SIGNET JEWELERS LTD
Form 10-K
April 02, 2018
Table of Contents

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

FORM 10-K

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended February 3, 2018
Commission file number 1-32349

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

Bermuda	Not Applicable
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

Clarendon House
2 Church Street
Hamilton HM11
Bermuda
(441) 296 5872
(Address and telephone number including area code of principal executive offices)
Securities registered pursuant to Section 12(b) of the Act:

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x
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 x No ¨
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate web site, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b of the Exchange Act..

Large accelerated filer x Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

Emerging growth company ¨

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

The aggregate market value of voting common shares held by non-affiliates of the Registrant (based upon the closing sales price quoted on the New York Stock Exchange) as of July 29, 2017 was $2,543,283,372.

Number of common shares outstanding on March 28, 2018: 59,005,252

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant will incorporate by reference information required in response to Part III, Items 10-14, from its definitive proxy statement for its annual meeting of shareholders, to be held on June 15, 2018.

Table of Contents

SIGNET JEWELERS LIMITED
FISCAL 2018 ANNUAL REPORT ON FORM 10-K
TABLE OF CONTENTS

REFERENCES

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

PRESENTATION OF FINANCIAL INFORMATION

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

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

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

Fiscal year and fourth quarter

Signet’s fiscal year ends on the Saturday nearest to January 31. As used herein, “Fiscal 2018,” “Fiscal 2017,” “Fiscal 2016,” “Fiscal 2015,” “Fiscal 2014,” and “Fiscal 2013” refer to the 53 week period ending February 3, 2018, the 52 week periods ending January 28, 2017, January 30, 2016, January 31, 2015 and February 1, 2014, and the 53 week period ending February 2, 2013, respectively. Fourth quarter references the 14 weeks ended February 3, 2018 (“fourth quarter”) and the 13 weeks ended January 28, 2017 (“prior year fourth quarter”).

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements which are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, based upon management’s beliefs and expectations as well as on assumptions made by and data currently available to management, appear in a number of places throughout this Annual Report on Form 10-K and include statements regarding, among other things, Signet’s results of operation, financial condition, liquidity, prospects, growth, strategies and the industry in which Signet operates. The use of the words “expects,” “intends,” “anticipates,” “estimates,” “predicts,” “believes,” “should,” “potential,” “r “forecast,” “objective,” “plan,” or “target,” and other similar expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to a number of risks and uncertainties, including but not limited to 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 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 IT disruptions, future financial results and operating results, the timing and expected completion of the second phase of the credit outsourcing, the impact of weather-related incidents on Signet’s business, the benefits and integration of R2Net, general economic conditions, regulatory changes following the United Kingdom’s announcement to exit from the European Union, a decline in consumer spending, the merchandising, pricing and inventory policies followed by Signet, the reputation of Signet and its brands, the level of competition in the jewelry sector, the cost and availability of diamonds, gold and other precious metals, regulations relating to customer credit, seasonality of Signet’s business, financial market risks, deterioration in customers’ financial condition, exchange rate fluctuations, changes in Signet’s credit rating, changes in consumer attitudes regarding jewelry, management of social, ethical and environmental risks, the development and maintenance of Signet’s omni-channel retailing, security breaches and other disruptions to Signet’s information technology infrastructure and databases, inadequacy in and disruptions to internal controls and systems, changes in assumptions used in making accounting estimates relating to items such as extended service plans and pensions, risks 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, and our ability to successfully integrate Zale Corporation’s operations and to realize synergies from the transaction.

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

Table of Contents

PART I

ITEM 1. BUSINESS

OVERVIEW

Signet Jewelers Limited ("Signet" or the "Company") is the world's largest retailer of diamond jewelry. Signet is incorporated in Bermuda and its address and telephone number are shown on the cover of this document. The Company, with 3,556 stores and kiosks at February 3, 2018, manages its business by store brand grouping, a description of which follows:

- The Sterling Jewelers division is one reportable segment with 1,586 stores located in all 50 US states at February 3, 2018. Its stores operate nationally in malls and off-mall locations principally as Kay (Kay Jewelers and Kay Jewelers Outlet) and Jared (Jared The Galleria Of Jewelry and Jared Vault). The division also operates a variety of mall-based regional brands and the JamesAllen.com website, which was acquired in the September 2017 acquisition of R2Net. See Note 4 of Item 8 for additional information regarding the acquisition.
- The Zale division consists of two reportable segments:
  - Zale Jewelry, which operated 868 jewelry stores at February 3, 2018, is located primarily in shopping malls in North America. Zale Jewelry includes the US store brand Zales (Zales Jewelers and Zales Outlet), which operates in all 50 US states, and the Canadian store brand Peoples Jewellers, which operates in nine provinces. Zale Jewelry also operates regional brands in both the US and Canada.
  - Piercing Pagoda, which operated 598 mall-based kiosks at February 3, 2018, is located in US shopping malls.
- The UK Jewelry division is one reportable segment with 504 stores located in the United Kingdom, Republic of Ireland and Channel Islands at February 3, 2018. Its stores operate in shopping malls and off-mall locations (i.e. high street) principally as H.Samuel and Ernest Jones.

Certain company activities (e.g. diamond sourcing) are managed as a separate operating segment and are aggregated with unallocated corporate administrative functions in the segment "Other" for financial reporting purposes. Signet's diamond sourcing function includes our diamond polishing factory in Botswana. 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 will report three reportable segments as follows: North America, International, and Other. See Note 5 of Item 8 for additional information regarding the Company's reportable segments.

MISSION & STRATEGY

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

- Grow jewelry market share
- Best in bridal
- Win in fashion and gifting
- Digital first and data driven
- People, purpose and passion

Signet continues to be the market share leader in North America in a large, growing and fragmented category, with the opportunity for additional share gains as we leverage our scale in innovation, marketing and procurement. However, before fully achieving this opportunity, Signet has recognized the need to transform its business to invest in growth initiatives while repositioning our real estate portfolio and lowering our cost structure. As a result, Signet is launching a three-year comprehensive transformation plan "Signet's Path to Brilliance" to reposition the company to be a share gaining, omni-channel jewelry category leader. The three-year plan includes cost efficiencies, a portion of which will be reinvested in growth initiatives including e-commerce and omni-channel capabilities and product and store experience innovation. We believe this plan will enable the Company to deliver long-term sustainable, profitable sales growth and create value for shareholders.

Key components of the transformation plan include:

- Optimizing real estate footprint. Following an evaluation of its real estate footprint, utilization, and cost structure, Signet intends to reposition its portfolio to drive greater store productivity. Efforts include development and implementation of innovative store concepts to improve the in-store shopping experience, execution of opportunistic store relocations and store closures aimed at reducing the Company's mall-based exposure and exiting regional brands. Signet anticipates, pending the outcome of this evaluation, to close over 200 stores by the end of Fiscal 2019. As approximately three quarters of stores expected to close are within the same mall as another Signet banner, the company expects a certain amount of revenue from closed stores to transfer to remaining Signet stores.

Table of Contents

- Reducing non-customer facing costs. In line with Signet’s goal of creating a Culture of Agility and Efficiency, the Company is implementing initiatives across its operations, including strategic sourcing, distribution and warehousing, and corporate and support functions to drive cost savings and operational efficiencies. These include initiatives to reduce costs related to logistics, information technology, third party contracts and corporate expenses.
- Enhancing Signet's e-commerce and omni-channel capabilities. Signet intends to invest in enhancing the customer experience across platforms and becoming the leading jewelry retailer across channels. New initiatives to drive increased digital traffic and improve conversion include using R2Net product image visualization across banners, greater personalization of content and product offering from enhanced behavioral data management, and enhancing digital marketing return on investment through greater visibility of customer's multi-touch journey. The company will also further expand and enhance omni-channel wish list, bridal configurator, online appointment booking and enabling ability to view local store inventory online. With these investments, Signet aims to grow digital sales as a percentage of total revenues to 15% in Fiscal 2021, compared to 8% in Fiscal 2018.
- Leading innovation and customer value. Signet has launched an innovation engine whose goal is to develop new solutions to consumer jewelry needs and become the disruptor of innovation in our category. In addition, investments in data analytics and consumer insights including a system to track customer net promoter score should allow us to better service our customers. The Company is also addressing gaps in the customer value proposition. These investments are expected to result in improved product assortment and faster time to market as well as greater marketing and promotional effectiveness. We are in the process of completing our brand positioning work and will clearly differentiate our banners with Kay standing for celebrating the treasured relationship, Zales highly fashion oriented emphasizing style and self-expression and Jared celebrating one of a kind love and uniqueness. Clear differentiation of the banners enables more effective merchandising and marketing through segmentation of customers.
- Strengthening employee engagement and building capabilities. Our team and organization will be key to accomplishing the company's transformation goals. Signet has hired and promoted several executives to fill key leadership roles, is investing in building e-commerce, analytics and innovation resources and is focusing on reigniting employee engagement in our store operations and throughout the entire organization through cultural initiative training and development opportunities.

