to minimize the impact of precious metal commodity price volatility on operating results through the use of outright forward purchases of, or by entering into options to purchase, precious metals within treasury guidelines approved by the Board of Directors. In particular, Signet undertakes some hedging of its requirements for gold through the use of options, net zero-cost collar arrangements (a combination of call and put option contracts), forward contracts and commodity purchasing, while fluctuations in the cost of diamonds are not hedged.

## Table of Contents

### Liquidity risk

Signet's objective is to ensure that it has access to, or the ability to generate, sufficient cash from either internal or external sources in a timely and cost-effective manner to meet its commitments as they become due and payable. Signet manages liquidity risks as part of its overall risk management policy. Management produces forecasting and budgeting information that is reviewed and monitored by the Board of Directors. Cash generated from operations and external financing are the main sources of funding, which supplement Signet's resources in meeting liquidity requirements.

The main external sources of funding are a senior unsecured credit facility and senior unsecured notes as described in Note 18.

### Interest rate risk

Signet has exposure to movements in interest rates associated with cash and borrowings. Signet may enter into various interest rate protection agreements in order to limit the impact of movements in interest rates.

Interest rate swap (designated) — The Company entered into an interest rate swap in March 2015 with an aggregate notional amount of \$300.0 million that is scheduled to mature through April 2019. Under this contract, the Company agrees to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional amounts. This contract was entered into to reduce the consolidated interest rate risk associated with variable rate, long-term debt. The Company designated this derivative as a cash flow hedge of the variability in expected cash outflows for interest payments. The Company has effectively converted a portion of its variable-rate senior unsecured term loan into fixed-rate debt.

The fair value of the swap is presented within the condensed consolidated balance sheets, and the Company recognizes any changes in the fair value as an adjustment of AOCI within equity to the extent the swap is effective. The ineffective portion, if any, is recognized in current period earnings. As interest expense is accrued on the debt obligation, amounts in AOCI related to the interest rate swap are reclassified into income resulting in a net interest expense on the hedged amount of the underlying debt obligation equal to the effective yield of the fixed rate of the swap. In the event that the interest rate swap is de-designated prior to maturity, gains or losses in AOCI remain deferred and are reclassified into earnings in the periods in which the hedged forecasted transaction affects earnings.

### Credit risk and concentrations of credit risk

Credit risk represents the loss that would be recognized at the reporting date if counter-parties failed to perform as contracted. Signet does not anticipate non-performance by counter-parties of its financial instruments, except for customer in-house financing receivables as disclosed in Note 13 of which no single customer represents a significant portion of the Company's receivable balance. Signet does not require collateral or other security to support cash investments or financial instruments with credit risk; however, it is Signet's policy to only hold cash and cash equivalent investments and to transact financial instruments with financial institutions with a certain minimum credit rating. Management does not believe Signet is exposed to any significant concentrations of credit risk that arise from cash and cash equivalent investments, derivatives or accounts receivable.

### Commodity and foreign currency risks

The following types of derivative financial instruments are utilized by Signet to mitigate certain risk exposures related to changes in commodity prices and foreign exchange rates:

Forward foreign currency exchange contracts (designated) — These contracts, which are principally in US dollars, are entered into to limit the impact of movements in foreign exchange rates on forecasted foreign currency purchases. The total notional amount of these foreign currency contracts outstanding as of August 4, 2018 was \$13.9 million (February 3, 2018 and July 29, 2017: \$26.6 million and \$35.3 million, respectively). These contracts have been designated as cash flow hedges and will be settled over the next 8 months (February 3, 2018 and July 29, 2017: 11 months and 12 months, respectively).

Forward foreign currency exchange contracts (undesignated) — Foreign currency contracts not designated as cash flow hedges are used to limit the impact of movements in foreign exchange rates on recognized foreign currency payables and to hedge currency flows through Signet's bank accounts to mitigate Signet's exposure to foreign currency exchange risk in its cash and borrowings. The total notional amount of these foreign currency contracts outstanding as of August 4, 2018 was \$113.1 million (February 3, 2018 and July 29, 2017: \$112.7 million and \$40.7 million,



respectively).

Commodity forward purchase contracts and net zero-cost collar arrangements (designated) — These contracts are entered into to reduce Signet's exposure to significant movements in the price of the underlying precious metal raw material. The total notional amount of these commodity derivative contracts outstanding as of August 4, 2018 was 70,000 ounces of gold (February 3, 2018 and July 29, 2017: 6,000 ounces and 47,000 ounces, respectively). These contracts have been designated as cash flow hedges and will be settled over the next 1 year, 4 months (February 3, 2018 and July 29, 2017: 12 months and 12 months, respectively).

The bank counter-parties to the derivative instruments expose Signet to credit-related losses in the event of their non-performance. However, to mitigate that risk, Signet only contracts with counter-parties that meet certain minimum requirements under its counter-party risk assessment process. As of August 4, 2018, Signet believes that this credit risk did not materially change the fair value of the foreign currency or commodity contracts.

Table of Contents

The following table summarizes the fair value and presentation of derivative instruments in the condensed consolidated balance sheets:

(in millions)	Balance sheet location	Fair value of derivative assets		
		August 4, 2018	February 3, 2018	July 29, 2017
Derivatives designated as hedging instruments:				
Foreign currency contracts	Other current assets	\$ 0.8	\$ —	\$ 0.1
Commodity contracts	Other current assets	—	—	1.4
Interest rate swaps	Other assets	1.9	2.2	0.7
Total derivative assets		\$ 2.7	\$ 2.2	\$ 2.2

Derivatives not designated as hedging instruments:

Foreign currency contracts	Other current assets	0.3	—	0.4
Total derivative assets		\$ 3.0	\$ 2.2	\$ 2.6

(in millions)	Balance sheet location	Fair value of derivative liabilities		
		August 4, 2018	February 3, 2018	July 29, 2017

Derivatives designated as hedging instruments:

Foreign currency contracts	Other current liabilities	\$ —	\$ (1.4 )	\$ (1.0 )
Commodity contracts	Other current liabilities	(4.1 )	(0.1 )	—
Commodity contracts	Other liabilities	(0.9 )	—	—
		\$ (5.0 )	\$ (1.5 )	\$ (1.0 )

Derivatives not designated as hedging instruments:

Foreign currency contracts	Other current liabilities	(0.8 )	(0.9 )	(0.1 )
Total derivative liabilities		\$ (5.8 )	\$ (2.4 )	\$ (1.1 )

Derivatives designated as cash flow hedges

The following table summarizes the pre-tax gains (losses) recorded in AOCI for derivatives designated in cash flow hedging relationships:

(in millions)	August 4, 2018	February 3, 2018	July 29, 2017
Foreign currency contracts	\$ 0.4	\$ (2.4 )	\$ 0.6
Commodity contracts	(4.4 )	1.4	1.0
Interest rate swaps	1.9	2.2	0.7
Gains (losses) recorded in AOCI	\$ (2.1 )	\$ 1.2	\$ 2.3

The following tables summarize the effect of derivative instruments designated as cash flow hedges in OCI and the condensed consolidated income statements:

Foreign currency contracts

(in millions)	Income statement caption	13 weeks ended		26 weeks ended	
		August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
(Losses) gains recorded in AOCI, beginning of period		\$(0.8)	\$ 2.1	\$(2.4)	\$ 4.1
Current period gains (losses) recognized in OCI		0.8	(0.3 )	2.1	(1.3 )
Losses (gains) reclassified from AOCI to net income	Cost of sales	0.4	(1.2 )	0.7	(2.2 )
Gains recorded in AOCI, end of period		\$0.4	\$ 0.6	\$0.4	\$ 0.6

Table of Contents

## Commodity contracts

(in millions)	Income statement caption	13 weeks ended		26 weeks ended	
		August 2018	July 2017	August 2018	July 2017
Gains (losses) recorded in AOCI, beginning of period		\$1.1	\$ 2.1	\$1.4	\$(2.1)
Current period gains (losses) recognized in OCI		(5.1)	(0.8)	(4.9)	4.6
Gains reclassified from AOCI to net income	Cost of sales	(0.4)	(0.3)	(0.9)	(1.5)
Gains (losses) recorded in AOCI, end of period		\$(4.4)	\$ 1.0	\$(4.4)	\$ 1.0

(in millions)	Income statement caption	13 weeks ended		26 weeks ended	
		August 2018	July 2017	August 2018	July 2017
Gains recorded in AOCI, beginning of period		\$2.3	\$ 0.8	\$2.2	\$ 0.4
Current period gains (losses) recognized in OCI		—	(0.2)	0.4	(0.1)
(Gains) losses reclassified from AOCI to net income	Interest expense, net	(0.4)	0.1	(0.7)	0.4
Gains recorded in AOCI, end of period		\$1.9	\$ 0.7	\$1.9	\$ 0.7

There was no material ineffectiveness related to the Company's derivative instruments designated in cash flow hedging relationships for the 13 weeks ended August 4, 2018 and July 29, 2017. Based on current valuations, the Company expects approximately \$0.9 million of net pre-tax derivative gains to be reclassified out of AOCI into earnings within the next 12 months.

## Derivatives not designated as hedging instruments

The following table presents the effects of the Company's derivatives instruments not designated as cash flow hedges in the condensed consolidated income statements:

(in millions)	Income statement caption	13 weeks ended		26 weeks ended	
		August 2018	July 2017	August 2018	July 2017
Derivatives not designated as hedging instruments:					
Foreign currency contracts	Other operating income, net	\$(5.7)	\$ 4.9	\$(10.5)	\$ 3.2

## 17. Fair value measurement

The estimated fair value of Signet's financial instruments held or issued to finance Signet's operations is summarized below. Certain estimates and judgments were required to develop the fair value amounts. The fair value amounts shown below are not necessarily indicative of the amounts that Signet would realize upon disposition nor do they indicate Signet's intent or ability to dispose of the financial instrument. Assets and liabilities that are carried at fair value are required to be classified and disclosed in one of the following three categories:

Level 1—quoted market prices in active markets for identical assets and liabilities

Level 2—observable market based inputs or unobservable inputs that are corroborated by market data

Level 3—unobservable inputs that are not corroborated by market data

Table of Contents

Signet determines fair value based upon quoted prices when available or through the use of alternative approaches, such as discounting the expected cash flows using market interest rates commensurate with the credit quality and duration of the investment. The methods Signet uses to determine fair value on an instrument-specific basis are detailed below:

(in millions)	August 4, 2018			February 3, 2018			July 29, 2017		
	Carrying Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Carrying Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Carrying Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
<b>Assets:</b>									
US Treasury securities	\$5.1	\$ 5.1	\$ —	\$7.5	\$ 7.5	\$ —	\$7.9	\$ 7.9	\$ —
Corporate equity securities	2.5	2.5	—	4.5	4.5	—	4.1	4.1	—
Foreign currency contracts	1.1	—	1.1	—	—	—	0.5	—	0.5
Commodity contracts	—	—	—	—	—	—	1.4	—	1.4
Interest rate swaps	1.9	—	1.9	2.2	—	2.2	0.7	—	0.7
US government agency securities	2.9	—	2.9	5.1	—	5.1	5.3	—	5.3
Corporate bonds and notes	5.4	—	5.4	10.8	—	10.8	11.2	—	11.2
<b>Total assets</b>	<b>\$18.9</b>	<b>\$ 7.6</b>	<b>\$ 11.3</b>	<b>\$30.1</b>	<b>\$ 12.0</b>	<b>\$ 18.1</b>	<b>\$31.1</b>	<b>\$ 12.0</b>	<b>\$ 19.1</b>
<b>Liabilities:</b>									
Foreign currency contracts	\$(0.8)	\$ —	\$(0.8)	\$(2.3)	\$ —	\$(2.3)	\$(1.1)	\$ —	\$(1.1)
Commodity contracts	(5.0)	—	(5.0)	(0.1)	—	(0.1)	—	—	—
<b>Total liabilities</b>	<b>\$(5.8)</b>	<b>\$ —</b>	<b>\$(5.8)</b>	<b>\$(2.4)</b>	<b>\$ —</b>	<b>\$(2.4)</b>	<b>\$(1.1)</b>	<b>\$ —</b>	<b>\$(1.1)</b>

Investments in US Treasury securities and corporate equity securities are based on quoted market prices for identical instruments in active markets, and therefore were classified as Level 1 measurements in the fair value hierarchy. Investments in US government agency securities and corporate bonds and notes are based on quoted prices for similar instruments in active markets, and therefore were classified as Level 2 measurements in the fair value hierarchy. The fair value of derivative financial instruments has been determined based on market value equivalents at the balance sheet date, taking into account the current interest rate environment, foreign currency forward rates or commodity forward rates, and therefore were classified as Level 2 measurements in the fair value hierarchy. See Note 16 for additional information related to the Company's derivatives.

During the second quarter of Fiscal 2019, the Company completed the sale of all eligible non-prime in-house accounts receivable. Upon closing, 5% of the purchase price was deferred until the second anniversary of the closing date. Final payment of the deferred purchase price is contingent upon the non-prime portfolio achieving a pre-defined yield. The Company recorded an asset related to this deferred payment within other assets at fair value and will adjust the asset to fair value in each subsequent period through the performance period. This estimated fair value was derived from a discounted cash flow model using unobservable inputs, including estimated yields derived from historic performance, loss rates, payment rates and discount rates to estimate the fair value associated with the accounts receivable. As of August 4, 2018, the fair value of the deferred payment was \$17.1 million, which is recorded within other assets on the condensed consolidated balance sheets. See Note 4 for additional information.

Goodwill and other indefinite-lived intangible assets, are evaluated for impairment annually or more frequently if events or conditions indicate the carrying value of a reporting unit or an indefinite-lived intangible asset may not be

recoverable. Impairment testing compares the carrying amount of the reporting unit or other intangible assets with its fair value. During the 13 weeks ended May 5, 2018, the Company performed an interim impairment test for goodwill and indefinite-lived intangible assets. The fair value was calculated using a combination of discounted cash flow and guideline public company methodologies for the reporting units and the relief from royalty method for the indefinite-lived intangible assets, respectively. The fair value of goodwill and indefinite-lived intangible assets is a Level 3 valuation based on certain unobservable inputs including projected cash flows and estimated risk-adjusted rates of return that would be utilized by market participants in valuing these assets or prices of similar assets. See Note 15 for additional information.

The carrying amounts of cash and cash equivalents, other receivables, accounts payable, accrued expenses and other current liabilities, income taxes and the revolving credit facility approximate fair value because of the short-term maturity of these amounts.

Table of Contents

The fair values of long-term debt instruments were determined using quoted market prices in inactive markets or discounted cash flows based upon current observable market interest rates and therefore were classified as Level 2 measurements in the fair value hierarchy. See Note 18 for classification between current and long-term debt. The carrying amount and fair value of outstanding debt at August 4, 2018, February 3, 2018 and July 29, 2017 were as follows:

(in millions)	August 4, 2018		February 3, 2018		July 29, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt:						
Senior notes (Level 2)	\$394.9	\$382.1	\$394.5	\$396.3	\$394.1	\$394.7
Securitization facility (Level 2)	—	—	—	—	599.8	600.0
Term loan (Level 2)	310.5	312.8	323.5	326.2	336.5	339.6
Total	\$705.4	\$694.9	\$718.0	\$722.5	\$1,330.4	\$1,334.3

## 18. Loans, overdrafts and long-term debt

(in millions)	August 4, 2018	February 3, 2018	July 29, 2017
Debt:			
Senior unsecured notes due 2024, net of unamortized discount	\$399.0	\$398.9	\$398.9
Securitization facility	—	—	600.0
Senior unsecured term loan	312.8	326.2	339.6
Revolving credit facility	71.0	—	303.0
Bank overdrafts	6.1	14.2	11.1
Total debt	\$788.9	\$739.3	\$1,652.6
Less: Current portion of loans and overdrafts	(111.4 )	(44.0 )	(939.4 )
Less: Unamortized capitalized debt issuance fees	(6.4 )	(7.1 )	(7.9 )
Total long-term debt	\$671.1	\$688.2	\$705.3

## Revolving credit facility and term loan (the "Credit Facility")

The Company's Credit Facility contains a \$700 million senior unsecured multi-currency multi-year revolving credit facility and a \$357.5 million senior unsecured term loan facility. The maturity date for the Credit Facility, including both individual facilities disclosed above, is July 2021.

