

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 )
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	
		Amount repurchased	Share repurchased	Amount repurchased	Share repurchased
2017 Program <sup>(1)</sup>	\$ 600.0	7.5	\$ 434.4	n/a	n/a
2016 Program <sup>(2)</sup>	\$ 1,375.0	1.3	\$ 50.6	8.1	\$ 460.0
<b>Total</b>		<b>8.8</b>	<b>\$ 485.0</b>	<b>8.1</b>	<b>\$ 460.0</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:

	26 weeks ended	
(in millions)	August 4,	July 29,
	2018	2017
Beginning balance \$		