Competition and Signet Competitive Strengths

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

Signet’s competitive strengths include: strong store banner recognition, outstanding customer experience, branded differentiated and exclusive merchandise, sector-leading advertising, diversified real estate portfolio, supply chain leadership, full spectrum of financing and lease purchase options, and financial strength and flexibility. Signet increases the attraction of its store banners to customers through the use of branded differentiated and exclusive merchandise, while offering a compelling value proposition in more basic ranges. Signet accomplishes this by utilizing its supply chain and merchandising expertise, scale and balance sheet strength. The Company intends to further develop and refine its national television advertising, digital media and customer relationship marketing, which it believes are the most effective and cost efficient forms of marketing available to grow its market share.

Management follows the operating principles of excellence in execution, testing before investing, continuous improvement and disciplined investment in all aspects of the business.

Capital Strategy

The Company expects to maintain a strong balance sheet that provides the flexibility to execute its strategic priorities, invest in its business, and then return excess cash to shareholders while ensuring adequate liquidity. Over time, Signet is committed to achieving an investment grade profile. Among the key tenets of Signet’s capital strategy are the following:

- Maintain our expected long-term adjusted debt[1]/ adjusted EBITDAR[1] ("adjusted leverage ratio") of 3.0x to 3.5x. To the extent results or other conditions result in a ratio higher than target, we will develop plans to return to less than 3.5x within a reasonable time-frame. For Fiscal 2019, the Company expects to exceed the high end of its target leverage range as it begins its transformation plan but expects to be back within the target by the end of the three-year transformation plan.
- Distribute 70% of annual free cash flow[1] in the form of share repurchases and/or dividends assuming no other strategic uses of capital.
- Consistently increase the dividend annually assuming no other strategic uses of capital.

The Company has a remaining share repurchase authorization as of the end of Fiscal 2018 of $650.6 million.

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

Table of Contents

BACKGROUND

Operating segments

The business is currently managed as five reportable segments: the Sterling Jewelers division (61.1% of sales and 99.3% of operating income), the Zale division, which is comprised of the Zale Jewelry segment (24.2% of sales and 11.5% of operating income) and the Piercing Pagoda segment (4.5% of sales and 2.3% of operating income) and the UK Jewelry division (9.9% of sales and 5.7% of operating income). All divisions are managed by an executive committee, which is chaired by Signet's Chief Executive Officer, who reports to the Board of Directors of Signet (the "Board"). The executive committee is responsible for operating decisions within parameters established by the Board. Additionally, as a result of the acquisition of a diamond polishing factory in Gaborone, Botswana in Fiscal 2014, management established a separate reportable segment ("Other"). Other consists of all non-reportable segments, including subsidiaries involved in the purchasing and conversion of rough diamonds to polished stones and unallocated corporate administrative functions. See Note 5 of Item 8 for additional information regarding the Company's segments as well as disclosure detailing and reconciling the components of operating income.

Trademarks and trade names

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

- Kay Jewelers®; Kay Jewelers Outlet®; Jared The Galleria Of Jewelry®; Jared Vault®; Jared Jewelry Boutique®; JB Robinson® Jewelers; Marks & Morgan Jewelers®; Every kiss begins with Kay®; He went to Jared®; Celebrate Life. Express Love.®; the Leo® Diamond; Hearts Desire®; Artistry Diamonds®; Charmed Memories®; Diamonds in Rhythm®; Fourone™; Open Hearts by Jane Seymour®; Radiant Reflections®; Colors in Rhythm®; Chosen by Jared™; Now and Forever®; Ever Us™; and James Allen®.
- Zales®; Zales Jewelers™; Zales the Diamond Store®; Zales Outlet®; Gordon's Jewelers®; Peoples Jewellers®; Peoples the Diamond Store®; Peoples Outlet the Diamond Store®; Mappins®; Piercing Pagoda®; Arctic Brilliance Canadian Diamonds®; Brilliant Buy®; Brilliant Value®; Celebration Diamond®; Expressionist™; From This Moment®; Let Love Shine®; The Celebration Diamond Collection®; Unstoppable Love®; and Endless Brilliance®.
- H.Samuel®; Ernest Jones®; Ernest Jones Outlet Collection™; Leslie Davis®; Commitment®; Forever Diamonds®; Kiss Collection®; Princessa Collection®; Radiance®; Secrets of the Sea®; Shades of Gold®; and Viva Colour®.

Store locations

Signet operates retail jewelry stores in a variety of real estate formats including mall-based, free-standing, strip center and outlet store locations. As of February 3, 2018, Signet operated 2,958 stores and 598 kiosks across 5.0 million square feet of retail space in the US, UK and Canada. This represented a decrease of 3.4% and a decrease of 1.7% in locations and retail space, respectively, from Fiscal 2017. Store locations by country and territory as of February 3, 2018 are disclosed in Item 2.

Customer experience

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

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

Omni-Channel capabilities are critical to achieving a seamless customer experience and are described further below.

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

Omni-Channel

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

Table of Contents

Through Signet's websites, we educate customers and provide them with a source of information on products and brands, available merchandise, as well as the ability to buy online. Our websites are integrated with each division's stores, so that merchandise ordered online may be picked up at a store or delivered to the customer. Banner websites continue to make an important and growing contribution to the customer experience, as well as to each division's marketing programs. For Fiscal 2019, the Company is focused on:

- Investments in technology, including e-commerce platforms, focused on improving the online journey. Customer journey enhancements include user generated content, enhanced personalization / behavioral targeting, creative execution and brand differentiation. In addition, we are focused on omni-channel wishlist, online merchandising, in-store appointment booking, bridal configuration and much more.
- Optimization of marketing through prioritizing dollars to digital spend and targeted marketing through traditional media.
- Increased use of data analytics, clienteling and other key touch points to achieve a more comprehensive view of the customer and allow us to anticipate their needs.

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

During Fiscal 2018, we completed the strategic acquisition of R2Net. The transaction enables rapid enhancement to our digital technology capabilities. Capabilities deployed, or yet to be deployed, include high-quality diamond imagery and content technology, roll-out retina display screens in select Jared stores, diamond consult technology on our Jared Design-a-Ring platform available online 24 hours/7-days-a-week to offer real-time diamond consultation to customers, which gives us the ability to provide expert guidance on a range of topics from product specifications to grading certifications. R2Net's Ring Try-on App is being implemented within our Kay customer experience, giving the ability to virtually try on and experience the rings on mobile devices.

Raw materials

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

Signet undertakes hedging for a portion of its requirement for gold through the use of net zero-cost collar arrangements, forward contracts and commodity purchasing. It is not possible to hedge against fluctuations in the cost of diamonds. The cost of raw materials is only part of the costs involved in determining the retail selling price of jewelry, with labor costs also being a significant factor.

Diamond sourcing

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

Finished jewelry

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

Loose diamonds

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

Rough diamonds

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

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

Table of Contents

Merchandising and purchasing
Management believes that a competitive strength is our industry-leading merchandising. Merchandise selection, innovation, availability and value are all critical success factors. The range of merchandise offered and the high level of inventory availability are supported centrally by extensive and continuous research and testing. Signet's jewelry design center in New York evaluates global design trends, innovates, and helps our merchant teams develop new jewelry collections that resonate with customers.
Best-selling products are identified and replenished rapidly through analysis of sales by stock keeping unit. This approach enables Signet to deliver a focused assortment of merchandise to maximize sales and inventory turn, and minimize the need for discounting. Signet believes it is able to offer greater value and consistency of merchandise than its competitors due to its supply chain strengths. The scale and information systems available to us and the evolution of jewelry fashion trends allow for the careful testing of new merchandise in a range of representative stores. This enables us to make informed decisions about which merchandise to select, thereby increasing our ability to satisfy customers' requirements while reducing the likelihood of having to discount merchandise.
Merchandise mix
Details of merchandise mix (excluding repairs, warranty and other miscellaneous sales) are shown below:

	Sterling Jewelers division	Zale division	UK Jewelry division	Total Signet
Fiscal 2018				
Bridal	50 %	44 %	36 %	46 %
Fashion	40 %	52 %	28 %	43 %
Watches	6 %	3 %	34 %	8 %
Other	4 %	1 %	2 %	3 %
	100 %	100 %	100 %	100 %
Fiscal 2017				
Bridal	50 %	45 %	38 %	47 %
Fashion	39 %	51 %	27 %	41 %
Watches	6 %	3 %	32 %	8 %
Other	5 %	1 %	3 %	4 %
	100 %	100 %	100 %	100 %