Capitalized fees associated with the revolving credit facility as of August 4, 2018 total \$2.6 million with the unamortized balance recorded as an asset within the condensed consolidated balance sheets. Accumulated amortization related to these capitalized fees as of August 4, 2018 was \$1.4 million (February 3, 2018 and July 29, 2017: \$1.2 million and \$1.0 million, respectively). Amortization relating to these fees of \$0.1 million and \$0.2 million was recorded as interest expense in the condensed consolidated income statements for the 13 and 26 weeks ended August 4, 2018, respectively (\$0.1 million and \$0.2 million for the 13 and 26 weeks ended July 29, 2017, respectively). As of August 4, 2018, February 3, 2018 and July 29, 2017, the Company had stand-by letters of credit outstanding of \$14.6 million, \$15.7 million and \$15.3 million, respectively, that reduce remaining borrowing availability. The revolving credit facility had a weighted average interest rate of 3.48% and 2.40% during the 26 weeks ended August 4, 2018 and July 29, 2017, respectively.

Capitalized fees associated with the term loan facility as of August 4, 2018 total \$6.2 million with the unamortized balance recorded as a direct deduction from the outstanding liability within the condensed consolidated balance sheets. Accumulated amortization related to these capitalized fees as of August 4, 2018 was \$3.9 million (February 3, 2018 and July 29, 2017: \$3.5 million and \$3.1 million, respectively). Amortization relating to these fees of \$0.2 million and \$0.4 million was recorded as interest expense in the condensed consolidated income statements for the 13 and 26 weeks ended August 4, 2018, respectively (\$0.2 million and \$0.4 million for the 13 and 26 weeks ended July 29, 2017, respectively). Excluding the impact of the interest rate swap designated as a cash flow hedge discussed in Note 16, the term loan had a weighted average interest rate of 3.32% and 2.25% during the 26 weeks ended August 4, 2018 and July 29, 2017, respectively.



Table of Contents

## Senior unsecured notes due 2024

On May 19, 2014, Signet UK Finance plc (“Signet UK Finance”), a wholly owned subsidiary of the Company, issued \$400 million aggregate principal amount of its 4.70% senior unsecured notes due in 2024 (the “Notes”). The Notes were issued under an effective registration statement previously filed with the SEC. The Notes are jointly and severally guaranteed, on a full and unconditional basis, by the Company and by certain of the Company’s wholly owned subsidiaries (such subsidiaries, the “Guarantors”). See Note 22 for additional information.

Capitalized fees relating to the senior unsecured notes total \$7.0 million. Accumulated amortization related to these capitalized fees as of August 4, 2018 was \$2.9 million (February 3, 2018 and July 29, 2017: \$2.6 million and \$2.2 million, respectively). The remaining unamortized capitalized fees are recorded as a direct deduction from the outstanding liability within the condensed consolidated balance sheets. Amortization relating to these fees of \$0.2 million and \$0.3 million was recorded as interest expense in the condensed consolidated income statements for the 13 and 26 weeks ended August 4, 2018, respectively (\$0.1 million and \$0.3 million for the 13 and 26 weeks ended July 29, 2017, respectively).

## Other

As of August 4, 2018, February 3, 2018 and July 29, 2017, the Company was in compliance with all debt covenants.

## 19. Warranty reserve

Specific merchandise sold by banners within the North America segment includes a product lifetime diamond or colored gemstone guarantee as long as six-month inspections are performed and certified by an authorized store representative. Provided the customer has complied with the six-month inspection policy, the Company will replace, at no cost to the customer, any stone that chips, breaks or is lost from its original setting during normal wear. Management estimates the warranty accrual based on the lag of actual claims experience and the costs of such claims, inclusive of labor and material. The warranty reserve for diamond and gemstone guarantee, included in accrued expenses and other current liabilities and other non-current liabilities, is as follows:

(in millions)	13 weeks ended		26 weeks ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Warranty reserve, beginning of period	\$35.6	\$39.2	\$37.2	\$40.0
Warranty expense Utilized <sup>(1)</sup>	4.0	2.5	5.4	4.8
	(3.2 )	(2.4 )	(6.2 )	(5.5 )
Warranty reserve, end of period	\$36.4	\$39.3	\$36.4	\$39.3

<sup>(1)</sup> Includes impact of foreign exchange translation.

(in millions)	August 4, February 3, July 29,		
	2018	2018	2017

## Disclosed as:

Current liabilities	\$ 11.2	\$ 11.5	\$ 12.2
Non-current liabilities	25.2	25.7	27.1
Total warranty reserve	\$ 36.4	\$ 37.2	\$ 39.3

## 20. Share-based compensation

Signet recorded share-based compensation expense of \$6.4 million and \$8.2 million for the 13 and 26 weeks ended August 4, 2018 related to the Omnibus Plan and Share Saving Plans (\$4.0 million and \$6.7 million for the 13 and 26 weeks ended July 29, 2017).

## 21. Commitments and contingencies

## Legal proceedings

## Employment practices

As previously reported, in March 2008, a group of private plaintiffs (the “Claimants”) filed a class action lawsuit for an unspecified amount against SJI, a subsidiary of Signet, in the US District Court for the Southern District of New York alleging that US store-level employment practices are discriminatory as to compensation and promotional activities with respect to gender. In June 2008, the District Court referred the matter to private arbitration where the Claimants



sought to proceed on a class-wide basis. The Claimants filed a motion for class certification and SJI opposed the motion. On February 2, 2015, the arbitrator issued a Class Determination Award in which she certified for a class-wide hearing Claimants' disparate impact declaratory and injunctive relief class claim under Title VII, with a class

Table of Contents

period of July 22, 2004 through date of trial for the Claimants' compensation claims and December 7, 2004 through date of trial for Claimants' promotion claims. The arbitrator otherwise denied Claimants' motion to certify a disparate treatment class alleged under Title VII, denied a disparate impact monetary damages class alleged under Title VII, and denied an opt-out monetary damages class under the Equal Pay Act. On February 9, 2015, Claimants filed an Emergency Motion To Restrict Communications With The Certified Class And For Corrective Notice. SJI filed its opposition to Claimants' emergency motion on February 17, 2015, and a hearing was held on February 18, 2015. Claimants' motion was granted in part and denied in part in an order issued on March 16, 2015. Claimants filed a Motion for Reconsideration Regarding Title VII Claims for Disparate Treatment in Compensation on February 11, 2015, which SJI opposed. April 27, 2015, the arbitrator issued an order denying the Claimants' Motion. SJI filed with the US District Court for the Southern District of New York a Motion to Vacate the Arbitrator's Class Certification Award on March 3, 2015, which Claimants opposed. On November 16, 2015, the US District Court for the Southern District of New York granted SJI's Motion to Vacate the Arbitrator's Class Certification Award in part and denied it in part. On December 3, 2015, SJI filed with the United States Court of Appeals for the Second Circuit SJI's Notice of Appeal of the District Court's November 16, 2015 Opinion and Order. On November 25, 2015, SJI filed a Motion to Stay the AAA Proceedings while SJI appeals the decision of the US District Court for the Southern District of New York to the United States Court of Appeals for the Second Circuit, which Claimants opposed. The arbitrator issued an order denying SJI's Motion to Stay on February 22, 2016. SJI filed its Brief and Special Appendix with the Second Circuit on March 16, 2016. The matter was fully briefed and oral argument was heard by the U.S. Court of Appeals for the Second Circuit on November 2, 2016. On April 6, 2015, Claimants filed in the AAA Claimants' Motion for Clarification or in the Alternative Motion for Stay of the Effect of the Class Certification Award as to the Individual Intentional Discrimination Claims, which SJI opposed. On June 15, 2015, the arbitrator granted the Claimants' motion. On March 6, 2017, Claimants filed Claimants' Motion for Conditional Certification of Claimants' Equal Pay Act Claims and Authorization of Notice, which SJI opposed. The arbitrator heard oral argument on Claimants' Motion on December 18, 2015 and, on February 29, 2016, issued an Equal Pay Act Collective Action Conditional Certification Award and Order Re Claimants' Motion For Tolling Of EPA Limitations Period, conditionally certifying Claimants' Equal Pay Act claims as a collective action, and tolling the statute of limitations on EPA claims to October 16, 2003 to ninety days after notice issues to the putative members of the collective action. SJI filed in the AAA a Motion To Stay Arbitration Pending The District Court's Consideration Of Respondent's Motion To Vacate Arbitrator's Equal Pay Act Collective Action Conditional Certification Award And Order Re Claimants' Motion For Tolling Of EPA Limitations Period on March 10, 2016. SJI filed in the AAA a Renewed Motion To Stay Arbitration Pending The District Court's Resolution Of Sterling's Motion To Vacate Arbitrator's Equal Pay Act Collective Action Conditional Certification Award And Order Re Claimants' Motion For Tolling Of EPA Limitations Period on March 31, 2016, which Claimants opposed. On April 5, 2016, the arbitrator denied SJI's Motion. On March 23, 2016 SJI filed with the US District Court for the Southern District of New York a Motion To Vacate The Arbitrator's Equal Pay Act Collective Action Conditional Certification Award And Order Re Claimants' Motion For Tolling Of EPA Limitations Period, which Claimants opposed. SJI's Motion was denied on May 22, 2016. On May 31, 2016, SJI filed a Notice Of Appeal of Judge Rakoff's opinion and order to the Second Circuit Court of Appeals, which Claimant's opposed. On June 1, 2017, the Second Circuit Court of Appeals dismissed SJI's appeal for lack of appellate jurisdiction. Claimants filed a Motion For Amended Class Determination Award on November 18, 2015, and on March 31, 2016 the arbitrator entered an order amending the Title VII class certification award to preclude class members from requesting exclusion from the injunctive and declaratory relief class certified in the arbitration. The arbitrator issued a Bifurcated Case Management Plan on April 5, 2016, and ordered into effect the parties' Stipulation Regarding Notice Of Equal Pay Act Collective Action And Related Notice Administrative Procedures on April 7, 2016. SJI filed in the AAA a Motion For Protective Order on May 2, 2016, which Claimants opposed. The matter was fully briefed and oral argument was heard on July 22, 2016. The motion was granted in part on January 27, 2017. Notice to EPA collective action members was issued on May 3, 2016, and the opt-in period for these notice recipients closed on August 1, 2016. Approximately, 10,314 current and former employees submitted consent forms to opt in to the collective action; however, some have withdrawn their consents. The number of valid consents is disputed and yet to be determined. SJI believes the number of valid consents to be approximately 9,124. On July 24, 2017, the United States Court of Appeals for the Second

Circuit issued its unanimous Summary Order that held that the absent class members “never consented” to the Arbitrator determining the permissibility of class arbitration under the agreements, and remanded the matter to the District Court to determine whether the Arbitrator exceeded her authority by certifying the Title VII class that contained absent class members who had not opted in the litigation. On August 7, 2017, SJI filed its Renewed Motion to Vacate the Class Determination Award relative to absent class members with the District Court. The matter was fully briefed and an oral argument was heard on October 16, 2017. On January 15, 2018, District Court granted SJI’s Motion finding that the Arbitrator exceeded her authority by binding non-parties (absent class members) to the Title VII claim. The District Court further held that the RESOLVE Agreement does not permit class action procedures, thereby, reducing the Claimants in the Title VII matter from 70,000 to 254. Claimants dispute that the number of claimants in the Title VII is 254. On January 18, 2018, the Claimants filed a Notice of Appeal with the United States Court of Appeals for the Second Circuit. The appeal was fully briefed and oral argument before the Second Circuit occurred on May 7, 2018. SJI currently awaits the Second Circuit’s decision on this appeal. On November 10, 2017, SJI filed in the arbitration motions for summary judgment, and for decertification, of Claimants’ Equal Pay Act and Title VII promotions claims. On January 30, 2018, oral argument on SJI’s motions was heard. On January 26, 2018, SJI filed a Motion to Vacate The Equal Pay Act Collective Action Award And Tolling Order asserting that the Arbitrator exceeded her authority by conditionally certifying the Equal Pay Act claim and allowing the absent claimants to opt-in the litigation. On March 12, 2018, the Arbitrator denied SJI’s Motion to Vacate The Equal Pay Act Collective Action Award and Tolling Order. SJI still has a pending motion seeking decertification of the EPA Collective Action before the Arbitrator. On March 19, 2018, the Arbitrator issued an

Table of Contents

Order partially granting SJI's Motion to Amend the Arbitrator's November 2, 2017, Bifurcated Seventh Amended Case Management Plan resulting in a continuance of the May 14, 2018 trial date. A new trial date has not been set.

SJI denies the allegations of the Claimants and has been defending the case vigorously. At this point, no outcome or possible loss or range of losses, if any, arising from the litigation is able to be estimated.

Also, as previously reported, on September 23, 2008, the US Equal Employment Opportunity Commission ("EEOC") filed a lawsuit against SJI in the US District Court for the Western District of New York. This suit was settled on May 5, 2017, as further described below. The EEOC's lawsuit alleged that SJI engaged in intentional and disparate impact gender discrimination with respect to pay and promotions of female retail store employees from January 1, 2003 to the present. The EEOC asserted claims for unspecified monetary relief and non-monetary relief against the Company on behalf of a class of female employees subjected to these alleged practices. Non-expert fact discovery closed in mid-May 2013. In September 2013, SJI made a motion for partial summary judgment on procedural grounds, which was referred to a Magistrate Judge. The Magistrate Judge heard oral arguments on the summary judgment motion in December 2013. On January 2, 2014, the Magistrate Judge issued his Report, Recommendation and Order, recommending that the Court grant SJI's motion for partial summary judgment and dismiss the EEOC's claims in their entirety. The EEOC filed its objections to the Magistrate Judge's ruling and SJI filed its response thereto. The District Court Judge heard oral arguments on the EEOC's objections to the Magistrate Judge's ruling on March 7, 2014 and on March 11, 2014 entered an order dismissing the action with prejudice. On May 12, 2014, the EEOC filed its Notice of Appeal of the District Court Judge's dismissal of the action to United States Court of Appeals for the Second Circuit. The parties fully briefed the appeal and oral argument occurred on May 5, 2015. On September 9, 2015, the United States Court of Appeals for the Second Circuit issued a decision vacating the District Court's order and remanding the case back to the District Court for further proceedings. SJI filed a Petition for Panel Rehearing and En Banc Review with the United States Court of Appeals for the Second Circuit, which was denied on December 1, 2015. On December 4, 2015, SJI filed in the United States Court of Appeals for the Second Circuit a Motion Of Appellee Sterling Jewelers Inc. For Stay Of Mandate Pending Petition For Writ Of Certiorari. The Motion was granted by the Second Circuit on December 10, 2015. SJI filed a Petition For Writ Of Certiorari in the Supreme Court of the United States on April 29, 2016, which was denied. The case was remanded to the Western District of New York and on November 2, 2016, the Court issued a case scheduling order. On January 25, 2017, the parties filed a joint motion to extend case scheduling order deadlines. The motion was granted on January 27, 2017. On May 5, 2017 the U.S. District Court for the Western District of New York approved and entered the Consent Decree jointly proposed by the EEOC and SJI, resolving all of the EEOC's claims against SJI in this litigation for various injunctive relief including but not limited to the appointment of an employment practices expert to review specific policies and practices, a compliance officer to be employed by SJI, as well as obligations relative to training, notices, reporting and record-keeping. The Consent Decree does not require an outside third party monitor or require any monetary payment. The duration of the Consent Decree is three years and three months, expiring on August 4, 2020.