The bridal category, which includes engagement, wedding and anniversary purchases, is predominantly diamond jewelry. Like fashion jewelry and watches, bridal is to an extent dependent on the economic environment as customers can trade up or down price points depending on their available budget. Bridal represented approximately 50% of Signet's total merchandise sales.
Gift giving is particularly important during the Holiday Season, Valentine's Day and Mother's Day. In Fiscal 2018, Signet had several successful fashion jewelry collections including Disney Enchanted and Vera Wang Love® (not all collections are sold in every store banner).
Merchandise is categorized as non-branded, third party branded, and branded differentiated and exclusive.
Non-branded merchandise includes items and styles such as bracelets, gold necklaces, solitaire diamond rings, and diamond stud earrings. Third party branded merchandise includes mostly watches, but also includes ranges of charm bracelets. Branded differentiated and exclusive merchandise are items that are branded and exclusive to Signet within its marketplaces, or that are not widely available in other jewelry retailers (e.g Ever Us, Vera Wang Love, Neil Lane).
Branded differentiated and exclusive ranges
Management believes that the development of branded differentiated and exclusive merchandise raises the profile of Signet's banners, helps to drive sales and provides its well-trained sales associates with a powerful selling proposition. National television advertisements include elements that drive brand awareness and purchase intent of these ranges. Signet's scale and proven record of success in developing branded differentiated and exclusive merchandise attracts offers of such programs from jewelry manufacturers, designers and others ahead of competing retailers, and enables it to leverage its supply chain strengths.

Merchandise held on consignment

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

Table of Contents

Suppliers

In Fiscal 2018, the five largest suppliers collectively accounted for 20.3% of total purchases, with the largest supplier comprising 5.6%. Signet transacts business with suppliers on a worldwide basis at various stages of the supply chain with third party diamond cutting and jewelry manufacturing being predominantly carried out in Asia.

Marketing and advertising

Customers' confidence in our retail brands, store banner name recognition and advertising of branded differentiated and exclusive ranges are important factors in determining buying decisions in the jewelry industry where the majority of merchandise is unbranded. Therefore, Signet continues to strengthen and promote its store banners and merchandise brands by focusing on delivering superior customer service and building brand name recognition. The Company's omni-channel approach leverages marketing investments in television, digital media (desktop, mobile and social), radio, print, catalog, direct mail, point of sale signage and in-store displays.

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

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

	Fiscal 2018		Fiscal 2017		Fiscal 2016	
	Gross advertising spending (in millions)	as a % of divisional sales	Gross advertising spending (in millions)	as a % of divisional sales	Gross advertising spending (in millions)	as a % of divisional sales
Sterling Jewelers division	$251.4	6.6 %	$258.6	6.6 %	$261.2	6.5 %
Zale division	89.0	5.0 %	100.2	5.5 %	98.7	5.4 %
UK Jewelry division	20.1	3.3 %	21.8	3.4 %	24.3	3.3 %
Signet	$360.5	5.8 %	$380.6	5.9 %	$384.2	5.9 %

Customer finance

In our North American markets, Signet sells products for cash and for payment through major credit cards, online payment systems and lease purchase options. In addition, the Company has partnerships with third-party providers who directly extend credit to its customers, and who manage the Company's in-house private label credit card program for owned receivables.

Signet, through its subsidiary Sterling Jewelers Inc., completed the sale of the prime-only credit quality portion of Sterling's in-house finance receivable portfolio to Alliance Data Systems Corporation ("Alliance data") in October 2017. Under the Program Agreement, Comenity Bank provides credit and services to prime-only credit quality customers. Additionally, Signet and Genesis Financial Solutions ("Genesis") entered into a servicing agreement in October 2017, under which Genesis provides credit servicing functions for Signet's non-prime accounts receivable.

During March 2018, Signet announced an agreement to sell its non-prime in-house credit card receivables primarily related to the Company's Kay, Jared and Sterling regional brands' customers. This agreement, in conjunction with the previously executed prime credit transaction and the outsourcing of the servicing of the non-prime credit program to Genesis will complete Signet's transition to an outsourced credit structure. Under the agreement with CarVal Investors, Signet will sell its non-prime receivables originated by Signet to investment funds managed by CarVal Investors, which will allow Signet to divest itself of the credit risk relating to those receivables within two business days following origination, while maintaining a full spectrum of financing and leasing options for customers. The completion of the second phase of outsourcing of Signet's credit portfolio is expected to significantly reduce consumer credit risk from the balance sheet, reduce working capital needs and allow the Company to continue to return significant capital to shareholders. Signet intends to use the proceeds from the sale of its non-prime receivables to repurchase shares in Fiscal 2019, subject to market conditions. In addition, for a five-year term, Signet will remain the issuer of non-prime credit with investment funds managed by CarVal Investors purchasing forward receivables at a discount rate determined in accordance with the agreement. Servicing of the non-prime receivables, including operational interfaces and customer servicing, will continue to be provided by Genesis.

For a period of time following the signing of this agreement and prior to the expected initial closing date on June 29, 2018, Signet has an option to appoint a minority party to purchase up to 30% of the non-prime receivables to be sold to CarVal Investors. Any agreement with the minority party would be on substantially the same terms.

Table of Contents

The transaction is expected to close in the second quarter of Signet's Fiscal 2019 subject to certain closing conditions. Signet expects to reclassify the non-prime receivables to assets held for sale in the second month of the first quarter of Fiscal 2019. Subsequent to this classification, Signet will no longer recognize bad debt expense, late charge income or interest income from the non-prime receivables. There are no customer or store facing systems integration activities required of Signet to close the transaction and the Company does not expect any changes to the current credit application process.

Real estate

Management has specific operating and financial criteria that have to be satisfied before investing in new stores or renewing leases on existing stores. Substantially all the stores operated by Signet are leased. Signet intends to reposition its portfolio to drive greater store productivity. Efforts include development and implementation of innovative store concepts to improve the in-store shopping experience, execution of opportunistic store relocations and store closures aimed at reducing the Company's mall-based exposure and exiting regional brands. Signet anticipates, pending the outcome of this evaluation, to close over 200 stores by the end of Fiscal 2019. Fiscal 2019 closures, net of new store openings, are expected to reduce gross selling square footage by approximately 4% to 5% versus year end Fiscal 2018.

Recent investment in the store portfolio is set out below:

(in millions)	Sterling Jewelers division	Zale division	UK Jewelry division	Total Signet
Fiscal 2018				
New store capital investment	$ 39.3	$ 7.8	$ 1.4	$48.5
Remodels and other store capital investment	31.4	32.4	10.7	74.5
Total store capital investment	$ 70.7	$ 40.2	$ 12.1	$123.0
Fiscal 2017				
New store capital investment	$ 42.9	$ 22.2	$ 2.5	$67.6
Remodels and other store capital investment	47.9	35.1	15.3	98.3
Total store capital investment	$ 90.8	$ 57.3	$ 17.8	$165.9
Fiscal 2016				
New store capital investment	$ 48.3	$ 12.1	$ 3.3	$63.7
Remodels and other store capital investment	50.6	25.0	16.3	$91.9
Total store capital investment	$ 98.9	$ 37.1	$ 19.6	$155.6

Seasonality

Signet's sales are seasonal, with the first quarter slightly exceeding 20% of annual sales, the second and third quarters each approximating 20% and the fourth quarter accounting for almost 40% of annual sales, with December being by far the most important month of the year. The "Holiday Season" consists of results for the months of November and December. As a result, approximately 45% to 55% of Signet's annual operating income normally occurs in the fourth quarter, comprised of nearly all of the UK Jewelry and Zale divisions' annual operating income and about 40% to 45% of the Sterling Jewelers division's annual operating income. However, due to the impacts of our strategic credit outsourcing and transformation initiatives in Fiscal 2019, we anticipate our operating profit will be generated entirely in the fourth quarter.

Table of Contents

Employees

In Fiscal 2018, the average number of full-time equivalent persons employed was 24,888. In addition, Signet usually employs a limited number of temporary employees during its fourth quarter. None of Signet's employees in the UK and less than 1% of Signet's employees in the US and Canada are covered by collective bargaining agreements.

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Average number of employees:(1)			
Sterling Jewelers	13,901	16,342	16,140
Zale(2)	7,539	9,602	9,309
UK Jewelry	3,265	3,398	3,370
Other(3)	183	224	238
Total	24,888	29,566	29,057

(1) Full-time equivalents ("FTEs").

(2) Includes 821 FTEs, 1,051 FTEs and 1,201 FTEs employed in Canada in Fiscal 2018, Fiscal 2017 and Fiscal 2016, respectively.

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

Regulation

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

Markets

Signet operates in the US, Canada and UK markets.

US

According to the US Bureau of Economic Analysis, the total jewelry and watch market was approximately $91 billion at the end of 2017, up nearly 7% from the prior year. This implies a Signet jewelry market share of approximately 7%. Since 2000, the industry average annual growth rate is 3.7%. Nearly 90% of the market is represented by jewelry, with the balance being attributable to watches. According to the latest data from the US Labor Department, there were close to 20,600 jewelry stores in the country, down approximately 0.5% from the prior year.

Canada

The jewelry market in Canada, according to Euromonitor, has grown steadily over the past five years, rising to an estimated C$8.0 billion in 2016, the latest data available to Signet. This represents a compound annual growth rate of 4.3%. Euromonitor estimates that 2016 was up 5% in dollars and approximately 3% in units.

UK

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

STERLING JEWELERS DIVISION

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

Table of Contents

Sterling Jewelers store brand reviews

Store activity by brand

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Kay	84	68	42
Jared	3	8	18
Regional brands	—	—	—
Total stores opened or acquired during the year	87	76	60
Kay	(29)	(5)	(7)
Jared	(4)	(3)	(1)
Regional brands	(56)	(20)	(16)
Total stores closed during the year	(89)	(28)	(24)
Kay	1,247	1,192	1,129
Jared	274	275	270
Regional brands	65	121	141
Total stores open at the end of the year	1,586	1,588	1,540
Kay	$1.908	$2.124	$2.178
Jared[1]	$4.110	$4.379	$4.650
Regional brands	$1.170	$1.242	$1.333
Average sales per store (millions)[2]	$2.270	$2.449	$2.518
Kay	1,931	1,826	1,697
Jared	1,181	1,177	1,153
Regional brands	83	151	175
Total net selling square feet (thousands)	3,195	3,154	3,025
Increase in net store selling space	1.3 %	4.3 %	5.0 %

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

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

Sales data by brand

Fiscal 2018	Sales (millions)	Change from previous year: Same store sales	Change from previous year: Total sales
Kay	$ 2,428.1	(8.0)%	(4.4)%
Jared	1,192.1	(5.5)%	(2.9)%
R2Net[1]	88.1	29.9 %	
Regional brands	112.2	(19.8)%	(31.3)%
Sterling Jewelers	$ 3,820.5	(7.0)%	(2.8)%

(1) Includes R2Net sales for the 145 days period since the date of acquisition. Same store sales presented for R2Net to provide comparative performance measure.

Kay Jewelers ("Kay")

Kay accounted for 39% of Signet's sales in Fiscal 2018 (Fiscal 2017: 40%) and operated 1,247 stores in 50 states as of February 3, 2018 (January 28, 2017: 1,192 stores). Kay is the largest specialty retail jewelry store brand in the US based on sales. Kay mall stores typically occupy about 1,600 square feet and have approximately 1,300 square feet of selling space, whereas Kay off-mall stores typically occupy about 2,200 square feet and have approximately 1,800 square feet of selling space. Kay operates in malls and off-mall stores. Off-mall stores primarily are located in outlet malls and power centers. The Sterling Jewelers store footprint will continue to diversify in Fiscal 2019 as new stores will be principally Kay stores in off-mall locations.

Table of Contents

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

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Sales (millions)	$2,428.1	$2,539.7	$2,530.3
Average sales per store (millions)	$1.908	$2.124	$2.178
Stores at year end	1,247	1,192	1,129
Total net selling square feet (thousands)	1,931	1,826	1,697

The following table summarizes the current composition of stores as of February 3, 2018 and net openings (closures) in the past three years:

	Stores at February 3, 2018	Net openings (closures) Fiscal 2018	Fiscal 2017	Fiscal 2016
Mall	731	(20)	(4)	6
Off-mall and outlet	516	75	67	29
Total	1,247	55	63	35

Jared The Galleria Of Jewelry ("Jared")

With 274 stores in 41 states as of February 3, 2018 (January 28, 2017: 275 stores), Jared is a leading off-mall destination specialty retail jewelry store chain, based on sales. Jared accounted for 19% of Signet's sales in Fiscal 2018 (Fiscal 2017: 19%). Jared is the fourth largest US specialty retail jewelry brand by sales and offers enhanced selection of merchandise. Every Jared store has an on-site design and service center where most repairs are completed within the same day. Each store also has at least one diamond salon, a children's play area, and complimentary refreshments. The typical Jared store has about 4,800 square feet of selling space and approximately 6,000 square feet of total space. Jared locations are normally free-standing sites with high visibility and traffic flow, positioned close to major roads within shopping developments. Jared stores usually operate in retail centers that contain strong retail co-tenants, including big box, destination stores and some smaller specialty units.

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

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

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Sales (millions)	$1,192.1	$1,227.5	$1,252.9
Average sales per store (millions)[1]	$4.110	$4.379	$4.650
Stores at year end	274	275	270
Total net selling square feet (thousands)	1,181	1,177	1,153

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

The following table summarizes the current composition of stores as of February 3, 2018 and net openings (closures) in the past three years:

	Stores at February 3, 2018	Net openings (closures) Fiscal 2018	Fiscal 2017	Fiscal 2016
Mall	9	(1)	(1)	3

Off-mall and outlet	265	—	6	14
Total	274	(1)	5	17

13

Table of Contents

JamesAllen.com

JamesAllen.com ("James Allen") is a fast-growing millennial online retailer that was acquired by the Company during Fiscal 2018 as part of the R2Net acquisition. Unlike the rest of our store banners, James Allen does not operate or maintain physical retail stores. James Allen accounted for 1% of Signet's sales in Fiscal 2018.

Sterling Jewelers regional brands

The Sterling Jewelers division also operates mall stores under a variety of established regional nameplates. Regional brands in the Sterling Jewelers division accounted for 2% of Signet's sales in Fiscal 2018 (Fiscal 2017: 3%) and as of February 3, 2018, include 65 regional brand stores in 23 states (January 28, 2017: 121 stores in 29 states). The leading brands include JB Robinson Jewelers, Marks & Morgan Jewelers and Belden Jewelers. Also included in the regional nameplates are Goodman Jewelers, LeRoy's Jewelers, Osterman Jewelers, Rogers Jewelers, Shaw's Jewelers and Weisfield Jewelers. The Company's strategy is to reduce regional brand locations through conversion to national store brands or through closure upon lease expiration.

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

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Sales (millions)	$112.2	$163.2	$205.5
Average sales per store (millions)	$1.170	$1.242	$1.333
Stores at year end	65	121	141
Total net selling square feet (thousands)	83	151	175

Sterling Jewelers operating review

Other sales

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

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

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

Customer finance

Several factors inherent in the US jewelry business support the circumstances through which Signet is uniquely positioned to generate profitable incremental business through its partner supported and on-balance sheet consumer payment programs. These factors include a high average transaction value and a significant population of customers seeking to finance merchandise, primarily in the bridal category. Prime credit offered by Alliance Data Systems, on-balance sheet lending for non-prime applicants serviced by Genesis Financial Solutions and a lease purchase option provided by Progressive Lease allow Signet to offer payment options that meet each customer's individual needs.

As disclosed previously, Signet, through its subsidiary Sterling Jewelers Inc., completed the sale of the prime-only credit quality portion of Sterling's in-house finance receivable portfolio to Alliance Data Systems in October 2017. During March 2018, Signet announced an agreement to sell its non-prime in-house credit card receivables primarily related to the Company's Kay, Jared and Sterling regional banners' customers. This agreement, in conjunction with the previously executed prime credit transaction and the outsourcing of the servicing of the non-prime credit program to Genesis will complete Signet's transition to an outsourced credit structure.

Table of Contents

Customer financing statistics[1]

Below is a summary of key customer financing statistics related to the Sterling Jewelers customer in-house finance receivables:

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Total sales (millions)	$3,820.5	$3,930.4	$3,988.7
Credit sales (millions)	$2,162.7	$2,438.3	$2,451.2
Credit sales as % of total Sterling Jewelers sales[2]	57.9 %	62.0 %	61.5 %
Net bad debt expense (millions)[3]	$216.7	$212.1	$190.5
Opening receivables (millions)	$1,952.0	$1,855.9	$1,453.8
Closing receivables (millions)[4]	$762.9	$1,952.0	$1,855.9
Number of active credit accounts at year end[5]	577,846	1,401,456	1,423,619
Average outstanding account balance at year end	$1,311	$1,405	$1,319
Average monthly collection rate[6]	9.7 %	11.0 %	11.5 %
Ending bad debt allowance as a % of ending accounts receivable[1]	14.9 %	7.1 %	7.0 %
Net charge-offs as a % of average gross accounts receivable[1][7]	nm [9]	10.7 %	10.5 %
Credit portfolio impact:			
Net bad debt expense (millions)[3]	$(216.7)	$(212.1)	$(190.5)
Late charge income (millions)	$35.8	$36.0	$33.9
Interest income from in-house customer finance programs (millions)[8]	$249.6	$277.6	$252.5
	$68.7	$101.5	$95.9

(1) See Note 12 of Item 8 for additional information.