On May 12, 2017, SJI received notice that a Class Action Complaint against SJI and Signet Jewelers Ltd. (improperly named as a party) was filed by Veronica Masten in the Superior Court of California, County of Los Angeles, alleging violations of various wage and hour labor laws. The claims include: (1) failure to pay overtime; (2) failure to provide meal periods; (3) failure to reimburse business expenses; (4) failure to provide itemized wage statements; (5) failure to timely pay wages; and a derivative claims for (6) unfair competition. SJI filed its Answer to the Complaint on June 13, 2017. On June 14, 2017, SJI removed this matter to the United States District Court for the Central District of California. After engaging in limited discovery, Plaintiff agreed to pursue her claims on an individual basis in a separate forum, and sought to dismiss her claims in this action without prejudice. Plaintiff filed a request for dismissal with the district court on December 18, 2017. The Court has not yet formally ruled on the dismissal, however, the Court's docket indicates that the matter is closed.

Shareholder Actions

In August 2016, two alleged Company shareholders each filed a putative class action complaint in the United States District Court for the Southern District of New York against the Company and its then-current Chief Executive Officer and current Chief Financial Officer (Nos. 16-cv-6728 and 16-cv-6861, the "S.D.N.Y. cases"). On September 16, 2016, the Court consolidated the S.D.N.Y. cases under case number 16-cv-6728. On April 3, 2017, the plaintiffs filed

a second amended complaint, purportedly on behalf of persons that acquired the Company's securities on or between August 29, 2013, and February 27, 2017, naming as defendants the Company, its then-current and former Chief Executive Officers, and its current and former Chief Financial Officers. The second amended complaint alleged that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 by, among other things, misrepresenting the Company's business and earnings by (i) failing to disclose that the Company was allegedly having issues ensuring the safety of customers' jewelry while in the Company's custody for repairs, which allegedly damaged customer confidence; (ii) making misleading statements about the Company's credit portfolio; and (iii) failing to disclose reports of sexual harassment allegations that were raised by claimants in an ongoing pay and promotion gender discrimination class arbitration (the "Arbitration"). The second amended complaint alleged that the Company's share price was artificially inflated as a result of the alleged misrepresentations and sought unspecified compensatory damages and costs and expenses, including attorneys' and experts' fees.

In March 2017, two other alleged Company shareholders each filed a putative class action complaint in the United States District Court for the Northern District of Texas against the Company and its then-current and former Chief Executive Officers (Nos. 17-cv-875 and 17-cv-923, the "N.D. Tex. cases"). Those complaints were nearly identical to each other and alleged that the defendants' statements concerning the Arbitration violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The N.D. Tex. cases were subsequently

Table of Contents

transferred to the Southern District of New York and consolidated with the S.D.N.Y. cases (the “Consolidated Action”). On July 27, 2017, the Court appointed a lead plaintiff and lead plaintiff’s counsel in the Consolidated Action. On August 3, 2017, the Court ordered the lead plaintiff in the Consolidated Action to file a third amended complaint by September 29, 2017. On September 29, 2017, the lead plaintiff filed a third amended complaint that covered a putative class period of August 29, 2013, through May 24, 2017, and that asserted substantially similar claims to the second amended complaint, except that it omitted the claim based on defendants’ alleged misstatements concerning the security of customers’ jewelry while in the Company’s custody for repairs. The defendants moved to dismiss the third amended complaint on December 1, 2017. On December 4, 2017, the Court entered an order permitting the lead plaintiff to amend its complaint as of right by December 22, 2017, and providing that the lead plaintiff would not be given any further opportunity to amend its complaint to address the issues raised in the defendants’ motion to dismiss. On December 15, 2017, Nebil Aydin filed a putative class action complaint in the United States District Court for the Southern District of New York against the Company and its current Chief Executive Officer and Chief Financial Officer (No. 17-cv-9853). The Aydin complaint alleged that the defendants made misleading statements regarding the Company’s credit portfolio between August 24, 2017, and November 21, 2017, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and sought unspecified compensatory damages and costs and expenses, including attorneys’ and experts’ fees. On January 7, 2018, the Aydin case was consolidated into the Consolidated Action.

On December 22, 2017, the lead plaintiff in the Consolidated Action filed its fourth amended complaint, which asserted substantially the same claims as its third amended complaint for an expanded class period of August 28, 2013, through December 1, 2017. On January 26, 2018, the defendants moved to dismiss the fourth amended complaint. This motion was fully briefed as of March 9, 2018.

On March 20, 2018, the Court granted the lead plaintiff leave to file a fifth amended complaint. On March 22, 2018, the lead plaintiff in the Consolidated Action filed its fifth amended complaint which asserts substantially the same claims as its fourth amended complaint for an expanded class period of August 29, 2013, through March 13, 2018. The prior motion to dismiss was denied as moot. The defendants motion to dismiss the fifth amended complaint is fully briefed and awaiting decision.

**Derivative Action**

On September 1, 2017, Josanne Aungst filed a putative shareholder derivative action entitled Aungst v. Light, et al., No. CV-2017-3665, in the Court of Common Pleas for Summit County Ohio. The complaint in this action, which purports to have been brought by Ms. Aungst on behalf of the Company, names certain current and former directors and officers of the Company as defendants and alleges claims for breach of fiduciary duty, abuse of control, and gross mismanagement. The complaint challenges certain public disclosures and conduct relating to the allegations that were raised by the claimants in the Arbitration. The complaint also alleges that the Company’s share price was artificially inflated as a result of alleged misrepresentations and omissions. The complaint seeks money damages on behalf of the Company, changes to the Company’s corporate governance, and other equitable relief, as well as plaintiff’s legal fees and costs. The defendants’ motion to dismiss the complaint is fully briefed and awaiting decision.

The Company believes that the claims brought in these shareholder actions are without merit and cannot estimate a range of potential liability, if any, at this time.

**Regulatory Matters**

On September 6, 2017, the Consumer Financial Protection Bureau (“CFPB”) notified Signet that, in accordance with the CFPB’s discretionary Notice and Opportunity to Respond and Advise (“NORA”) process, the CFPB’s Office of Enforcement is considering recommending that the CFPB take legal action against Signet, alleging that Signet violated §§ 1031 and 1036 of the Consumer Financial Protection Act of 2010, 12 U.S.C. §§ 5531, 5536, and the Truth in Lending Act, 15 U.S.C. § 1601 et seq., and its implementing regulation, relating to in-store: credit practices, promotions, and payment protection products. The purpose of a NORA letter is to provide a party being investigated an opportunity to present its position to the CFPB before an enforcement action is recommended or commenced. This notice stems from an inquiry that commenced in late 2016 when Signet received and responded to an initial Civil Investigative Demand. Signet has cooperated and continues to fully cooperate with the CFPB. On September 27, 2017, Signet submitted a response to the NORA letter to the CFPB, which stated its belief that the potential claims

lack merit.

The Attorney General for the State of New York (“NYAG”) is investigating similar issues under its jurisdiction. Signet has been cooperating with the NYAG’s investigation which remains ongoing.

Signet is currently unable to predict the timing or outcome of the NORA process or NYAG investigation. Signet continues to believe that its acts and practices relating to the matters under investigation are lawful and, as such, has concluded the possibility of an unfavorable outcome was remote as of August 4, 2018.

In the ordinary course of business, Signet may be subject, from time to time, to various other proceedings, lawsuits, disputes or claims incidental to its business, which the Company believes are not significant to Signet’s consolidated financial position, results of operations or cash flows.

32

---

Table of Contents

22. Condensed consolidating financial information

The accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X, Rule 3-10, "Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered." We and certain of our subsidiaries have guaranteed the obligations under certain debt securities that have been issued by Signet UK Finance plc. The following presents the condensed consolidating financial information for: (i) the indirect Parent Company (Signet Jewelers Limited); (ii) the Issuer of the guaranteed obligations (Signet UK Finance plc); (iii) the Guarantor subsidiaries, on a combined basis; (iv) the non-guarantor subsidiaries, on a combined basis; (v) consolidating eliminations and (vi) Signet Jewelers Limited and Subsidiaries on a consolidated basis. Each Guarantor subsidiary is 100% owned by the Parent Company at the date of each balance sheet presented. The Guarantor subsidiaries, along with Signet Jewelers Limited, will fully and unconditionally guarantee the obligations of Signet UK Finance plc under any such debt securities. Each entity in the consolidating financial information follows the same accounting policies as described in the condensed consolidated financial statements.

The accompanying condensed consolidating financial information has been presented on the equity method of accounting for all periods presented. Under this method, investments in subsidiaries are recorded at cost and adjusted for the subsidiaries' cumulative results of operations, capital contributions and distributions and other changes in equity. Elimination entries include consolidating and eliminating entries for investments in subsidiaries, and intra-entity activity and balances.



Table of Contents

Condensed Consolidated Income Statement  
For the 13 weeks ended August 4, 2018  
(Unaudited)

(in millions)	Signet Jewelers Limited	Signet UK Finance plc	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$ —	\$ —	\$ 1,296.3	\$ 123.8	\$ —	\$ 1,420.1
Cost of sales	—	—	(867.3 )	(62.6 )	—	(929.9 )
Restructuring charges - cost of sales	—	—	(57.5 )	(5.7 )	—	(63.2 )
Gross margin	—	—	371.5	55.5	—	427.0
Selling, general and administrative expenses	(0.4 )	—	(407.7 )	(36.7 )	—	(444.8 )
Credit transaction, net	—	—	(23.9 )	—	—	(23.9 )
Restructuring charges	—	—	(19.6 )	—	—	(19.6 )
Other operating income (loss), net	—	—	(1.1 )	4.3	—	3.2
Operating (loss) income	(0.4 )	—	(80.8 )	23.1	—	(58.1 )
Intra-entity interest income (expense)	(1.7 )	4.7	(109.1 )	106.1	—	—
Interest expense, net	—	(4.9 )	(4.6 )	0.1	—	(9.4 )
Other non-operating income	—	—	0.5	—	—	0.5
(Loss) income before income taxes	(2.1 )	(0.2 )	(194.0 )	129.3	—	(67.0 )
Income taxes	—	0.1	25.1	18.8	—	44.0
Equity in income of subsidiaries	(20.9 )	—	(207.8 )	(221.0 )	449.7	—
Net (loss) income	\$ (23.0 )	\$ (0.1 )	\$ (376.7 )	\$ (72.9 )	\$ 449.7	\$ (23.0 )
Dividends on redeemable convertible preferred shares	(8.2 )	—	—	—	—	(8.2 )
Net (loss) income attributable to common shareholders	\$ (31.2 )	\$ (0.1 )	\$ (376.7 )	\$ (72.9 )	\$ 449.7	\$ (31.2 )

Condensed Consolidated Income Statement  
For the 13 weeks ended July 29, 2017  
(Unaudited)

(in millions)	Signet Jewelers Limited	Signet UK Finance plc	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$ —	\$ —	\$ 1,322.3	\$ 77.3	\$ —	\$ 1,399.6
Cost of sales	—	—	(927.8 )	(13.9 )	—	(941.7 )
Gross margin	—	—	394.5	63.4	—	457.9
Selling, general and administrative expenses	(0.2 )	—	(377.0 )	(31.8 )	—	(409.0 )
Credit transaction, net	—	—	14.8	—	—	14.8
Other operating income (loss), net	—	—	71.7	0.2	—	71.9
Operating (loss) income	(0.2 )	—	104.0	31.8	—	135.6
Intra-entity interest income (expense)	—	4.7	(46.4 )	41.7	—	—
Interest expense, net	—	(5.0 )	(4.7 )	(3.8 )	—	(13.5 )
(Loss) income before income taxes	(0.2 )	(0.3 )	52.9	69.7	—	122.1
Income taxes	—	0.1	(21.3 )	(7.5 )	—	(28.7 )
Equity in income of subsidiaries	93.6	—	21.6	34.2	(149.4 )	—
Net income (loss)	\$ 93.4	\$ (0.2 )	\$ 53.2	\$ 96.4	\$ (149.4 )	\$ 93.4
Dividends on redeemable convertible preferred shares	(8.2 )	—	—	—	—	(8.2 )
	\$ 85.2	\$ (0.2 )	\$ 53.2	\$ 96.4	\$ (149.4 )	\$ 85.2

Net income (loss) attributable to common  
shareholders

34

---

Edgar Filing: SIGNET JEWELERS LTD - Form 10-Q

Table of Contents

Condensed Consolidated Income Statement  
For the 26 weeks ended August 4, 2018  
(Unaudited)

(in millions)	Signet Jewelers Limited	Signet UK Finance plc	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$—	\$ —	\$ 2,652.8	\$ 247.9	\$ —	\$ 2,900.7
Cost of sales	—	—	(1,803.6 )	(122.1 )	—	(1,925.7 )
Restructuring charges - cost of sales	—	—	(57.5 )	(5.7 )	—	(63.2 )
Gross margin	—	—	791.7	120.1	—	911.8
Selling, general and administrative expenses	(0.5 )	—	(852.1 )	(75.0 )	—	(927.6 )
Credit transaction, net	—	—	(167.0 )	—	—	(167.0 )
Restructuring charges	—	—	(25.1 )	(1.0 )	—	(26.1 )
Goodwill and intangible impairments	—	—	(448.7 )	—	—	(448.7 )
Other operating income (loss), net	(0.1 )	—	21.5	3.9	—	25.3
Operating (loss) income	(0.6 )	—	(679.7 )	48.0	—	(632.3 )
Intra-entity interest income (expense)	(2.4 )	9.4	(153.9 )	146.9	—	—
Interest expense, net	—	(9.8 )	(8.6 )	0.1	—	(18.3 )
Other non-operating income	—	—	1.1	—	—	1.1
(Loss) income before income taxes	(3.0 )	(0.4 )	(841.1 )	195.0	—	(649.5 )
Income taxes	—	0.1	104.5	25.3	—	129.9
Equity in income of subsidiaries	(516.6 )	—	(772.9 )	(788.9 )	2,078.4	—
Net income (loss)	\$(519.6)	\$ (0.3 )	\$(1,509.5 )	\$(568.6 )	\$ 2,078.4	\$ (519.6 )
Dividends on redeemable convertible preferred shares	(16.4 )	—	—	—	—	(16.4 )
Net income (loss) attributable to common shareholders	\$(536.0)	\$ (0.3 )	\$(1,509.5 )	\$(568.6 )	\$ 2,078.4	\$ (536.0 )

Condensed Consolidated Income Statement  
For the 26 weeks ended July 29, 2017  
(Unaudited)

(in millions)	Signet Jewelers Limited	Signet UK Finance plc	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Sales	\$—	\$ —	\$ 2,647.5	\$ 155.5	\$ —	\$ 2,803.0
Cost of sales	—	—	(1,823.2 )	(30.7 )	—	(1,853.9 )
Gross margin	—	—	824.3	124.8	—	949.1
Selling, general and administrative expenses	(0.4 )	—	(798.5 )	(62.9 )	—	(861.8 )
Credit transaction, net	—	—	14.8	—	—	14.8
Other operating income (loss), net	—	—	148.9	(0.1 )	—	148.8
Operating (loss) income	(0.4 )	—	189.5	61.8	—	250.9
Intra-entity interest income (expense)	—	9.4	(91.8 )	82.4	—	—
Interest expense, net	—	(9.9 )	(8.8 )	(7.4 )	—	(26.1 )
(Loss) income before income taxes	(0.4 )	(0.5 )	88.9	136.8	—	224.8
Income taxes	—	0.1	(36.7 )	(16.3 )	—	(52.9 )
Equity in income of subsidiaries	172.3	—	30.3	56.5	(259.1 )	—
Net income (loss)	\$ 171.9	\$ (0.4 )	\$ 82.5	\$ 177.0	\$ (259.1 )	\$ 171.9
Dividends on redeemable convertible preferred shares	(16.4 )	—	—	—	—	(16.4 )

Net income (loss) attributable to common shareholders	\$ 155.5	\$ (0.4 )	\$ 82.5	\$ 177.0	\$ (259.1 )	\$ 155.5
---	----------	-----------	---------	----------	-------------	----------

Table of Contents

Condensed Consolidated Statement of Comprehensive Income (Loss)  
 For the 13 weeks ended August 4, 2018  
 (Unaudited)

(in millions)	Signet Jewelers Limited	Signet UK Finance plc	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net (loss) income	\$ (23.0 )	\$ (0.1 )	\$ (376.7 )	\$ (72.9 )	\$ 449.7	\$ (23.0 )
Other comprehensive income (loss):						
Foreign currency translation adjustments	(15.3 )	—	(15.0 )	(0.3 )	15.3	(15.3 )
Available-for-sale securities:						
Unrealized loss <sup>(1)</sup>	0.5	—	—	0.5	(0.5 )	0.5
Cash flow hedges:						
Unrealized gain	(3.0 )	—	(3.0 )	—	3.0	(3.0 )
Reclassification adjustment for gains to net income	(0.2 )	—	(0.2 )	—	0.2	(0.2 )
Pension plan:						
Actuarial loss	(6.5 )	—	(6.5 )	—	6.5	(6.5 )
Reclassification adjustment to net income for amortization of actuarial losses	—	—	—	—	—	—
Reclassification adjustment to net income for amortization of net prior service credits	0.1	—	0.1	—	(0.1 )	0.1
Total other comprehensive (loss) income	(24.4 )	—	(24.6 )	0.2	24.4	(24.4 )
Total comprehensive (loss) income	\$ (47.4 )	\$ (0.1 )	\$ (401.3 )	\$ (72.7 )	\$ 474.1	\$ (47.4 )

During the 13 weeks ended August 4, 2018, amount represents unrealized losses related to the Company's

<sup>(1)</sup> available-for-sale debt securities. During the 13 weeks ended July 29, 2017, amount represents unrealized gains related to the Company's available-for-sale debt and equity securities.