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

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

(4) See Note 3 of Item 8 for additional information.

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

(6) The decrease is primarily due to a decline in credit approvals and average credit transaction value in addition to a change in the ratio of credit quality due to the credit transaction. See Note 3 of Item 8 for additional information on the credit transaction.

(7) Net charge-offs calculated as gross charge-offs less recoveries. See Note 12 of Item 8 for additional information.

(8) See Note 11 of Item 8. Primary component of other operating income, net, on the consolidated income statement.

(9) During the third quarter of Fiscal 2018, the Company completed the sale of a portion of the Sterling Jewelers customer in-house finance receivables. As a result, the Company's receivable balance decreased significantly and thus restricts the usefulness of this metric for Fiscal 2018.

nm Not meaningful.

ZALE DIVISION

The Zale division consists of two reportable segments: Zale Jewelry and Piercing Pagoda. Zale Jewelry operates jewelry stores located primarily in shopping malls throughout the US and Canada. Piercing Pagoda operates through mall-based kiosks throughout the US. In Fiscal 2018, approximately 17% of goods purchased in the Zale division were denominated in Canadian dollars (Fiscal 2017: 14%).

Table of Contents

Zale store brand reviews
Store activity by brand

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Zales	11	40	24
Peoples	2	2	2
Regional brands	—	—	—
Total Zale Jewelry	13	42	26
Piercing Pagoda	13	35	12
Total stores opened or acquired during the year	26	77	38
Zales	(58)	(19)	(10)
Peoples	(16)	(4)	(1)
Regional brands	(41)	(26)	(10)
Total Zale Jewelry	(115)	(49)	(21)
Piercing Pagoda	(31)	(24)	(12)
Total stores closed during the year	(146)	(73)	(33)
Zales	704	751	730
Peoples	129	143	145
Regional brands	35	76	102
Total Zale Jewelry	868	970	977
Piercing Pagoda	598	616	605
Total stores open at the end of the year	1,466	1,586	1,582
Zales	$1.408	$1.327	$1.467
Peoples	$1.444	$1.267	$1.353
Regional brands	$1.269	$0.982	$0.942
Total Zale Jewelry	$1.407	$1.290	$1.394
Piercing Pagoda	$0.417	$0.506	$0.376
Average sales per store (millions)(1)	$1.005	$0.988	$1.003
Zales	977	1,039	1,010
Peoples	171	190	193
Regional brands	38	82	112
Total Zale Jewelry(2)	1,186	1,311	1,315
Piercing Pagoda	112	115	114
Total net selling square feet (thousands)(2)	1,298	1,426	1,429
(Decrease) increase in net store selling space	(9.0)%	(0.2)%	0.5%

(1) Based only upon stores operated for the full fiscal year and calculated on a 52-week basis.
(2) Includes 191 thousand, 227 thousand and 240 thousand square feet of net selling space in Canada in Fiscal 2018, Fiscal 2017 and Fiscal 2016, respectively.

Table of Contents

Sales data by brand

Fiscal 2017	Sales (millions)	Change from previous year: Same store sales	Change from previous year: Total sales
Zales	$1,244.3	(2.0)%	(1.0)%
Peoples	215.4	2.6 %	5.1 %
Regional brands	56.5	(14.2)%	(35.4)%
Total Zale Jewelry	$1,516.2	(1.9)%	(2.2)%
Piercing Pagoda	278.5	3.0 %	5.9 %
Zale division[(1)]	$1,794.7	(1.2)%	(1.0)%

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

Zale Jewelry

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

Zales Jewelers ("Zales")

Zales Jewelers operates primarily in shopping malls and offers a broad range of bridal, diamond solitaire and fashion jewelry. Zales Outlet operates in outlet malls and neighborhood power centers and capitalizes on Zales Jewelers' national marketing and brand recognition. Zales Jewelers and Zales Outlet are collectively referred to as "Zales." Zales accounted for 20% of Signet's sales in Fiscal 2018 (Fiscal 2017: 20%) and operated a total of 704 stores, all located in the United States as of February 3, 2018 (January 28, 2017: 751 total stores, including 7 stores in Puerto Rico). Zales is positioned as "The Diamond Store" given its emphasis on diamond jewelry, especially in bridal and fashion. Zales mall stores typically occupy about 1,700 square feet and have approximately 1,300 square feet of selling space, whereas Zales off-mall stores typically occupy about 2,400 square feet and have approximately 1,700 square feet of selling space.

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

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Sales (millions)	$1,244.3	$1,257.4	$1,241.0
Average sales per store (millions)	$1.408	$1.327	$1.467
Stores at year end	704	751	730
Total net selling square feet (thousands)	977	1,039	1,010

The following table summarizes the current composition of stores as of February 3, 2018 and net openings (closures) over the last three years :

	Stores at February 3, 2018	Net openings (closures) Fiscal 2018	Fiscal 2017	Fiscal 2016
Mall	545	(43)	12	9
Off-mall and outlet	159	(4)	9	5
Total	704	(47)	21	14

Peoples Jewellers
Peoples Jewellers (“Peoples”) is Canada’s largest jewelry retailer, offering jewelry at affordable prices. Peoples accounted for 3% of Signet’s sales in Fiscal 2018 (Fiscal 2017: 3%) and operated 129 stores in Canada as of February 3, 2018 (January 28, 2017: 143 stores). Peoples is positioned as “Canada’s #1 Diamond Store” emphasizing its diamond business while also offering a wide selection of gold jewelry, gemstone jewelry and watches. Peoples stores typically occupy about 1,600 square feet and have approximately 1,300 square feet of selling space.

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

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Sales (millions)	$215.4	$204.9	$214.8
Average sales per store (millions)	$1.444	$1.267	$1.353
Stores at year end	129	143	145
Total net selling square feet (thousands)	171	190	193

Zale Jewelry regional brands

The Zale division also operates the regional store brands Gordon's Jewelers ("Gordon's"), in the US, and Mappins Jewellers ("Mappins"), in Canada. Regional brands in the Zale Jewelry segment accounted for 1% of Signet's sales in Fiscal 2018 (Fiscal 2017: 1%) and operated a total of 35 stores, including 17 stores in the US and 18 stores in Canada as of February 3, 2018 (January 28, 2017: 76 total stores). The Company expects the number of regional brands locations to continue to decline through conversion to national store brands or through closure upon lease expiration.

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

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Sales (millions)	$56.5	$87.4	$112.4
Average sales per store (millions)(1)	$1.269	$0.982	$0.942
Stores at year end	35	76	102
Total net selling square feet (thousands)	38	82	112

Piercing Pagoda

Piercing Pagoda operates through mall-based kiosks in the US. Piercing Pagoda accounted for 5% of Signet's sales in Fiscal 2018 (Fiscal 2017: 4%) and operated a total of 598 stores, all located in the United States as of February 3, 2018 (January 28, 2017: 616 total stores). Piercing Pagodas are generally located in high traffic areas that are easily accessible and visible within regional shopping malls. Piercing Pagoda offers a selection of gold, silver and diamond jewelry in basic styles at moderate prices.

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

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Sales (millions)	$278.5	$263.1	$243.2
Average sales per store (millions)(1)	$0.417	$0.506	$0.376
Stores at year end	598	616	605
Total net selling square feet (thousands)	112	115	114

Zale operating review

Other sales

Repair services represent approximately 2% of sales and 4% of transactions and are an important opportunity to build customer loyalty. During Fiscal 2018 and Fiscal 2017, Zale utilized the Jared Design & Service Centers to support its repair business for all US locations.

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

18

Table of Contents

Customer finance

Our consumer credit program is an integral part of our business and is a major driver of customer loyalty. Customers are offered revolving and interest free credit plans under our private label credit card programs offered in conjunction with Comenity Bank and TD Bank Services in Canada, in conjunction with other alternative finance vehicles, including a second-look credit program offered by Genesis Financial Solutions implemented in September 2017, replacing the in-house program initiated in late Fiscal 2016. These provide customers of the Zale division with a wide variety of financing options. Participation of the Zale division in Signet's in-house consumer credit program was immaterial in Fiscal 2018. Nearly 46% of Zale sales in the US were financed by private label customer credit in Fiscal 2018 (Fiscal 2017: 47%). Canadian private label credit card sales represented 27% of Canadian sales in Fiscal 2018 (Fiscal 2017: 32%).

UK JEWELRY DIVISION

The UK Jewelry division transacts mainly in British pounds, as sales and the majority of operating expenses are incurred in that currency and its results are then translated into US dollars for external reporting purposes. In Fiscal 2018, approximately 27% of goods purchased were made in US dollars (Fiscal 2017: 25%). The following information for the UK Jewelry division is given in British pounds as management believes that this presentation assists in understanding the performance of the UK Jewelry division. Movements in the US dollar to British pound exchange rate therefore may have an impact on the results of Signet, particularly in periods of exchange rate volatility.

UK market

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

UK Jewelry store brand reviews

Store activity by brand

	Fiscal 2018	Fiscal 2017	Fiscal 2016
H.Samuel	2	6	2
Ernest Jones	1	3	8
Total stores opened or acquired during the year	3	9	10
H.Samuel	(5)	(3)	(3)
Ernest Jones	(2)	(1)	(2)
Total stores closed during the year	(7)	(4)	(5)
H.Samuel	301	304	301
Ernest Jones	203	204	202
Total stores open at the end of the year	504	508	503
H.Samuel	£0.698	£0.748	£0.763
Ernest Jones	£1.066	£1.114	£1.142
Average sales per store (millions)[1]	£0.847	£0.894	£0.910
H.Samuel	327	329	326
Ernest Jones	197	197	194
Total net selling square feet (thousands)	524	526	520
Increase in net store selling space	(0.4)%	1.0%	1.5%

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

Table of Contents

Sales data by brand

Fiscal 2018	Sales (millions)	Change from previous year Same store sales	Total sales at constant exchange rates	Total sales
H.Samuel	£ 234.5	(6.5)%	(4.3)%	(5.2)%
Ernest Jones	237.3	(5.6)%	(2.9)%	(4.2)%
UK Jewelry	£ 471.8	(6.0)%	(3.6)%	(4.7)%

H.Samuel

H.Samuel accounted for 5% of Signet's sales in Fiscal 2018 (Fiscal 2017: 5%), and is the largest specialty retail jewelry store brand in the UK by number of stores. H.Samuel has 150 years of jewelry heritage, with a target customer focused on inexpensive fashion-trend oriented, everyday jewelry. The typical store selling space is 1,100 square feet. H.Samuel continues to focus on larger store formats in regional shopping centers. Details of H.Samuel's performance over the last three years is shown below:

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Sales (millions)	£234.5	£245.0	£247.4
Average sales per store (millions)	£0.698	£0.748	£0.763
Stores at year end	301	304	301
Total net selling square feet (thousands)	327	329	326

Ernest Jones

Ernest Jones (including stores selling under the Leslie Davis nameplate) accounted for 5% of Signet's sales in Fiscal 2018 (Fiscal 2017: 5%), and is the second largest specialty retail jewelry store brand in the UK by number of stores. It serves the upper middle market, with a target customer focused on high-quality, timeless jewelry. The typical store selling space is 900 square feet. Details of Ernest Jones' performance over the last three years is shown below:

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Sales (millions)	£237.3	£244.4	£237.9
Average sales per store (millions)	£1.066	£1.114	£1.142
Stores at year end	203	204	202
Total net selling square feet (thousands)	197	197	194

UK Jewelry operating review

Customer finance

In Fiscal 2018, approximately 9% of the division's sales were made through a customer finance program provided through a third party (Fiscal 2017: 8%). Signet does not provide this service itself in the UK due to low demand for customer finance.

OTHER

Other consists of all non-reportable operating segments, including activities related to the direct sourcing of rough diamonds, and is aggregated with unallocated corporate administrative functions.

IMPACT OF CLIMATE CHANGE

Signet recognizes that climate change is a major risk to society and therefore continues to take steps to reduce Signet's climatic impact. Management believes that climate change has a limited influence on Signet's performance and that it is of limited significance to the business.

Table of Contents

AVAILABLE INFORMATION

Signet files annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information with the US Securities and Exchange Commission ("SEC"). Such information, and amendments to reports previously filed or furnished, is available free of charge from our corporate website, www.signetjewelers.com, as soon as reasonably practicable after such materials are filed with or furnished to the SEC. The public also may read and copy any of these filings at the SEC's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-732-0330. The SEC also maintains a website at www.sec.gov that contains the Company's filings.

ITEM 1A. RISK FACTORS

A decline in consumer spending may unfavorably impact Signet's future sales and earnings.

Jewelry purchases are discretionary and are dependent on consumers' perceptions of general economic conditions, particularly as jewelry is often perceived to be a luxury purchase. Adverse changes in the economy and periods when discretionary spending by consumers may be under pressure could unfavorably impact sales and earnings. We may respond by increasing discounts or initiating marketing promotions to reduce excess inventory, which could have a material adverse effect on our margins and operating results.

The success of Signet's operations depends to a significant extent upon a number of factors relating to discretionary consumer spending. These include economic conditions, and perceptions of such conditions by consumers, consumer confidence, level of customer traffic in shopping malls and other retail centers, employment, the level of consumers' disposable income, business conditions, interest rates, consumer debt and asset values, availability of credit and levels of taxation for the economy as a whole and in regional and local markets where we operate.

As 10% of Signet's sales are accounted for by its UK Jewelry division, economic conditions in the eurozone have a significant impact on the UK economy even though the UK is not a member of the eurozone. Therefore, developments in the eurozone could adversely impact trading in the UK Jewelry division, as well as adversely impact the US economy.

Any deterioration in consumers' financial position or changes to the regulatory requirements regarding the granting of credit to customers could adversely impact the Company's sales, earnings and the collectability of accounts receivable.

Approximately half of Signet's sales in the US and Canada utilize its in-house or third-party customer financing programs and an additional 36% of purchases are made using third party bank cards. Any significant deterioration in general economic conditions or increase in consumer debt levels may inhibit consumers' use of credit and decrease consumers' ability to satisfy Signet's requirement for access to customer finance and could in turn have an adverse effect on the Company's sales. Furthermore, any downturn in general or local economic conditions, in particular an increase in unemployment in the markets in which the Signet operates, may adversely affect its collection of outstanding accounts receivable, its net bad debt charge and hence earnings.

Additionally, Signet's ability to extend credit to customers and the terms on which it is achieved depends on many factors, including compliance with applicable laws and regulations in the US and Canada, any of which may change from time to time, and such changes could adversely affect sales and income. In addition, other restrictions arising from applicable law could cause limitations in credit terms currently offered or a reduction in the level of credit granted by the Company, or by third parties, and this could adversely impact sales, income or cash flow.

The US Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") was signed into law in July 2010. Among other things, the Dodd-Frank Act created a Bureau of Consumer Financial Protection with broad rule-making and supervisory authority for a wide range of consumer financial services, including Signet's customer financing programs. The Bureau's authority became effective in July 2011.

Any new regulatory initiatives or investigations by the Bureau or other state authority could impose additional costs and/or restrictions on credit practices of the Sterling Jewelers and Zale divisions, which could adversely affect their ability to conduct its business.

Signet's share price may be volatile.

Signet's share price may fluctuate substantially as a result of variations in the actual or anticipated results and financial conditions of Signet and other companies in the retail industry. In addition, the stock market has experienced price and volume fluctuations that have affected the market price of many retail and other stocks in a manner unrelated, or

disproportionate, to the operating performance of these companies.
Signet provides public guidance on its expected operating and financial results for future periods. Although Signet believes that this guidance provides investors and analysts with a better understanding of management's expectations for the future and is useful to its stockholders and potential stockholders, such guidance is comprised of forward-looking statements subject to the risks and uncertainties described in this report and in our other public filings and public statements. Signet's actual results may not always be in line with or exceed the provided guidance or the expectations of our investors and analysts, especially in times of economic uncertainty. In the past, when the Company has reduced its previously provided guidance, the market price of Signet's common stock has declined. If, in the future, Signet's operating or financial results for a particular period do not meet our guidance or the expectations of our investors and analysts or if we reduce our guidance for future periods, the market price of our common stock may decline.

Table of Contents

In addition, Signet may fail to meet the expectations of its stockholders or of analysts at some time in the future. If the analysts that regularly follow the Company’s stock lower their rating or lower their projections for future growth and financial performance, the Company’s stock price could decline.

Signet’s sales, operating income, cash and inventory levels fluctuate on a seasonal basis.