Condensed Consolidated Statement of Comprehensive Income (Loss)  
 For the 13 weeks ended July 29, 2017  
 (Unaudited)

(in millions)	Signet Jewelers Limited	Signet UK Finance plc	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	\$ 93.4	\$ (0.2 )	\$ 53.2	\$ 96.4	\$ (149.4 )	\$ 93.4
Other comprehensive income (loss):						
Foreign currency translation adjustments	24.6	—	24.6	—	(24.6 )	24.6
Available-for-sale securities:						
Unrealized gain	0.3	—	—	0.3	(0.3 )	0.3
Cash flow hedges:						
Unrealized loss	(0.9 )	—	(0.9 )	—	0.9	(0.9 )
Reclassification adjustment for gains to net income	(1.1 )	—	(1.1 )	—	1.1	(1.1 )
Pension plan:						
Reclassification adjustment to net income for amortization of actuarial losses	0.6	—	0.6	—	(0.6 )	0.6
Reclassification adjustment to net income for amortization of net prior service credits	(0.4 )	—	(0.4 )	—	0.4	(0.4 )
Total other comprehensive income	23.1	—	22.8	0.3	(23.1 )	23.1
Total comprehensive income (loss)	\$ 116.5	\$ (0.2 )	\$ 76.0	\$ 96.7	\$ (172.5 )	\$ 116.5



Table of Contents

Condensed Consolidated Statement of Comprehensive Income (Loss)  
 For the 26 weeks ended August 4, 2018  
 (Unaudited)

(in millions)	Signet Jewelers Limited	Signet UK Finance plc	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	\$ (519.6)	\$ (0.3 )	\$ (1,509.5 )	\$ (568.6 )	\$ 2,078.4	\$ (519.6 )
Other comprehensive income (loss):						
Foreign currency translation adjustments	(37.0 )	—	(36.5 )	(0.5 )	37.0	(37.0 )
Available-for-sale securities:						
Unrealized loss <sup>(1)</sup>	0.3	—	—	0.3	(0.3 )	0.3
Impact from adoption of new accounting pronouncements <sup>(2)</sup>	(0.8 )	—	—	(0.8 )	0.8	(0.8 )
Cash flow hedges:						
Unrealized gain	(1.5 )	—	(1.5 )	—	1.5	(1.5 )
Reclassification adjustment for gains to net income	(0.5 )	—	(0.5 )	—	0.5	(0.5 )
Pension plan:						
Actuarial loss	(6.5 )	—	(6.5 )	—	6.5	(6.5 )
Reclassification adjustment to net income for amortization of actuarial losses	0.3	—	0.3	—	(0.3 )	0.3
Total other comprehensive income	(45.7 )	—	(44.7 )	(1.0 )	45.7	(45.7 )
Total comprehensive income (loss)	\$ (565.3)	\$ (0.3 )	\$ (1,554.2 )	\$ (569.6 )	\$ 2,124.1	\$ (565.3 )

During the 26 weeks ended August 4, 2018, amount represents unrealized losses related to the Company's

(1) available-for-sale debt securities. During the 26 weeks ended July 29, 2017, amount represents unrealized gains related to the Company's available-for-sale debt and equity securities.

(2) Adjustment reflects the reclassification of unrealized gains related to the Company's equity security investments as of February 3, 2018 from AOCI into retained earnings associated with the adoption of ASU 2016-1.

Condensed Consolidated Statement of Comprehensive Income (Loss)  
 For the 26 weeks ended July 29, 2017  
 (Unaudited)

(in millions)	Signet Jewelers Limited	Signet UK Finance plc	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	\$ 171.9	\$ (0.4 )	\$ 82.5	\$ 177.0	\$ (259.1 )	\$ 171.9
Other comprehensive income (loss):						
Foreign currency translation adjustments	25.1	—	25.1	—	(25.1 )	25.1
Available-for-sale securities:						
Unrealized gain	0.5	—	—	0.5	(0.5 )	0.5
Cash flow hedges:						
Unrealized gain	1.8	—	1.8	—	(1.8 )	1.8
Reclassification adjustment for gains to net income	(2.5 )	—	(2.5 )	—	2.5	(2.5 )
Pension plan:						
Reclassification adjustment to net income for amortization of actuarial losses	1.2	—	1.2	—	(1.2 )	1.2
Reclassification adjustment to net income for amortization of net prior service credits	(0.7 )	—	(0.7 )	—	0.7	(0.7 )
Total other comprehensive income	25.4	—	24.9	0.5	(25.4 )	25.4

Edgar Filing: SIGNET JEWELERS LTD - Form 10-Q

Total comprehensive income (loss)	\$ 197.3	\$ (0.4 )	\$ 107.4	\$ 177.5	\$ (284.5 )	\$ 197.3
-----------------------------------	----------	-----------	----------	----------	-------------	----------

37

---



Table of Contents

Condensed Consolidated Balance Sheet  
August 4, 2018  
(Unaudited)

(in millions)	Signet Jewelers Limited	Signet UK Finance plc	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$0.9	\$ 0.1	\$ 64.6	\$ 68.5	\$—	\$ 134.1
Accounts receivable, held for sale	—	—	4.6	—	—	4.6
Accounts receivable, net	—	—	5.9	0.6	—	6.5
Intra-entity receivables, net	—	3.1	—	178.3	(181.4 )	—
Other receivables	—	—	57.7	25.7	—	83.4
Other current assets	—	—	154.1	1.8	—	155.9
Income taxes	—	—	77.3	41.9	—	119.2
Inventories	—	—	2,298.6	65.2	—	2,363.8
Total current assets	0.9	3.2	2,662.8	382.0	(181.4 )	2,867.5
<b>Non-current assets:</b>						
Property, plant and equipment, net	—	—	812.8	7.3	—	820.1
Goodwill	—	—	206.3	302.7	—	509.0
Intangible assets, net	—	—	267.3	74.0	—	341.3
Investment in subsidiaries	2,107.2	—	335.9	(243.3 )	(2,199.8 )	—
Intra-entity receivables, net	—	400.0	—	2,598.0	(2,998.0 )	—
Other assets	—	—	151.4	18.2	—	169.6
Deferred tax assets	—	—	2.1	0.1	—	2.2
Retirement benefit asset	—	—	31.1	—	—	31.1
Total assets	\$2,108.1	\$ 403.2	\$ 4,469.7	\$ 3,139.0	\$ (5,379.2 )	\$ 4,740.8
<b>Liabilities and Shareholders' equity</b>						
<b>Current liabilities:</b>						
Loans and overdrafts	\$—	\$ (0.7 )	\$ 112.1	\$—	\$—	\$ 111.4
Accounts payable	—	—	206.6	30.1	—	236.7
Intra-entity payables, net	66.0	—	115.4	—	(181.4 )	—
Accrued expenses and other current liabilities	27.6	2.4	394.2	16.2	—	440.4
Deferred revenue	—	—	263.9	12.4	—	276.3
Total current liabilities	93.6	1.7	1,092.2	58.7	(181.4 )	1,064.8
<b>Non-current liabilities:</b>						
Long-term debt	—	395.6	275.5	—	—	671.1
Intra-entity payables, net	—	—	2,998.0	—	(2,998.0 )	—
Other liabilities	—	—	230.8	5.3	—	236.1
Deferred revenue	—	—	663.3	—	—	663.3
Deferred tax liabilities	—	—	74.6	16.4	—	91.0
Total liabilities	93.6	397.3	5,334.4	80.4	(3,179.4 )	2,726.3
Series A redeemable convertible preferred shares	614.4	—	—	—	—	614.4
Total shareholders' equity (deficit)	1,400.1	5.9	(864.7 )	3,058.6	(2,199.8 )	1,400.1
Total liabilities, redeemable convertible preferred shares and shareholders' equity	\$2,108.1	\$ 403.2	\$ 4,469.7	\$ 3,139.0	\$ (5,379.2 )	\$ 4,740.8



Table of ContentsCondensed Consolidated Balance Sheet  
February 3, 2018

(in millions)	Signet Jewelers Limited	Signet UK Finance plc	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ 1.7	\$ 0.1	\$ 150.5	\$ 72.8	\$—	\$ 225.1
Accounts receivable, net	—	—	692.5	—	—	692.5
Intra-entity receivables, net	—	2.9	—	166.9	(169.8 )	—
Other receivables	—	—	62.0	25.2	—	87.2
Other current assets	—	—	154.4	3.8	—	158.2
Income taxes	—	—	2.6	—	—	2.6
Inventories	—	—	2,201.3	79.2	—	2,280.5
Total current assets	1.7	3.0	3,263.3	347.9	(169.8 )	3,446.1
<b>Non-current assets:</b>						
Property, plant and equipment, net	—	—	870.1	7.8	—	877.9
Goodwill	—	—	516.4	305.3	—	821.7
Intangible assets, net	—	—	410.9	70.6	—	481.5
Investment in subsidiaries	3,150.2	—	1,163.6	606.0	(4,919.8 )	—
Intra-entity receivables, net	—	400.0	—	2,859.0	(3,259.0 )	—
Other assets	—	—	140.1	31.1	—	171.2
Deferred tax assets	—	—	1.3	0.1	—	1.4
Retirement benefit asset	—	—	39.8	—	—	39.8
Total assets	\$ 3,151.9	\$ 403.0	\$ 6,405.5	\$ 4,227.8	\$ (8,348.6 )	\$ 5,839.6
<b>Liabilities and Shareholders' equity</b>						
<b>Current liabilities:</b>						
Loans and overdrafts	\$—	\$ (0.7 )	\$ 44.7	\$—	\$—	\$ 44.0
Accounts payable	—	—	202.2	34.8	—	237.0
Intra-entity payables, net	11.3	—	158.5	—	(169.8 )	—
Accrued expenses and other current liabilities	27.2	2.4	397.5	20.9	—	448.0
Deferred revenue	—	—	276.2	12.4	—	288.6
Income taxes	—	(0.2 )	36.7	(16.9 )	—	19.6
Total current liabilities	38.5	1.5	1,115.8	51.2	(169.8 )	1,037.2
<b>Non-current liabilities:</b>						
Long-term debt	—	395.2	293.0	—	—	688.2
Intra-entity payables, net	—	—	3,259.0	—	(3,259.0 )	—
Other liabilities	—	—	233.0	6.6	—	239.6
Deferred revenue	—	—	668.9	—	—	668.9
Deferred tax liabilities	—	—	76.7	15.6	—	92.3
Total liabilities	38.5	396.7	5,646.4	73.4	(3,428.8 )	2,726.2
Series A redeemable convertible preferred shares	613.6	—	—	—	—	613.6
Total shareholders' equity	2,499.8	6.3	759.1	4,154.4	(4,919.8 )	2,499.8
Total liabilities, redeemable convertible preferred shares and shareholders' equity	\$ 3,151.9	\$ 403.0	\$ 6,405.5	\$ 4,227.8	\$ (8,348.6 )	\$ 5,839.6



Table of Contents

Condensed Consolidated Balance Sheet  
 July 29, 2017  
 (Unaudited)

(in millions)	Signet Jewelers Limited	Signet UK Finance plc	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$0.7	\$ 0.1	\$ 90.2	\$28.1	\$—	\$ 119.1
Accounts receivable, held for sale	—	—	1,055.6	—	—	1,055.6
Accounts receivable, net	—	—	664.5	—	—	664.5
Intra-entity receivables, net	113.1	3.1	—	162.4	(278.6 )	—
Other receivables	—	—	63.3	27.9	—	91.2
Other current assets	—	—	123.5	5.0	—	128.5
Income taxes	—	—	1.8	—	—	1.8
Inventories	—	—	2,214.7	67.4	—	2,282.1
<b>Total current assets</b>	<b>113.8</b>	<b>3.2</b>	<b>4,213.6</b>	<b>290.8</b>	<b>(278.6 )</b>	<b>4,342.8</b>
<b>Non-current assets:</b>						
Property, plant and equipment, net	—	—	832.6	4.0	—	836.6
Goodwill	—	—	516.3	3.6	—	519.9
Intangible assets, net	—	—	413.9	—	—	413.9
Investment in subsidiaries	2,703.1	—	532.8	390.8	(3,626.7 )	—
Intra-entity receivables, net	—	400.0	—	3,440.0	(3,840.0 )	—
Other assets	—	—	133.6	31.5	—	165.1
Deferred tax assets	—	—	—	—	—	—
Retirement benefit asset	—	—	35.5	—	—	35.5
<b>Total assets</b>	<b>\$2,816.9</b>	<b>\$ 403.2</b>	<b>\$ 6,678.3</b>	<b>\$4,160.7</b>	<b>\$(7,745.3 )</b>	<b>\$ 6,313.8</b>
<b>Liabilities and Shareholders' equity</b>						
<b>Current liabilities:</b>						
Loans and overdrafts	\$—	\$ (0.7 )	\$ 340.1	\$600.0	\$—	\$ 939.4
Accounts payable	—	—	142.7	5.5	—	148.2
Intra-entity payables, net	—	—	278.6	—	(278.6 )	—
Accrued expenses and other current liabilities	27.6	2.4	375.9	20.7	—	426.6
Deferred revenue	—	—	262.3	—	—	262.3
Income taxes	—	(0.1 )	30.1	3.5	—	33.5
<b>Total current liabilities</b>	<b>27.6</b>	<b>1.6</b>	<b>1,429.7</b>	<b>629.7</b>	<b>(278.6 )</b>	<b>1,810.0</b>
<b>Non-current liabilities:</b>						
Long-term debt	—	394.8	310.5	—	—	705.3
Intra-entity payables, net	—	—	3,840.0	—	(3,840.0 )	—
Other liabilities	—	—	241.4	5.7	—	247.1
Deferred revenue	—	—	658.8	—	—	658.8
Deferred tax liabilities	—	—	103.3	—	—	103.3
<b>Total liabilities</b>	<b>27.6</b>	<b>396.4</b>	<b>6,583.7</b>	<b>635.4</b>	<b>(4,118.6 )</b>	<b>3,524.5</b>
Series A redeemable convertible preferred shares	612.7	—	—	—	—	612.7
<b>Total shareholders' equity (deficit)</b>	<b>2,176.6</b>	<b>6.8</b>	<b>94.6</b>	<b>3,525.3</b>	<b>(3,626.7 )</b>	<b>2,176.6</b>
<b>Total liabilities, redeemable convertible preferred shares and shareholders' equity</b>	<b>\$2,816.9</b>	<b>\$ 403.2</b>	<b>\$ 6,678.3</b>	<b>\$4,160.7</b>	<b>\$(7,745.3 )</b>	<b>\$ 6,313.8</b>