Signet’s business is highly seasonal, with a significant proportion of its sales and operating profit generated during its fourth quarter, which includes the Holiday Season. Management expects to continue to experience a seasonal fluctuation in its sales and earnings. Therefore, there is limited ability to compensate for shortfalls in fourth quarter sales or earnings by changes in its operations and strategies in other quarters, or to recover from any extensive disruption, for example, due to sudden adverse changes in consumer confidence, inclement weather conditions having an impact on a significant number of stores in the last few days immediately before Christmas Day or disruption to warehousing and store replenishment systems. A significant shortfall in results for the fourth quarter of any fiscal year would therefore be expected to have a material adverse effect on the annual results of operations. Disruption at lesser peaks in sales at Valentine’s Day and Mother’s Day would be expected to impact the results to a lesser extent. Additionally, in anticipation of increased sales activity in the Holiday Season, Signet incurs certain significant incremental expenses prior to and during peak selling seasons, including advertising and costs associated with hiring a substantial number of temporary employees to supplement our existing workforce.

Deterioration in the Company’s capital structure or financial performance could result in constraints on capital or financial covenant breaches. In addition, a portion of the Company’s debt is variable rate and volatility in benchmark interest rates could adversely impact the Company’s financial results.

While Signet has a strong balance sheet with adequate liquidity to meet its operating requirements, the credit ratings agencies periodically review our capital structure and the quality and stability of our earnings. A deterioration in Signet’s capital structure or the quality and stability of earnings could result in a downgrade of Signet’s credit rating. Any negative ratings actions could also constrain the capital available to the Company, could limit the Company’s access to funding for its operations, funding dividends and share repurchases, and increase the Company’s financing costs. Changes in general credit market conditions could also affect Signet’s ability to access capital at rates and on terms we determine to be attractive. If our ability to access capital becomes constrained, our interest costs will likely increase, which could have a material adverse effect on our results of operations, financial condition and cash flows. Additionally, as a result of the Company’s exposure to variable interest rate debt, volatility in benchmark interest rates could adversely impact the Company’s financial results.

Signet’s borrowing agreements include various financial covenants and operating restrictions. A material deterioration in its financial performance could result in a covenant being breached. If Signet were to breach, or believed it was going to breach, a financial covenant it would have to renegotiate its terms with current lenders or find alternative sources of financing if current lenders required cancellation of facilities or early repayment.

Global economic conditions and regulatory changes following the United Kingdom’s announced intention to exit from the European Union could adversely impact Signet’s business and results of operations located in, or closely associated with, the United Kingdom.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union (often referred to as Brexit) in a national referendum. The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last at least two years after the government of the United Kingdom formally initiates a withdrawal process. This will be either accompanied or followed by negotiations between the European Union and the United Kingdom concerning the future relations between the parties. Nevertheless, the referendum has created significant uncertainty about the future relationship between the United Kingdom and the European Union. This includes uncertainty with respect to the laws and regulations, including regulations applicable to Signet’s business that will apply in the United Kingdom in the event of a withdrawal. The referendum has also given rise to calls for the governments of other European Union member states to consider a referendum on withdrawal from the European Union for their territory. These developments, or the perception that any of them could occur, could adversely impact global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any of these factors could depress economic activity, which could adversely impact our business, financial condition and results of operations especially those located in, or closely associated with, the United Kingdom. Brexit could lead to long-term volatility in the currency markets and there could be long-term detrimental effects on the value of the British Pound. Brexit could also impact other currencies. Signet uses foreign currency derivative instruments to hedge certain exposures to currency exchange rate risks. The results of the Brexit referendum could increase Signet's exposure to foreign currency rate exchange risks and reduce its ability to effectively use certain derivative instruments as a way to hedge risks.

Fluctuations in foreign exchange rates could adversely impact the Company's results of operations and financial condition.

Signet publishes its consolidated annual financial statements in US dollars. At February 3, 2018, Signet held approximately 89% of its total assets in entities whose functional currency is the US dollar and generated approximately 86% of its sales and 94% of its operating income in US dollars for the fiscal year then ended. All the remaining assets, sales and operating income are in UK British pounds and Canadian dollars. Therefore, the Company's results of operations and balance sheet are subject to fluctuations in the exchange rates between the US dollar and both the British pound and Canadian dollar. Accordingly, any decrease in the weighted average value of the British pound or Canadian dollar against the US dollar would decrease reported sales and operating income.

Table of Contents

The monthly average exchange rates are used to prepare the income statement and are calculated based on the daily exchange rates experienced by the UK Jewelry division and the Canadian subsidiaries of the Zale division in the fiscal month.

Where British pounds or Canadian dollars are held or used to fund the cash flow requirements of the business, any decrease in the weighted average value of the British pound or Canadian dollar against the US dollar would reduce the amount of cash and cash equivalents.

In addition, the prices of certain materials and products bought on the international markets by Signet are denominated in foreign currencies. As a result, Signet and its subsidiaries have exposures to exchange rate fluctuations on its cost of goods sold, as well as volatility of input prices if foreign manufacturers and suppliers are impacted by exchange rate fluctuations.

Fluctuations in the availability and pricing of commodities, particularly polished diamonds and gold, which account for the majority of Signet's merchandise costs, could adversely impact its earnings and cash availability.

The jewelry industry generally is affected by fluctuations in the price and supply of diamonds, gold and, to a lesser extent, other precious and semi-precious metals and stones. In particular, diamonds accounted for about 45%, and gold about 14%, of Signet's merchandise costs in Fiscal 2018.

In Fiscal 2018, prices for the assortment of polished diamonds utilized by Signet decreased slightly compared to prior year. Industry forecasts indicate that over the medium and longer term, the demand for diamonds will probably increase faster than the growth in supply, particularly as a result of growing demand in countries such as China and India. Therefore, the cost of diamonds is anticipated to rise over time, although fluctuations in price are likely to continue to occur. The mining, production and inventory policies followed by major producers of rough diamonds can have a significant impact on diamond prices, as can the inventory and buying patterns of jewelry retailers and other parties in the supply chain.

While jewelry manufacturing is the major final demand for gold, management believes that the cost of gold is predominantly impacted by investment transactions which have resulted in significant volatility in the gold price in recent years. Signet's cost of merchandise and potentially its earnings may be adversely impacted by investment market considerations that cause the price of gold to significantly escalate.

The availability of diamonds is significantly influenced by the political situation in diamond producing countries and by the Kimberley Process, an inter-governmental agreement for the international trading of rough diamonds. Until acceptable alternative sources of diamonds can be developed, any sustained interruption in the supply of diamonds from significant producing countries, or to the trading in rough and polished diamonds which could occur as a result of disruption to the Kimberley Process, could adversely affect Signet, as well as the retail jewelry market as a whole. In addition, the current Kimberley Process decision making procedure is dependent on reaching a consensus among member governments, which can result in the protracted resolution of issues, and there is little expectation of significant reform over the long-term. The impact of this review process on the supply of diamonds, and consumers' perception of the diamond supply chain, is unknown. In addition to the Kimberley Process, the supply of diamonds to the US is also impacted by certain governmental trade sanctions imposed on Zimbabwe.

The possibility of constraints in the supply of diamonds of a size and quality Signet requires to meet its merchandising requirements may result in changes in Signet's supply chain practices, for example its rough sourcing initiative. In addition, Signet may from time to time choose to hold more inventory, purchase raw materials at an earlier stage in the supply chain or enter into commercial agreements of a nature that it currently does not use. Such actions could require the investment of cash and/or additional management skills. Such actions may not result in the expected returns and other projected benefits anticipated by management.

An inability to increase retail prices to reflect higher commodity costs would result in lower profitability. Historically, jewelry retailers have been able, over time, to increase prices to reflect changes in commodity costs. However, in general, particularly sharp increases in commodity costs may result in a time lag before increased commodity costs are fully reflected in retail prices. As Signet uses an average cost inventory methodology, volatility in its commodity costs may also result in a time lag before cost increases are reflected in retail prices. There is no certainty that such price increases will be sustainable, so downward pressure on gross margins and earnings may occur. In addition, any sustained increases in the cost of commodities could result in the need to fund a higher level of inventory or changes in the merchandise available to the customer.