Table of Contents

Condensed Consolidated Statement of Cash Flows  
 For the 26 weeks ended August 4, 2018  
 (Unaudited)

(in millions)	Signet Jewelers Limited	Signet UK Finance plc	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	\$ 467.5	\$ 0.2	\$ 227.7	\$ 227.7	\$ (470.5 )	\$ 452.6
Investing activities						
Purchase of property, plant and equipment	—	—	(55.1 )	(1.0 )	—	(56.1 )
Proceeds from sale of assets	—	—	—	5.5	—	5.5
Purchase of available-for-sale securities	—	—	—	(0.6 )	—	(0.6 )
Proceeds from available-for-sale securities	—	—	—	8.5	—	8.5
Net cash used in investing activities	—	—	(55.1 )	12.4	—	(42.7 )
Financing activities						
Dividends paid on common shares	(40.6 )	—	—	—	—	(40.6 )
Dividends paid on redeemable convertible preferred shares	(15.6 )	—	—	—	—	(15.6 )
Intra-entity dividends paid	—	—	—	(470.5 )	470.5	—
Repurchase of common shares	(485.0 )	—	—	—	—	(485.0 )
Repayments of term and bridge loans	—	—	(13.4 )	—	—	(13.4 )
Proceeds from revolving credit facility	—	—	308.0	—	—	308.0
Repayments of revolving credit facility	—	—	(237.0 )	—	—	(237.0 )
Repayments of bank overdrafts	—	—	(8.1 )	—	—	(8.1 )
Other financing activities	(2.1 )	—	—	—	—	(2.1 )
Intra-entity activity, net	75.0	(0.2 )	(302.0 )	227.2	—	—
Net cash (used in) provided by financing activities	(468.3 )	(0.2 )	(252.5 )	(243.3 )	470.5	(493.8 )
Cash and cash equivalents at beginning of period	1.7	0.1	150.5	72.8	—	225.1
(Decrease) increase in cash and cash equivalents	(0.8 )	—	(79.9 )	(3.2 )	—	(83.9 )
Effect of exchange rate changes on cash and cash equivalents	—	—	(6.0 )	(1.1 )	—	(7.1 )
Cash and cash equivalents at end of period	\$ 0.9	\$ 0.1	\$ 64.6	\$ 68.5	\$ —	\$ 134.1

Table of Contents

Condensed Consolidated Statement of Cash Flows  
 For the 26 weeks ended July 29, 2017  
 (Unaudited)

(in millions)	Signet Jewelers Limited	Signet UK Finance plc	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	\$ 617.7	\$ 0.1	\$ 479.3	\$ 430.7	\$ (1,118.0 )	\$ 409.8
Investing activities						
Purchase of property, plant and equipment	—	—	(105.6 )	(0.1 )	—	(105.7 )
Purchase of available-for-sale securities	—	—	—	(1.3 )	—	(1.3 )
Proceeds from available-for-sale securities	—	—	—	0.6	—	0.6
Net cash used in investing activities	—	—	(105.6 )	(0.8 )	—	(106.4 )
Financing activities						
Dividends paid on common shares	(39.0 )	—	—	—	—	(39.0 )
Dividends paid on redeemable convertible preferred shares	(19.1 )	—	—	—	—	(19.1 )
Intra-entity dividends paid	—	—	(800.0 )	(318.0 )	1,118.0	—
Repurchase of common shares	(460.0 )	—	—	—	—	(460.0 )
Repayments of term loan	—	—	(9.0 )	—	—	(9.0 )
Proceeds from securitization facility	—	—	—	1,242.9	—	1,242.9
Repayments of securitization facility	—	—	—	(1,242.9 )	—	(1,242.9 )
Proceeds from revolving credit facility	—	—	550.0	—	—	550.0
Repayments of revolving credit facility	—	—	(303.0 )	—	—	(303.0 )
Proceeds from bank overdrafts	—	—	(3.1 )	—	—	(3.1 )
Other financing activities	(3.0 )	—	—	—	—	(3.0 )
Intra-entity activity, net	(97.6 )	(0.1 )	208.1	(110.4 )	—	—
Net cash (used in) provided by financing activities	(618.7 )	(0.1 )	(357.0 )	(428.4 )	1,118.0	(286.2 )
Cash and cash equivalents at beginning of period	1.7	0.1	70.3	26.6	—	98.7
(Decrease) increase in cash and cash equivalents	(1.0 )	—	16.7	1.5	—	17.2
Effect of exchange rate changes on cash and cash equivalents	—	—	3.2	—	—	3.2
Cash and cash equivalents at end of period	\$ 0.7	\$ 0.1	\$ 90.2	\$ 28.1	\$ —	\$ 119.1



Table of Contents

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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 document 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," "may," "forecast," "object," "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 our ability to implement Signet's transformation initiative, the effect of federal tax reform and adjustments relating to such impact on the completion of our quarterly and year-end financial statements, changes in interpretation or assumptions, and/or updated regulatory guidance regarding the U.S. tax reform, the benefits and outsourcing of the credit portfolio sale including technology disruptions, future financial results and operating results, the impact of weather-related incidents on Signet's business, the benefits and integration of R2Net, general economic conditions, potential regulatory changes or other developments following the United Kingdom's announced intention to negotiate a formal 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 banners, 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 related 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 or regulatory proceedings, deterioration in the performance of individual businesses or of the Company's market value relative to its book value, resulting in impairments of fixed assets or intangible assets or other adverse financial consequences, including tax consequences related thereto, especially in view of the Company's recent market valuation and our ability to successfully integrate Zale Corporation's operations and to realize synergies from the transaction.

For a discussion of these and other risks and uncertainties which could cause actual results to differ materially from those expressed in any forward looking statement, see the "Risk Factors" section of Signet's Fiscal 2018 Annual Report on Form 10-K filed with the SEC on April 2, 2018 and Part II, Item 1A of this Form 10-Q. Signet undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances, except as required by law.

## 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. Its corporate website is [www.signetjewelers.com](http://www.signetjewelers.com), from where documents that the Company is required to file or furnish with the US Securities and Exchange Commission ("SEC") may be viewed or downloaded free of charge.

During the first quarter of Fiscal 2019, the Company realigned its organizational structure. The new structure allows for further integration of operational and product development processes and support growth strategies. In accordance with this organizational change, the Company, with 3,493 stores and kiosks as of August 4, 2018, now manages its business by geography, a description of which follows:

• The North America segment operated 2,859 locations in the US and 137 locations in Canada as of August 4, 2018. In the US, the segment primarily operates in malls and off-mall locations under the following banners: Kay (Kay Jewelers and Kay Outlet); Zales (Zales Jewelers and Zales Outlet); Jared (Jared The Galleria Of Jewelry and Jared

Vault); and a variety of mall-based regional banners. Additionally, in the US, the segment operates mall-based kiosks under the Piercing Pagoda banner and the JamesAllen.com website (“James Allen”), which was acquired in the R2Net acquisition.

In Canada, the segment primarily operates under the Peoples banner (Peoples Jewellers), as well as the Mappins Jewellers regional banner.

The North America segment is entirely comprised of the Sterling Jewelers and Zale divisions reported under the Company’s previous reportable segment structure.

Table of Contents

The International segment operated 497 stores in the United Kingdom, Republic of Ireland and Channel Islands as of August 4, 2018. The segment primarily operates in shopping malls and off-mall locations under the H.Samuel and Ernest Jones banners. The International segment is entirely comprised of the UK Jewelry division reported under the Company's previous reportable segment structure.

Certain company activities (e.g. diamond sourcing) are managed as a separate operating segment and are aggregated with unallocated corporate administrative functions in the "Other" segment for financial reporting purposes. The Company's diamond sourcing function includes its diamond polishing factory in Botswana. See Note 6 of Item 1 for additional information regarding the Company's reportable segments.

**Non-GAAP measures**

Signet provides certain non-GAAP information in reporting its financial results to give investors additional data to evaluate its operations. Management does not, nor does it suggest investors should, consider such non-GAAP measures in isolation from, or in substitute for, financial information prepared in accordance with US GAAP. Such measures are described and reconciled to the most comparable US GAAP measure below. The following discussion of results of operations highlights, as necessary, the significant changes in operating results arising from these items and transactions. However, unusual items or transactions may occur in any period. Accordingly, investors and other financial statement users individually should consider the types of events and transactions that have affected operating trends.

**1. Net cash (debt)**

Net cash (debt) is the total of cash and cash equivalents less loans, overdrafts and long-term debt. Management considers this metric to be helpful in understanding the total indebtedness of the Company after consideration of liquidity available from cash balances on-hand.

(in millions)	August 4, February 3, July 29,		
	2018	2018	2017
Cash and cash equivalents	\$ 134.1	\$ 225.1	\$ 119.1
Loans and overdrafts	(111.4 )	(44.0 )	(939.4 )
Long-term debt	(671.1 )	(688.2 )	(705.3 )
Net debt	\$(648.4 )	\$(507.1 )	\$(1,525.6)

**2. Free cash flow**

Free cash flow is a non-GAAP measure defined as the net cash provided by operating activities less purchases of property, plant and equipment. Management considers this helpful in understanding how the business is generating cash from its operating and investing activities that can be used to meet the financing needs of the business. Free cash flow is an indicator used by management frequently in evaluating its overall liquidity and determining appropriate capital allocation strategies. Free cash flow does not represent the residual cash flow available for discretionary expenditure. In the second quarter, net cash provided by operating activities included \$445.5 million in proceeds received in connection with the sale of the Company's non-prime receivable portfolio, as discussed in Note 4 of Item 1.

(in millions)	13 weeks ended		26 weeks ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net cash provided by operating activities	\$424.7	\$353.0	\$452.6	\$409.8
Purchase of property, plant and equipment	(30.0 )	(49.5 )	(56.1 )	(105.7 )
Free cash flow	\$394.7	\$303.5	\$396.5	\$304.1

Table of Contents

3. Earnings before interest, income taxes, depreciation and amortization (“EBITDA”) and Adjusted EBITDA  
EBITDA is a non-GAAP measure defined as earnings before interest and income taxes (operating income), depreciation and amortization. EBITDA is an important indicator of operating performance as it excludes the effects of financing and investing activities by eliminating the effects of interest, depreciation and amortization costs. Adjusted EBITDA is a non-GAAP measure which further excludes the impact of significant and unusual items which management believes are not necessarily reflective of operational performance during a period. Management believes these financial measures enhance investors’ ability to analyze trends in the business and evaluate performance relative to other companies. Management also utilizes these metrics to evaluate its current credit profile, which is a view consistent with rating agency methodologies.

(in millions)	13 weeks ended		26 weeks ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net income (loss)	\$(23.0)	\$93.4	\$(519.6)	\$171.9
Income taxes	(44.0 )	28.7	(129.9 )	52.9
Other non-operating income	(0.5 )	—	(1.1 )	—
Interest expense, net	9.4	13.5	18.3	26.1
Depreciation and amortization	43.9	48.4	93.7	98.4
Amortization of unfavorable leases and contracts	(2.1 )	(4.0 )	(4.1 )	(8.6 )
EBITDA	\$(16.3)	\$180.0	\$(542.7)	\$340.7
Credit transaction, net	23.9	—	167.0	—
Restructuring charges - cost of sales	63.2	—	63.2	—
Restructuring charges	19.6	—	26.1	—
Goodwill and intangible impairments	—	—	448.7	—
Adjusted EBITDA	\$90.4	\$180.0	\$162.3	\$340.7

## 4. Non-GAAP operating income

Non-GAAP operating income is a non-GAAP measure defined as operating (loss) income excluding the impact of significant and unusual items which management believes are not necessarily reflective of operational performance during a period. Management finds the information useful when analyzing financial results in order to appropriately evaluate the performance of the business without the impact of significant and unusual items. In particular, management believes the consideration of measures that exclude such expenses can assist in the comparison of operational performance in different periods which may or may not include such expenses.

(in millions)	13 weeks ended		26 weeks ended	
	May 5, 2018	April 29, 2017	August 4, 2018	July 29, 2017
Operating income (loss)	\$(58.1)	\$135.6	\$(632.3)	\$250.9
Credit transaction, net	23.9	—	167.0	—
Restructuring charges - cost of sales	63.2	—	63.2	—
Restructuring charges	19.6	—	26.1	—
Goodwill and intangible impairments	—	—	448.7	—
Non-GAAP operating income	\$48.6	\$135.6	\$72.7	\$250.9

Table of Contents

RESULTS OF OPERATIONS SUMMARY

The following should be read in conjunction with the financial statements and related notes in Item 1 of this Quarterly Report on Form 10-Q, as well as the financial and other information included in Signet's Fiscal 2018 Annual Report on Form 10-K. Same store sales are based on sales from stores which have been open for at least 12 months. Same store sales also include e-commerce sales for the period and comparative figures from the anniversary of the launch of the relevant website.

Second Quarter Summary

Same store sales: Up 1.7%.

Total sales: \$1,420.1 million, increased 1.5%.

Operating loss: \$(58.1) million, down \$193.7 million including the loss recognized on held for sale non-prime receivables and restructuring charges.

Non-GAAP<sup>(1)</sup> operating income: \$48.6 million.

Diluted loss per share: \$(0.56), including the impact of a loss recognized on held for sale non-prime receivables of \$(0.10) and restructuring charges of (\$1.14).

Year to Date Summary

Same store sales: Up 0.7%.

Total sales: \$2,900.7 million, increased 3.5%.

Operating loss: \$(632.3) million, down \$883.2 million including the impact of a non-cash impairment charge related to goodwill and intangibles, loss recognized on held for sale non-prime receivables and restructuring charges.

Non-GAAP<sup>(1)</sup> operating income: \$72.7 million.

Diluted loss per share: \$(9.27), including the impact of a non-cash impairment charge related to goodwill and intangibles of (\$7.18), loss recognized on held for sale non-prime receivables of (\$1.95) and restructuring charges of (\$1.19).

<sup>(1)</sup> Non-GAAP measure.

Table of Contents

(in millions)	Second Quarter Fiscal 2019		Fiscal 2018		Year to Date Fiscal 2019		Fiscal 2018	
	\$	% of sales	\$	% of sales	\$	% of sales	\$	% of sales
Sales	\$1,420.1	100.0 %	\$1,399.6	100.0 %	\$2,900.7	100.0 %	\$2,803.0	100.0 %
Cost of sales	(929.9 )	(65.5 )	(941.7 )	(67.3 )	(1,925.7 )	(66.4 )	(1,853.9 )	(66.1 )
Restructuring charges - cost of sales	(63.2 )	(4.4 )	—	—	(63.2 )	(2.2 )	—	—
Gross margin	427.0	30.1	457.9	32.7	911.8	31.4	949.1	33.9
Selling, general and administrative expenses	(444.8 )	(31.3 )	(409.0 )	(29.2 )	(927.6 )	(32.0 )	(861.8 )	(30.7 )
Credit transaction, net	(23.9 )	(1.7 )	14.8	1.1	(167.0 )	(5.7 )	14.8	0.5
Restructuring charges	(19.6 )	(1.4 )	—	—	(26.1 )	(0.9 )	—	—
Goodwill and intangible impairments	—	—	—	—	(448.7 )	(15.5 )	—	—
Other operating income, net	3.2	0.2	71.9	5.1	25.3	0.9	148.8	5.3
Operating (loss) income	(58.1 )	(4.1 )	135.6	9.7	(632.3 )	(21.8 )	250.9	9.0
Interest expense, net	(9.4 )	(0.6 )	(13.5 )	(1.0 )	(18.3 )	(0.6 )	(26.1 )	(1.0 )
Other non-operating income	0.5	—	—	—	1.1	—	—	—
(Loss) income before income taxes	(67.0 )	(4.7 )	122.1	8.7	(649.5 )	(22.4 )	224.8	8.0
Income taxes	44.0	3.1	(28.7 )	(2.0 )	129.9	4.5	(52.9 )	(1.9 )
Net (loss) income	\$(23.0 )	(1.6 )%	\$93.4	6.7 %	\$(519.6 )	(17.9 )%	\$171.9	6.1 %
Dividends on redeemable convertible preferred shares	(8.2 )	nm	(8.2 )	nm	(16.4 )	nm	(16.4 )	nm
Net income (loss) attributable to common shareholders	\$(31.2 )	(2.2 )%	\$85.2	6.1 %	\$(536.0 )	(18.5 )%	\$155.5	5.5 %

nm Not meaningful.

#### Second quarter sales

Signet's total sales were \$1.42 billion, up 1.5%, in the 13 weeks ended August 4, 2018 on a reported basis and up 1.1% on a constant currency basis. Total same store sales performance was 1.7% versus the prior year quarter, inclusive of a positive impact of 40 basis points due to planned shifts in timing of promotions at Jared and a negative impact related to the October 2017 credit outsourcing of approximately 160 basis points when compared to trends experienced prior to the credit outsourcing. Same store sales performance reflected the impact of initiatives to increase newness and refocus the product assortment, as well as incremental clearance sales to make room for new product. Incremental clearance had a positive impact on same store sales of 240 basis points.

The increase in total sales of \$20.5 million in the quarter was positively impacted by 1) same store sales performance; 2) the addition of James Allen (acquired in September 2017); 3) \$24 million from the adoption of new revenue recognition accounting standards; and 4) a foreign exchange translation benefit of \$5 million. These factors were partially offset by an unfavorable \$50 million impact from the calendar shift due to the 53rd week in Fiscal 2018 and a \$34 million reduction due to store closures partially offset by new store openings.

eCommerce sales in the second quarter including James Allen were \$150.3 million, up 82.8% on a reported basis. James Allen sales were \$54.4 million in the quarter, up 25.3% compared to the prior year quarter, and had a positive 80 bps impact on total company same store sales. eCommerce sales increased across all segments and accounted for 10.6% of second quarter sales, up from 5.9% of total sales in the prior year second quarter.

Table of Contents

The breakdown of the sales performance is set out in the table below:

Second quarter of Fiscal 2019	Change from previous year		Total sales at constant exchange rate		Exchange translation impact		Total sales as reported		Total sales (in millions)	
	Same store sales <sup>(1)</sup>	Non-same store sales, net								
Kay	(2.1 )%	(1.1 )%	(3.2 )%		na		(3.2 )%			\$ 546.0
Zales	7.1 %	(3.6 )%	3.5 %		na		3.5 %			\$ 278.5
Jared	1.2 %	(3.0 )%	(1.8 )%		na		(1.8 )%			\$ 271.2
Piercing Pagoda	11.5 %	(3.0 )%	8.5 %		na		8.5 %			\$ 67.6
James Allen <sup>(2)</sup>	25.3 %									\$ 54.4
Peoples	0.2 %	(5.0 )%	(4.8 )%		1.6 %		(3.2 )%			\$ 47.7
Regional banners	(10.5)%	(38.1 )%	(48.6 )%		0.2 %		(48.4 )%			\$ 21.3
North America segment	2.1 %	(0.2 )%	1.9 %		— %		1.9 %			\$ 1,286.7
H.Samuel	(3.8 )%	(1.4 )%	(5.2 )%		2.6 %		(2.6 )%			\$ 60.6
Ernest Jones	(1.1 )%	— %	(1.1 )%		2.8 %		1.7 %			\$ 70.9
International segment	(2.4 )%	(0.6 )%	(3.0 )%		2.7 %		(0.3 )%			\$ 131.5
Other <sup>(3)</sup>										\$ 1.9
Signet	1.7 %	(0.6 )%	1.1 %		0.4 %		1.5 %			\$ 1,420.1

The 53rd week in Fiscal 2018 has resulted in a shift in Fiscal 2019, as the fiscal year began a week later than the (1) previous fiscal year. As such, same store sales for Fiscal 2019 are being calculated by aligning the weeks of the quarter to the same weeks in the prior year. Total reported sales continue to be calculated based on the reported fiscal periods.

(2) Same store sales presented for James Allen to provide comparative performance measure.

(3) Includes sales from Signet's diamond sourcing initiative.

Average merchandise transaction value ("ATV") is defined as net merchandise sales on a same store basis divided by the total number of customer transactions. As such, changes from the prior year do not recompute within the table below.

Second Quarter	Average Merchandise Transaction Value <sup>(1)(2)</sup>				Merchandise Transactions			
	Average Value		Change from previous year		Change from previous year			
	Fiscal 2019	Fiscal 2018	Fiscal 2019	Fiscal 2018	Fiscal 2019	Fiscal 2018		
Kay	\$ 530	\$ 472	11.6 %	2.2 %	(11.3)%	0.9 %		
Zales	\$ 494	\$ 476	3.1 %	(0.6 )%	5.2 %	0.1 %		
Jared	\$ 656	\$ 594	10.1 %	12.5 %	(7.1 )%	(9.7 )%		
Piercing Pagoda	\$ 66	\$ 60	8.2 %	9.1 %	2.6 %	(3.1 )%		
James Allen <sup>(3)</sup>	\$ 3,738	\$ 4,291	(12.9)%	na	42.7 %	na		
Peoples <sup>(4)</sup>	C\$441	C\$436	(0.2 )%	5.6 %	0.7 %	3.0 %		
Regional banners	\$ 482	\$ 445	7.3 %	4.0 %	(14.0)%	(11.2)%		
North America segment	\$ 392	\$ 356	6.5 %	4.4 %	(3.0 )%	(2.2 )%		
H.Samuel <sup>(5)</sup>	£ 87	£ 83	4.8 %	10.7 %	(8.5 )%	(13.9)%		
Ernest Jones <sup>(5)</sup>	£ 396	£ 375	5.9 %	23.8 %	(4.8 )%	(21.2)%		
International segment <sup>(5)</sup>	£ 152	£ 143	6.3 %	14.4 %	(7.8 )%	(15.5)%		

(1) Net merchandise sales within the North America segment include all merchandise product sales, net of discounts and returns. In addition, excluded from net merchandise sales are sales tax in the US, repair, extended service plan, insurance, employee and other miscellaneous sales.

(2)

Net merchandise sales within the International segment include all merchandise product sales, including value added tax ("VAT"), net of discounts and returns. In addition, excluded from net merchandise sales are repairs, warranty, insurance, employee and other miscellaneous sales. As a result, the sum of the changes will not agree to change in same store sales.

(3) ATV presented for James Allen to provide comparative performance measure.

(4) Amounts for Peoples stores are denominated in Canadian dollars.

(5) Amounts for the International segment, including H.Samuel and Ernest Jones, are denominated in British pounds.

na Not applicable as James Allen was acquired as part of R2Net acquisition in September 2017. See Note 5 for additional information.



Table of Contents

## North America sales

The North America segment's total sales were \$1,286.7 million compared to \$1,262.2 million in the prior year, up 1.9%. Same store sales increased 2.1% compared to an increase of 2.0% in the prior year. North America's ATV increased 6.5%, while the number of transactions decreased 3.0%.

Same store sales results were positively impacted by initiatives across banners to increase newness and reposition the product portfolio and James Allen sales growth which contributed 90 basis points. Incremental clearance sales positively impacted same store sales by approximately 270 basis points, and a planned shift in timing of promotions at Jared contributed 40 basis points. Same store sales were negatively impacted by approximately 175 basis points as a result of the October 2017 credit outsourcing when compared to trends experienced prior to the credit outsourcing. Same store sales increased at Zales and Piercing Pagoda by 7.1% and 11.5%, respectively. Jared same store sales increased 1.2%, including a positive impact of 195 basis points due to a planned shift in the timing of promotions. Kay same store sales decreased 2.1%.

Across all banners, bridal and fashion sales increased in the quarter as they benefited from a greater percentage of newness in core product assortment and higher clearance sales. The increase was partially offset by declines in the Other product category driven by a strategic reduction of owned brand beads as well as declines in other branded beads. Bridal performance was driven by strength in solitaires and the Enchanted Disney Fine Jewelry collection partially offset by declines in the Ever Us collection. Fashion performance was primarily driven by gold, particularly chains and bracelets, and diamond jewelry items.

## International sales

The International segment's total sales decreased 0.3% to \$131.5 million compared to \$131.9 million in the prior year and decreased 3.0% at constant exchange rates. Same store sales decreased 2.4% compared to a decrease of 3.4% in the prior year. The same store sales decline was driven by lower sales in diamond jewelry and fashion watches, partially offset by higher sales in prestige watches. In the International segment, the ATV increased 6.3%, while the number of transactions decreased 7.8%.

## Year to date sales

Signet's total sales increased 3.5% to \$2,900.7 million compared to \$2,803.0 million in the prior year. Total sales at constant exchange rates increased 2.7%. Signet's same store sales increased 0.7%, compared to a decrease of 5.5% in the prior year. Same store sales performance reflected the impact of initiatives to increase newness and refocus the product assortment, as well as incremental clearance sales to make room for new product. Incremental clearance had a positive impact on same store sales throughout the first half of Fiscal 2019, partially offset by the negative impact related to the October 2017 credit outsourcing of approximately 130 basis points when compared to trends experienced prior to the credit outsourcing.

The increase in total sales during the period were due to: 1) same store sales performance; 2) the addition of James Allen, which was acquired as part of R2Net acquisition in September 2017 (see Note 5 within Item 1 of this form 10-Q); 3) \$47 million from the adoption of new revenue recognition accounting standards; and 4) a foreign exchange translation benefit of \$21 million. These factors were partially offset by an unfavorable \$35 million impact from the calendar shift due to the 53rd week in Fiscal 2018 and a \$73 million reduction due to store closures partially offset by new store openings.

eCommerce sales year to date, including James Allen, were \$296.8 million, up \$133.6 million or 81.9%, compared to \$163.2 million in the prior year. James Allen sales were \$107.7 million in the quarter, up 27.3% compared to the prior year quarter, and had a positive 80 basis point impact on total company same store sales. eCommerce sales increased across all segments and accounted for 10.2% of year to date sales, up from 5.8% of total sales in the prior year.

Table of Contents

The breakdown of the sales performance is set out in the table below:

Year to date Fiscal 2019	Change from previous year		Total sales at constant exchange rate	Exchange translation impact	Total sales as reported	Total sales (in millions)
	Same store sales <sup>(1)</sup>	Non-same store sales, net				
Kay	(2.0 )%	1.9 %	(0.1 )%	na	(0.1 )%	\$ 1,129.2
Zales	8.0 %	(2.3 )%	5.7 %	na	5.7 %	\$ 576.6
Jared	(3.5 )%	1.5 %	(2.0 )%	na	(2.0 )%	\$ 538.7
Piercing Pagoda	9.2 %	(1.6 )%	7.6 %	na	7.6 %	\$ 142.0
James Allen <sup>(2)</sup>	27.3 %					\$ 107.7
Peoples	2.3 %	(2.7 )%	(0.4 )%	2.8 %	2.4 %	\$ 94.4
Regional banners	(10.9)%	(36.9 )%	(47.8 )%	0.2 %	(47.6 )%	\$ 45.9
North America segment	1.3 %	2.4 %	3.7 %	0.2 %	3.9 %	\$ 2,634.5
H.Samuel	(4.6 )%	(1.4 )%	(6.0 )%	6.8 %	0.8 %	\$ 123.8
Ernest Jones	(4.5 )%	1.3 %	(3.2 )%	6.8 %	3.6 %	\$ 136.4
International segment	(4.5 )%	— %	(4.5 )%	6.8 %	2.3 %	\$ 260.2
Other <sup>(3)</sup>						\$ 6.0
Signet	0.7 %	2.0 %	2.7 %	0.8 %	3.5 %	\$ 2,900.7

The 53rd week in Fiscal 2018 has resulted in a shift in Fiscal 2019, as the fiscal year began a week later than the (1) previous fiscal year. As such, same store sales for Fiscal 2019 are being calculated by aligning the weeks of the quarter to the same weeks in the prior year. Total reported sales continue to be calculated based on the reported fiscal periods.

(2) Same store sales presented for James Allen to provide comparative performance measure.

(3) Includes sales from Signet's diamond sourcing initiative.

Average merchandise transaction value ("ATV") is defined as net merchandise sales on a same store basis divided by the total number of customer transactions. As such, changes from the prior year do not recompute within the table below.

Year to date	Average Merchandise Transaction Value <sup>(1)(2)</sup>		Change from previous year		Merchandise Transactions Change from previous year	
	Average Value		Change from previous year		Change from previous year	
	Fiscal 2019	Fiscal 2018	Fiscal 2019	Fiscal 2018	Fiscal 2019	Fiscal 2018
Kay	\$ 510	\$ 468	9.0 %	2.6 %	(8.9 )%	(8.4 )%
Zales	\$ 492	\$ 480	2.5 %	0.8 %	6.9 %	(9.4 )%
Jared	\$ 655	\$ 594	8.6 %	9.2 %	(10.3)%	(13.0)%
Piercing Pagoda	\$ 67	\$ 61	8.1 %	8.9 %	0.7 %	(5.8 )%
James Allen <sup>(3)</sup>	\$ 3,715	\$ 4,046	(8.2)%	na	37.9 %	na
Peoples <sup>(4)</sup>	C\$448	C\$445	(0.4)%	6.7 %	2.9 %	(5.2 )%
Regional banners	\$ 473	\$ 447	8.0 %	5.2 %	(15.2)%	(19.4)%
North America segment	\$ 384	\$ 409	5.8 %	2.5 %	(3.0 )%	(8.7 )%
H.Samuel <sup>(5)</sup>	£ 86	£ 83	3.6 %	10.7%	(8.1 )%	(14.0)%
Ernest Jones <sup>(5)</sup>	£ 384	£ 361	5.8 %	20.3%	(8.0 )%	(18.5)%
International segment <sup>(5)</sup>	£ 147	£ 139	5.0 %	13.0%	(8.0 )%	(14.9)%

(1) Net merchandise sales within the North America segment include all merchandise product sales, net of discounts and returns. In addition, excluded from net merchandise sales are sales tax in the US, repair, extended service plan, insurance, employee and other miscellaneous sales.

(2)

Net merchandise sales within the International segment include all merchandise product sales, including value added tax ("VAT"), net of discounts and returns. In addition, excluded from net merchandise sales are repairs, warranty, insurance, employee and other miscellaneous sales. As a result, the sum of the changes will not agree to change in same store sales.

(3) ATV presented for James Allen to provide comparative performance measure.

(4) Amounts for Peoples stores are denominated in Canadian dollars.

(5) Amounts for the International segment, including H.Samuel and Ernest Jones, are denominated in British pounds.

Not applicable as James Allen was acquired as part of R2Net acquisition in September 2017. See Note 5 for additional information.

Table of Contents

## North America sales

The North America segment's total sales were \$2,634.5 million compared to \$2,536.6 million in the prior year, up 3.9%. Same store sales increased 1.3% compared to a decrease of 5.7% in the prior year. North America's average transaction value ("ATV") increased 5.8%, while the number of transactions decreased 3.0%. Same store sales were negatively impacted by approximately 140 basis points, as a result of transition issues related to the October 2017 credit outsourcing.

Same store sales results were positively impacted by initiatives across banners to increase newness and reposition the product portfolio and James Allen sales growth which contributed 90 basis points. Same store sales increased at Zales and Piercing Pagoda by 8.0% and 9.2%, respectively. Jared same store sales decreased 3.5%. Kay same store sales decreased 2.0%. Across all banners, Bridal and Fashion sales increased in Fiscal 2019 as they benefited from a greater percentage of newness in product assortment and higher clearance sales, partially offset by declines in the Other product category driven by a strategic reduction of owned brand beads as well as declines in other branded beads. Bridal performance was driven by strength in solitaires, the Enchanted Disney Fine Jewelry collection, partially offset by declines in the Ever Us collection. Fashion performance was primarily driven by gold jewelry items, particularly chains and bracelets and diamond jewelry items.

## International sales

The International segment's total sales increased 2.3% to \$260.2 million compared to \$254.4 million in the prior year and decreased 4.5% at constant exchange rates. Same store sales decreased 4.5% compared to a decrease of 3.4% in the prior year. The decreases in same store sales were due to lower sales in diamond jewelry and fashion watches, partially offset by higher sales in prestige watches. In the International segment, the ATV increased 5.0%, while the number of transactions decreased 8.0%.

## Cost of sales and gross margin

In the second quarter, gross margin was \$427.0 million or 30.1% of sales compared to \$457.9 million or 32.7% of sales in the prior year comparable period. Gross margin was negatively impacted by \$63.2 million, or 440 basis points, due to restructuring charges related to an inventory charge. The charge relates to brands and collections that the Company is discontinuing as part of its transformation plan to increase newness across our categories. Transformation cost savings related to direct sourcing, distribution and store occupancy offset sales deleverage and higher mix of clearance inventory sales. Additional factors impacting gross margin rate include: 1) a positive 350 basis point impact related to discontinuing the recognition of bad debt expense and late charge income; 2) a negative 80 basis point impact related to James Allen, which carries a lower gross margin rate; 3) a negative 60 basis point impact related to the discontinuation of credit insurance; and 4) a negative 20 basis point impact related to adopting new revenue recognition accounting standards.

In the year to date period, gross margin was \$911.8 million or 31.4% of sales compared to \$949.1 million or 33.9% of sales in the prior year comparable period. Gross margin was negatively impacted by \$63.2 million, or 220 basis points, in restructuring charges related to inventory charge. The charge relates to brands and collections that the Company is discontinuing as part of its transformation plan to increase newness across our categories. Transformation cost savings related to direct sourcing, distribution and store occupancy offset sales deleverage and higher mix of clearance inventory sales. Additional factors impacting gross margin rate include: 1) a positive 140 basis point impact related to discontinuing the recognition of bad debt expense and late charge income; 2) a negative 70 basis point impact related to James Allen which carries a lower gross margin rate; 3) a negative 60 basis point impact from the discontinuation of credit insurance; and 4) a negative 20 basis point impact related to adopting new accounting revenue recognition standards. See Note 7 of Item 1 for additional information regarding the Company's restructuring activities.

## Selling, general and administrative expenses ("SGA")

In the second quarter, SGA was \$444.8 million or 31.3% of sales compared to \$409.0 million or 29.2% of sales in prior year and reflected the inclusion of James Allen in the current year quarter. SGA increased primarily due to: 1) a \$6.3 million increase in advertising expense; 2) a \$6.0 million increase in store staff costs; and 3) an \$8.9 million increase in incentive compensation expense. In addition, credit outsourcing costs of \$32.6 million were partially offset by savings of \$10.4 million related to in-house credit operations. Increases in SGA, including the impact of foreign

exchange, were partially offset by transformation cost savings.

In the year to date period, SGA was \$927.6 million or 32.0% of sales compared to \$861.8 million or 30.7% of sales in prior year comparable period. SGA increased primarily due to: 1) an \$18.5 million increase in advertising expense; 2) \$9.9 million increase in store staff costs; and 3) an \$18.0 million increase in incentive compensation expense, which included \$6.0 million of one-time cash awards to non-managerial hourly team members. In addition, SGA was impacted by credit outsourcing costs of \$57.1 million, which were partially offset by \$22.8 million of savings related to in-house credit operations. Increases in SGA, including the impact of foreign exchange, were partially offset by transformation cost savings.

Table of Contents

## Credit transaction, net

In June 2018, the Company completed the sale of all eligible non-prime in-house accounts receivable. In the second quarter, the Company recognized net credit transaction charges of \$23.9 million as a result of the transaction. This included total valuation losses of \$19.4 million representing adjustments to the asset fair value and other transaction-related costs of \$4.5 million.

In the year to date period, the Company recognized charges of \$167.0 million as a result of the sale of the non-prime in-house accounts receivable. This included total valuation losses of \$160.4 million representing adjustments to the asset fair value and other transaction-related costs of \$6.6 million. See Note 4 of Item 1 for additional information.

## Restructuring charges

During the first quarter of Fiscal 2019, Signet launched a three-year comprehensive transformation plan, the “Signet Path to Brilliance” plan (the “Plan”), to reposition the Company to be a share gaining, OmniChannel jewelry category leader. Restructuring charges of \$19.6 million were recognized in the 13 weeks ended August 4, 2018, primarily related to professional fees for legal and consulting services, severance and impairment of information technology assets related to the Plan. Additionally, during the second quarter of Fiscal 2019, the Company recorded charges of \$63.2 million in restructuring charges related to inventory write-offs.

Restructuring charges of \$26.1 million were recognized in the 26 weeks ended August 4, 2018, primarily related to professional fees for legal and consulting services, severance and impairment of information technology assets related to the Plan. Additionally, during the 26 weeks ended August 4, 2018, the Company recorded charges of \$63.2 million in restructuring charges related to inventory write-offs. See Note 7 of Item 1 for additional information.

## Goodwill and intangible impairments

During the first quarter of Fiscal 2019, the Company recorded a non-cash goodwill and intangible asset impairment pre-tax charge of \$448.7 million which did not have an impact on the Company’s day to day operations or liquidity. The charge was related to the write down of goodwill and intangible assets recognized in the North America segment as part of the Zale Corporation acquisition, as well as goodwill associated with the acquisition of Ultra Stores, Inc. that had historically been included in our legacy Sterling division. There were no incremental impairments recorded during the 13 weeks ended August 4, 2018. See Note 15 of Item 1 for additional information on the impairments.

## Other operating income, net

Other operating income, net in the second quarter was \$3.2 million or 0.2% of sales, which includes a \$3.2 million gain on the sale of an asset, compared to \$71.9 million or 5.1% of sales in the prior year second quarter. The decrease is primarily due to the sale of the prime accounts receivable in the third quarter of Fiscal 2018, which resulted in less interest income earned from a reduced receivable portfolio.

In the year to date period, other operating income, net was \$25.3 million or 0.9% of sales, which includes a \$3.2 million gain on the sale of an asset, compared to \$148.8 million or 5.3% of sales in the prior year period. The year-over-year decrease is primarily due to the sale of the prime accounts receivable in the third quarter of Fiscal 2018, which results in less interest income earned from a smaller receivable portfolio.

## Operating income (loss)

In the second quarter, operating income (loss) was \$(58.1) million or (4.1)% of sales, compared to \$135.6 million or 9.7% of sales in the prior year second quarter. The operating income margin decline was driven by: 1) \$82.8 million in restructuring charges due to inventory charges, severance, professional fees and impairment of IT assets related to the Path to Brilliance transformation plan; 2) a \$38.6 million impact from the credit outsourcing transaction due to the loss of finance charge income and credit outsourcing costs; 3) a \$23.9 million loss primarily related to marking the non-prime receivables at fair value; 4) the impact of the discontinuation of credit insurance; and 5) higher SGA expense. These declines were partially offset by transformation cost savings. Additionally, prior year results included a net benefit of \$10.1 million related to a net gain on the prime credit transaction and certain one-time corporate and transaction costs. Signet’s operating income consisted of the following components:

Table of Contents

	Second Quarter			
	Fiscal 2019	Fiscal 2018		
(in millions)	\$	% of segment sales	\$	% of segment sales
North America segment <sup>(1)</sup>	\$(4.2 )	(0.3 )%	\$161.6	12.8 %
International segment <sup>(2)</sup>	(6.1 )	(4.6 )%	2.3	1.7 %
Other <sup>(3)</sup>	(47.8 )	nm	(28.3 )	nm
Operating (loss) income	\$(58.1)	(4.1 )%	\$135.6	9.7 %

Fiscal 2019 includes \$53.7 million and \$19.4 million related to inventory charges recorded in conjunction with the Company's restructuring activities and valuation losses related to the sale of eligible non-prime in-house accounts

(1) receivable, respectively. See Note 7 and Note 4 for additional information. Operating income was also negatively impacted by the sale of the prime accounts receivable in the third quarter of Fiscal 2018, which results in less interest income earned from a smaller receivable portfolio.

(2) Fiscal 2019 includes \$3.8 million related to inventory charges recorded in conjunction with the Company's restructuring activities. See Note 7 of Item 1 for additional information.

Fiscal 2019 includes \$25.3 million and \$4.5 million related to charges recorded in conjunction with the Company's restructuring activities including inventory charges and transaction costs associated with the sale of the non-prime in-house accounts receivable, respectively. See Note 7 and Note 4 for additional information.

nm Not meaningful.

In the year to date period, operating (loss) income was \$(632.3) million or (21.8)% of sales compared to \$250.9 million or 9.0% of sales in the prior year. The operating income margin decline was driven by: 1) the goodwill and intangible impairment charge; 2) \$89.3 million in restructuring charges due to inventory charges, severance, professional fees and impairment of IT assets related to the Path to Brilliance transformation plan; 3) a \$107.5 million impact from the credit outsourcing transaction due to the loss of finance charge income and credit outsourcing costs; 4) a \$160.4 million loss related to marking the non-prime receivables at fair value; 5) the impact of the discontinuation of credit insurance; and 6) higher SGA expense. These declines were partially offset by transformation cost savings. Signet's operating income consisted of the following components:

	Year to date			
	Fiscal 2019	Fiscal 2018		
(in millions)	\$	% of segment sales	\$	% of segment sales
North America segment <sup>(1)</sup>	\$(541.5)	(20.6 )%	\$296.4	11.7 %
International segment <sup>(2)</sup>	(13.7 )	(5.3 )%	(0.2 )	(0.1 )%
Other <sup>(3)</sup>	(77.1 )	nm	(45.3 )	nm
Operating (loss) income	\$(632.3)	(21.8 )%	\$250.9	9.0 %

Fiscal 2019 includes \$448.7 million, \$53.7 million and \$160.4 million related to the goodwill and intangible impairments recognized in the first quarter, inventory charges recorded in conjunction with the

(1) Company's restructuring activities and valuation losses related to the sale of eligible non-prime in-house accounts receivable, respectively. See Note 15, Note 7 and Note 4, respectively, of Item 1 for additional information.

Operating income was also negatively impacted by the sale of the prime accounts receivable in the third quarter of Fiscal 2018, which results in less interest income earned from a smaller receivable portfolio.

(2) Fiscal 2019 includes \$3.8 million related to inventory charges recorded in conjunction with the Company's restructuring activities. See Note 7 of Item 1 for additional information.

Fiscal 2019 \$31.8 million and \$6.6 million related to charges recorded in conjunction with the Company's restructuring activities including inventory charges and transaction costs associated with the sale of the non-prime in-house accounts receivable, respectively. See Note 7 and Note 4, respectively, of Item 1 for additional information.

nmNot meaningful.

Interest expense, net

In the second quarter, net interest expense was \$9.4 million compared to \$13.5 million in the prior year second quarter, driven primarily by the repayment of the \$600 million asset-backed securitization facility in the third quarter of Fiscal 2018. The weighted average interest rate for the Company's debt outstanding in the current year was 3.9% compared to 3.1% in the prior year second quarter.

In the year to date period, net interest expense was \$18.3 million compared to \$26.1 million in the prior year, driven primarily by the repayment of the \$600 million asset-backed securitization facility in the third quarter of Fiscal 2018. The weighted average interest rate for the Company's debt outstanding in the current year was 3.9% compared to 3.1% in the prior year comparable period.

Income taxes

In the second quarter, the income tax benefit was \$44.0 million, an effective tax rate ("ETR") of 65.7%, compared to income tax expense of \$28.7 million, an ETR of 23.5% in the prior year second quarter.

In the year to date period, income tax benefit was \$129.9 million, an ETR of 20.0%, compared to income tax expense of \$52.9 million, an ETR of 23.5% in the prior year comparable period. The ETR in Fiscal 2019 is primarily due to the unfavorable impact of the impairment of goodwill partially offset by the benefit of losses in the US recognized during the first two quarters as well as the benefit from global reinsurance and financing arrangements, including certain intra-entity debt agreements which mature on various dates between fiscal year 2022 and 2027.



Table of Contents

Earnings (loss) per share (“EPS”)

As discussed in Notes 8 and 10 of Item 1, the Company issued preferred shares on October 5, 2016 which include a cumulative dividend right and may be converted into common shares. The Company’s computation of diluted EPS includes the effect of potential common shares for outstanding awards issued under the Company’s share-based compensation plans and preferred shares upon conversion, if dilutive. In computing diluted EPS, the Company also adjusts the numerator used in the basic EPS computation, subject to anti-dilution requirements, to add back the dividends (declared or cumulative undeclared) applicable to the preferred shares.

For the second quarter, diluted loss per share was \$(0.56) compared to earnings of \$1.33 in the prior year second quarter. The weighted average diluted number of common shares outstanding was 56.1 million compared to 70.5 million in the prior year second quarter. For the second quarter of Fiscal 2019, the dilutive effect related to preferred shares was excluded from the earnings per share computation as the preferred shares were anti-dilutive. Diluted EPS for the second quarter of Fiscal 2019 includes a loss of \$(1.14) related to the Path to Brilliance transformation plan and a loss of \$(0.10) related to the sale of non-prime receivables.

For the year to date period, diluted EPS were a loss of \$(9.27) compared to earnings of \$2.36 in the prior year. The weighted average diluted number of common shares outstanding was 57.8 million compared to 66.0 million in the prior year. For the year to date periods of Fiscal 2019 and Fiscal 2018, the dilutive effect related to preferred shares was excluded from the earnings per share computation as the preferred shares were anti-dilutive. Diluted EPS for the 26 weeks ended August 4, 2018 includes a loss of \$(7.18) related to the goodwill and intangible impairments, a loss of \$(1.95) related to the sale of non-prime receivables and a loss of \$(1.19) related to the Path to Brilliance transformation plan.

Dividends per share

In the second quarter, dividends of \$0.37 per common share were declared by the Board of Directors compared to \$0.31 in the prior year second quarter. In the year to date period, dividends of \$0.74 per common share were declared by the Board of Directors compared to \$0.62 in the prior year comparable period.

In the second quarter of Fiscal 2019 and Fiscal 2018, dividends of \$12.50 per preferred share were declared by the Board of Directors. In the year to date periods of Fiscal 2019 and Fiscal 2018, dividends of \$25.00 per preferred share were declared by the Board of Directors.

Table of Contents

## LIQUIDITY AND CAPITAL RESOURCES

## Summary cash flow

The following table provides a summary of Signet's cash flow activity for the second quarter of Fiscal 2019 and Fiscal 2018:

(in millions)	26 weeks ended	
	August 4, 2018	July 29, 2017
Net cash provided by operating activities	\$452.6	\$409.8
Net cash used in investing activities	(42.7 )	(106.4 )
Net cash used in financing activities	(493.8 )	(286.2 )
(Decrease) increase in cash and cash equivalents	\$(83.9 )	\$17.2
Cash and cash equivalents at beginning of period	\$225.1	\$98.7
(Decrease) increase in cash and cash equivalents	(83.9 )	17.2
Effect of exchange rate changes on cash and cash equivalents	(7.1 )	3.2
Cash and cash equivalents at end of period	\$134.1	\$119.1

## Operating activities

Net cash provided by operating activities was \$452.6 million compared to \$409.8 million in the prior year comparable period.

Net loss was \$519.6 million compared to net income of \$171.9 million, a decrease of \$691.5 million.

Non-cash goodwill and intangible impairment charges of \$448.7 million were recorded related to an interim impairment assessment performed during the first quarter of Fiscal 2019.

Non-cash restructuring charges of \$77.4 million related to the Plan primarily related to inventory charges and impairment of information technology assets.

Depreciation and amortization decreased \$4.7 million to \$93.7 million from \$98.4 million in the prior year comparable period.

Cash provided by accounts receivable totaled \$504.1 million, including \$445.5 million from the sale of eligible non-prime in-house finance receivables, \$40.4 million generated by receivables held for investment including in-house finance receivables prior to reclassification to held for sale, and \$18.2 million related to the in-house finance receivable portfolio subsequent to the reclassification to held for sale. This compares to \$159.1 million of cash provided by a decrease in accounts receivable in the prior year comparable period. The changes in accounts receivable are primarily driven by the North America in-house credit program.

During the 26 weeks ended August 4, 2018, the payment plans participation rate was 51.4% compared to 54.2% in the prior year comparable period. These rates reflect activity for in-house and outsourced credit program customers in North America, including legacy Sterling Jewelers, Zale Jewelry and Piercing Pagoda customers, as well as lease purchase customers. The decline in participation rate was driven primarily by a continued trend of lower credit applications. The Company completed its transition to an outsourced credit structure during the second quarter of Fiscal 2019. See Note 4 of Item 1 for additional information.

	26 weeks ended	
	August 4, 2018	July 29, 2017
Total North America sales (excluding James Allen) <sup>(1)</sup> (millions)	\$2,526.8	\$2,536.6
Credit and lease purchase sales (millions)	\$1,299.4	\$1,374.2
Credit and lease purchase sales as % of total North America sales <sup>(1)</sup>	51.4 %	54.2 %

Excludes James Allen sales totaling \$107.7 million during the 26 weeks ended August 4, 2018 as in-house credit

<sup>(1)</sup> was not available to James Allen customers during the period. Additionally, see Note 5 of Item 1 for additional information regarding the acquisition of R2Net in September 2017.



Table of Contents

Cash used for inventory and inventory-related items was \$170.9 million compared to cash provided of \$180.0 million in the prior year comparable period. Total inventory as of August 4, 2018 was \$2,363.8 million compared to the prior year comparable quarter balance of \$2,282.1 million. Cash used for inventory increased by \$350.9 million from prior year primarily due to investments in new merchandise related to bridal initiatives across banners.

Cash provided by accounts payable was \$3.6 million compared to cash used of \$104.4 million in the prior year comparable period primarily driven by timing of payments made in connection with inventory purchases.

Cash used for accrued expenses and other liabilities was \$2.0 million compared to cash used of \$6.4 million in the prior year comparable period primarily driven by the timing of payments associated with payroll-related items including incentive compensation and advertising.

Cash used for income taxes was \$134.9 million compared to cash used of \$67.4 million in the prior year comparable period primarily attributable to lower pre-tax earnings in the current year as well as the favorable impact of the Tax Cuts and Jobs Act in the United States.

**Investing activities**

Net cash used in investing activities in the 26 weeks ended August 4, 2018 was \$42.7 million compared to \$106.4 million in the prior year comparable period. Cash used in each period was primarily for capital additions associated with new store and remodels of existing stores, as well as capital investments in IT.

Stores opened and closed in the 26 weeks ended August 4, 2018:

Store count by banner	February 3, 2018	Openings	Closures	August 4, 2018
Kay	1,247	20	(22 )	1,245
Zales	704	1	(16 )	689
Peoples	129	1	(5 )	125
Jared	274	—	(3 )	271
Piercing Pagoda	598	—	(14 )	584
Regional banners	100	—	(18 )	82
North America segment <sup>(1)</sup>	3,052	22	(78 )	2,996
H.Samuel	301	—	(5 )	296
Ernest Jones	203	1	(3 )	201
International segment <sup>(1)</sup>	504	1	(8 )	497
Signet	3,556	23	(86 )	3,493

(1) The annual net change in selling square footage for Fiscal 2018 for the North America and International segments were (1.9%) and (0.4%), respectively.

**Planned store count changes for Fiscal 2019:**

During Fiscal 2019, Signet expects net store closures of approximately 200 stores, as part of the three-year Signet Path to Brilliance transformation plan. Store closures are primarily focused on reducing the Company's mall-based exposure and exiting regional brands.

**Financing activities**

Net cash used in financing activities in the 26 weeks ended August 4, 2018 was \$493.8 million, comprised primarily of \$485.0 million for the repurchase of common shares, \$56.2 million for dividend payments on common and preferred shares, and \$21.5 million for the repayments of bank overdrafts and the term loan. Offsetting the cash used for the share repurchases, dividend payments and debt repayment was \$71.0 million of net proceeds drawn on the revolving credit facility.

Net cash used in financing activities in the 26 weeks ended July 29, 2017 was \$286.2 million, comprised primarily of \$460.0 million for the repurchase of common shares and \$58.1 million for dividend payments on common and preferred shares. Offsetting the cash used for share repurchases and dividend payments was \$247.0 million of net proceeds drawn on the revolving credit facility primarily to fund share repurchases during the second quarter.

Table of Contents

Details of the major items within financing activities are discussed below:

## Share repurchases

The Company's share repurchase activity was as follows:

Year to date  (in millions, except per share amounts)	Fiscal 2019			Fiscal 2018		
	Amount authorized	Shares repurchased	Average repurchase price per share	Amount repurchased	Shares repurchased	Average repurchase price per share
2017 Program <sup>(1)</sup>	\$ 600.0	7.5	\$ 434.4	\$ 57.64	n/a	n/a
2016 Program <sup>(2)</sup>	\$ 1,375.0	1.3	\$ 50.6	\$ 39.76	8.1	\$ 460.0
Total		8.8	\$ 485.0	\$ 55.06	8.1	\$ 460.0

<sup>(1)</sup> The 2017 Program had \$165.6 million remaining as of August 4, 2018.

<sup>(2)</sup> The 2016 Program was completed in March 2018.

n/a Not applicable as the 2017 Program was authorized by the Board of Directors in June 2017.

## Dividends on common shares

Dividends declared on common shares during the 26 weeks ended August 4, 2018 and July 29, 2017 were as follows:

(in millions, except per share amounts)	Fiscal 2019		Fiscal 2018	
	Cash dividend per share	Total dividends	Cash dividend per share	Total dividends
First quarter	\$0.37	\$ 21.8	\$0.31	\$ 21.3
Second quarter <sup>(1)</sup>	0.37	19.2	0.31	18.7
Total	\$0.74	\$ 41.0	\$0.62	\$ 40.0

Signet's dividend policy for common shares results in the dividend payment date being a quarter in arrears from the declaration date. As a result, as of August 4, 2018 and July 29, 2017, \$19.2 million and \$18.7 million, respectively,

<sup>(1)</sup> has been recorded in accrued expenses and other current liabilities in the condensed consolidated balance sheets reflecting the cash dividends declared on common shares for the second quarter of Fiscal 2019 and Fiscal 2018, respectively.

## Dividends on preferred shares

Dividends declared on preferred shares during the 26 weeks ended August 4, 2018 and July 29, 2017 were as follows:

(in millions)	Fiscal 2019	Fiscal 2018
	Total cash dividends	Total cash dividends
First quarter	\$ 7.8	\$ 7.8
Second quarter <sup>(1)</sup>	7.8	7.8
Total	\$ 15.6	\$ 15.6

Signet's preferred shares dividends results in the dividend payment date being a quarter in arrears from the declaration date. As a result, as of August 4, 2018 and July 29, 2017, \$7.8 million and \$7.8 million, respectively, <sup>(1)</sup> has been recorded in accrued expenses and other current liabilities in the condensed consolidated balance sheets reflecting the cash dividends on preferred shares declared for the second quarter of Fiscal 2019 and Fiscal 2018.

There were no cumulative undeclared dividends on the preferred shares that reduced net (loss) income attributable to common shareholders during the 26 weeks ended August 4, 2018 or the 26 weeks ended July 29, 2017. See Note 8 of Item 1 for additional information regarding the dividend rights of preferred shareholders.

## Movement in cash and indebtedness

Cash and cash equivalents at August 4, 2018 were \$134.1 million compared to \$119.1 million as of July 29, 2017.

Signet has significant amounts of cash and cash equivalents invested in various 'AAA' rated liquidity funds and at a number of financial institutions. The amount invested in each liquidity fund or at each financial institution takes into account the credit rating and size of the liquidity fund or financial institution and is invested for short-term durations.

At August 4, 2018, Signet had \$788.9 million of outstanding debt, comprised of \$399.0 million of senior unsecured notes, \$312.8 million on a term loan facility, \$71.0 million on a revolving credit facility and \$6.1 million of bank overdrafts. During the 26 weeks ended August 4, 2018, \$13.4 million in principal payments were made on the term loan.

Table of Contents

At July 29, 2017, Signet had \$1,652.6 million of outstanding debt, comprised of \$398.9 million of senior unsecured notes, \$600.0 million on an asset-backed securitization facility, \$339.6 million on a term loan facility, \$303.0 million on the revolving credit facility and \$11.1 million of bank overdrafts. During the 26 weeks ended July 29, 2017, \$9.0 million in principal payments were made on the term loan.

The Company had stand-by letters of credit outstanding of \$14.6 million and \$15.3 million as of August 4, 2018 and July 29, 2017, respectively, that reduce remaining availability under the revolving credit facility.

Net debt was \$648.4 million as of August 4, 2018 compared to \$1,525.6 million as of July 29, 2017; see non-GAAP measures discussed above.

**CONTRACTUAL OBLIGATIONS**

Signet's contractual obligations and commitments as of August 4, 2018 and the effects such obligations and commitments are expected to have on Signet's liquidity and cash flows in future periods have not changed materially outside the ordinary course from those disclosed in Signet's Annual Report on Form 10-K for the year ended February 3, 2018, filed with the SEC on April 2, 2018.

**SEASONALITY**

Signet's sales are seasonal, with 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 approximately 40% to 45% of the annual operating income in North America and nearly all of the annual operating income in the International segment. In Fiscal 2019, the Company expects to recognize an annual operating loss as a result of goodwill and intangible asset impairments recognized during the first quarter, as well as the impacts of the Company's strategic credit outsourcing and transformation initiatives.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its accounting policies, estimates and judgments, including those related to the valuation of accounts receivables, inventories, deferred revenue, derivatives, employee benefits, income taxes, contingencies, asset impairments, indefinite-lived intangible assets, depreciation and amortization of long-lived assets, as well as accounting for business combinations. Management bases the estimates and judgments on historical experience and various other factors believed to be reasonable under the circumstances. Actual results may differ from these estimates. There have been no material changes to the critical accounting policies and estimates disclosed in Signet's Annual Report on Form 10-K for the fiscal year ended February 3, 2018 filed with the SEC on April 2, 2018. As disclosed in Note 15 of Item 1, due to a sustained decline in the Company's market capitalization during the 13 weeks ended May 5, 2018, the Company determined a triggering event had occurred that required an interim impairment assessment for all of its reporting units and indefinite-lived intangible assets. As a result of the interim impairment assessment, the Company recognized pre-tax impairment charges totaling \$448.7 million in the 13 weeks ended May 5, 2018. Subsequent to the impairment, the estimated fair value of the reporting units and indefinite-lived trade names continues to exceed the carrying values. However, the Company will continue to monitor the market valuation of the Company's common shares, sales trends, interest rates, and other key inputs to the estimates of fair value. A further decline in the key inputs, especially sales trends used in the valuation of trade names, may result in an impairment charge.

Table of Contents

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Signet is exposed to market risk from fluctuations in foreign currency exchange rates, interest rates and precious metal prices, which could affect its consolidated financial position, earnings and cash flows. Signet manages its exposure to market risk through its regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. Signet uses derivative financial instruments as risk management tools and not for trading purposes.

As certain of the International segment's purchases are denominated in US dollars and its net cash flows are in British pounds, Signet's policy is to enter into forward foreign currency exchange contracts and foreign currency swaps to manage the exposure to the US dollar. Signet also hedges a significant portion of forecasted merchandise purchases using commodity forward contracts. Additionally, the North America segment occasionally enters into forward foreign currency exchange contracts to manage the currency fluctuations associated with purchases for our Canadian operations. These contracts are entered into with large, reputable financial institutions, thereby minimizing the credit exposure from our counter-parties.

Signet has significant amounts of cash and cash equivalents invested at several financial institutions. The amount invested at each financial institution takes into account the long-term credit rating and size of the financial institution. The interest rates earned on cash and cash equivalents will fluctuate in line with short-term interest rates.

Signet's market risk profile as of August 4, 2018 has not materially changed since February 3, 2018. The market risk profile as of February 3, 2018 is disclosed in Signet's Annual Report on Form 10-K, filed with the SEC on April 2, 2018.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended. Based on this review, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of August 4, 2018.

**Changes in internal control over financial reporting**

During the second quarter of Fiscal 2019, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



Table of Contents

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

Information regarding legal proceedings is incorporated by reference from Note 21 of the Financial Statements set forth in Part I of this Quarterly Report on Form 10-Q.

## ITEM 1A. RISK FACTORS

There have been no material changes to the remaining risk factors from those disclosed in Part I, Item 1A, of Signet's Fiscal 2018 Annual Report on Form 10-K, filed with the SEC on April 2, 2018.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Repurchases of equity securities

The following table contains the Company's repurchases of equity securities in the second quarter of Fiscal 2019:

Period	Total number of shares purchased <sup>(1)</sup>	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs <sup>(2)</sup>	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
May 6, 2018 to June 2, 2018	549	\$ 38.36	—	\$590,586,635
June 3, 2018 to June 30, 2018	3,573,414	\$ 57.55	3,573,414	\$384,921,508
July 1, 2018 to August 4, 2018	3,727,000	\$ 58.94	3,721,425	\$165,586,651
Total	7,300,963	\$ 58.26	7,294,839	\$165,586,651

Includes 6,124 shares delivered to Signet by employees to satisfy minimum tax withholding obligations due upon <sup>(1)</sup> the vesting or payment of stock awards under share-based compensation programs. These are not repurchased in connection with any publicly announced share repurchase programs.

<sup>(2)</sup> In June 2017, the Board of Directors authorized the repurchase of up to \$600.0 million of Signet's common shares (the "2017 Program"). The 2017 Program may be suspended or discontinued at any time without notice.

Table of Contents

ITEM 6. EXHIBITS

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

Number	Description of Exhibits <sup>(1)</sup>
10.1	<u>Signet Jewelers Limited 2018 Omnibus Incentive Plan (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed on June 15, 2018).</u>
10.2*	<u>Form of Signet Jewelers Limited 2018 Omnibus Incentive Plan Time-Based Restricted Stock Unit Award Notice and Agreement.</u>
10.3*	<u>Form of Signet Jewelers Limited 2018 Omnibus Incentive Plan Time-Based Restricted Stock Award Notice and Agreement.</u>
10.4*	<u>Form of Signet Jewelers Limited 2018 Omnibus Incentive Plan Performance Based Restricted Stock Unit Award Notice and Agreement.</u>
10.5	<u>Signet Jewelers Limited Sharesave Scheme (incorporated by reference to Exhibit 99.2 to the Company's Registration Statement on Form S-8 filed on June 15, 2018).</u>
10.6	<u>Irish Sub-Plan established pursuant to the Signet Jewelers Limited Sharesave Scheme (incorporated by reference to Exhibit 99.3 to the Company's Registration Statement on Form S-8 filed on June 15, 2018).</u>
10.7	<u>Signet Jewelers Limited Employee Share Purchase Plan for U.S. Employees (incorporated by reference to Exhibit 99.4 to the Company's Registration Statement on Form S-8 filed on June 15, 2018).</u>
10.8	<u>Separation and Release Agreement, dated August 28, 2018 between Sterling Jewelers Inc. and Michele Santana (incorporated by reference to Exhibit 10.1 to the Company's Current Form on Form 8-K filed August 30, 2018).</u>
31.1*	<u>Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1*	<u>Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2*	<u>Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document.

Signet hereby agrees to furnish to the U.S. Securities and Exchange Commission, upon request, a copy of each instrument that defines the rights of holders of long-term debt under which the total amount of securities authorized<sup>(1)</sup> does not exceed 10% of the total assets of Signet and its subsidiaries on a consolidated basis that is not filed or incorporated by reference as an exhibit to our annual and quarterly reports.

\* Filed herewith.

61

---

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Signet Jewelers Limited

Date: September 6, 2018 By: /s/ Michele L. Santana  
Name: Michele L. Santana  
Title: Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)