In August 2012, the SEC, pursuant to the Dodd-Frank Act, issued final rules, which require annual disclosure and reporting on the source and use of certain minerals, including gold, from the Democratic Republic of Congo and adjoining countries. The gold supply chain is complex and, while management believes that the rules currently cover less than 1% of annual worldwide gold production (based upon recent estimates), the final rules require Signet and other affected companies that file with the SEC to make specified country of origin inquiries of our suppliers, and otherwise to exercise reasonable due diligence in determining the country of origin and certain other information relating to any of the statutorily designated minerals (gold, tin, tantalum and tungsten), that are used in products sold by Signet in the US and elsewhere. On May 31, 2017, Signet filed with the SEC its Form Specialized Disclosure ("SD") and accompanying Conflict Minerals Report in accordance with the SEC's rules, which together describe our country of origin inquiries and due diligence measures relating to the source and chain of custody of those designated minerals Signet deemed necessary to the functionality or production of our products, the results of those activities and our related determinations with respect to the calendar year ended December 31, 2016.

Table of Contents

There may be reputational risks associated with the potential negative response of our customers and other stakeholders to future disclosures by Signet in the event that, due to the complexity of the global supply chain, Signet is unable to sufficiently verify the origin of the relevant metals. Also, if future responses to verification requests by suppliers of any of the covered minerals used in our products are inadequate or adverse, Signet's ability to obtain merchandise may be impaired and our compliance costs may increase. The final rules also cover tungsten and tin, which are contained in a small proportion of items that are sold by Signet. It is possible that other minerals, such as diamonds, could be subject to similar rules.

Price increases and increased price transparency in the market may have an adverse impact on Signet's performance.

Critical to maintaining an optimal customer experience is a multi-faceted value proposition that focuses on customer service, attractive brand and category assortments, availability of financing, and deep customer service and relationship building with our guest service professionals, as well as competitive pricing. Although not a singular differentiator to our value proposition, if significant price increases are implemented by any division or across a wide range of merchandise, the impact on earnings will depend on, among other factors, the pricing by competitors of similar products in the same geographic area and the response by customers to higher prices. Such price increases may result in lower sales and adversely impact earnings.

Signet's competitors are specialty jewelry retailers, as well as other jewelry retailers, including department stores, mass merchandisers, discount stores, apparel and accessory fashion stores, brand retailers, shopping clubs, home shopping television channels, direct home sellers, online retailers and auction sites. In addition, other retail categories and other forms of expenditure, such as electronics and travel, also compete for consumers' discretionary expenditure, particularly during the holiday gift giving season. Therefore, the price of jewelry relative to other products influences the proportion of consumers' expenditure that is spent on jewelry. If the relative price of jewelry increases, Signet's sales and earnings may decline.

Consumers are increasingly shopping or starting their jewelry buying experience online, which makes it easier for them to compare prices with other jewelry retailers. If Signet's brands do not offer the same or similar item at the lowest price, consumers may purchase their jewelry from competitors, which would adversely impact the Company's sales and results of operations.

The Company's ability to satisfy the accounting requirements for “hedge accounting,” or the default or insolvency of a counterparty to a hedging contract, could adversely impact results.

Signet hedges a portion of its purchases of gold for both its Sterling Jewelers and UK Jewelry divisions and hedges the US dollar requirements of its UK Jewelry division. The failure to satisfy the requirements of the appropriate accounting requirements, or a default or insolvency of a counterparty to a contract, could increase the volatility of results and may impact the timing of recognition of gains and losses in the income statement.

The Company's inability to obtain merchandise that customers wish to purchase, particularly ahead of and during the fourth quarter, could adversely impact sales.

The abrupt loss or disruption of any significant supplier during the three month period (August to October) leading up to the fourth quarter could result in a material adverse effect on Signet's business.

Also, if management misjudges expected customer demand or fails to identify changes in customer demand and/or its supply chain does not respond in a timely manner, it could adversely impact Signet's results by causing either a shortage of merchandise or an accumulation of excess inventory.

Signet benefits from close commercial relationships with a number of suppliers. Damage to, or loss of, any of these relationships could have a detrimental effect on results. Management holds regular reviews with major suppliers. Signet's most significant supplier accounts for approximately 6% of merchandise. Government requirements regarding sources of commodities, such as those required by the Dodd-Frank Act, could result in Signet choosing to terminate relationships with suppliers in the future due to a change in a supplier's sourcing practices or Signet's compliance with laws and internal policies.

Luxury and prestige watch manufacturers and distributors normally grant agencies the right to sell their ranges on a store-by-store basis. The watch brands sold by Ernest Jones, and to a lesser extent Jared, help attract customers and build sales in all categories. Therefore, an inability to obtain or retain watch agencies for a location could harm the performance of that particular store. In the case of Ernest Jones, the inability to gain additional prestige watch agencies is an important factor in, and may reduce the likelihood of, opening new stores, which could adversely impact sales growth.

The growth in importance of branded merchandise within the jewelry market may adversely impact Signet’s sales and earnings if it is unable to obtain supplies of branded merchandise that the customer wishes to purchase. In addition, if Signet loses the distribution rights to an important branded jewelry range, it could adversely impact sales and earnings.

Signet has had success in recent years in the development of branded merchandise that is exclusive to its stores. If Signet is not able to further develop such branded merchandise or related initiatives, it may adversely impact sales and earnings.

Table of Contents

The Company’s ability to recruit, train, motivate and retain suitably qualified sales associates could adversely impact sales and earnings.

Management regards the customer experience as an essential element in the success of its business. Competition for suitable individuals or changes in labor and healthcare laws could require us to incur higher labor costs. Therefore an inability to recruit, train, motivate and retain suitably qualified sales associates could adversely impact sales and earnings.

Loss of confidence by consumers in Signet’s brand names, poor execution of marketing programs and reduced marketing expenditure could have a detrimental impact on sales.

Primary factors in determining customer buying decisions in the jewelry sector include customer confidence in the retailer and in the brands it sells, together with the level and quality of customer service. The ability to differentiate Signet’s stores and merchandise from competitors by its branding, marketing and advertising programs is an important factor in attracting consumers. If these programs are poorly executed, the level of support for them is reduced, or the customer loses confidence in any of Signet’s brands for whatever reason, it could unfavorably impact sales and earnings.

Long-term changes in consumer attitudes to jewelry could be unfavorable and harm jewelry sales.

Consumer attitudes to diamonds, gold and other precious metals and gemstones also influence the level of Signet’s sales. Attitudes could be affected by a variety of issues including concern over the source of raw materials; the impact of mining and refining of minerals on the environment, the local community and the political stability of the producing country; labor conditions in the supply chain; and the availability of and consumer attitudes to substitute products such as cubic zirconia, moissanite and laboratory-created diamonds. A negative change in consumer attitudes to jewelry could adversely impact sales and earnings.

The retail jewelry industry is highly fragmented and competitive.

The retail jewelry industry is competitive. If Signet’s competitive position deteriorates, operating results or financial condition could be adversely affected.

Aggressive discounting by competitors may adversely impact Signet’s performance in the short term. This is particularly the case for easily comparable pieces of jewelry, of similar quality, sold through stores that are situated near to those that Signet operates.

Signet faces significant competition from independent and regional specialty jewelry retailers that are able to adjust their competitive stance, for example on pricing, to local market conditions. This can put individual Signet stores at a competitive disadvantage as Signet divisions have a national pricing strategy.

The Company’s inability to rent stores that satisfy management’s operational and financial criteria could adversely impact sales, as could changes in locations where customers shop.

Signet’s results are dependent on a number of factors relating to its stores. These include the availability of desirable property, the demographic characteristics of the area around the store, the design and maintenance of the stores, the availability of attractive locations within the markets/trade areas that also meet the operational and financial criteria of management, the terms of leases and Signet’s relationship with major landlords. If Signet is unable to rent stores that satisfy its operational and financial criteria, or if there is a disruption in its relationship with its major landlords, sales could be adversely affected.

Given the length of property leases that Signet enters into, it is dependent upon the continued popularity of particular retail locations. As Signet tests and develops new types of store locations and designs, there is no certainty as to their success. The majority of long-term space growth opportunities in the US are in new developments and therefore future store space is in part dependent on the investment by real estate developers in new projects. Limited new real estate development taking place would make it challenging to identify and secure suitable store locations. The UK Jewelry division has a more diverse range of store locations than in the US or Canada, including some exposure to smaller retail centers which do not justify the investment required to refurbish the site to the current store format. Consequently, the UK Jewelry division is gradually closing stores in such locations as leases expire or satisfactory property transactions can be executed; however, the ability to secure such property transactions is not certain.

The rate of store development is dependent on a number of factors including obtaining suitable real estate, the capital resources of Signet, the availability of appropriate staff and management and the level of the financial return on

investment required by management.
Signet’s success is dependent on the strength and effectiveness of its relationships with its various stakeholders whose behavior may be affected by its management of social, ethical and environmental risks.
Social, ethical and environmental matters influence Signet’s reputation, demand for merchandise by consumers, the ability to recruit staff, relations with suppliers and standing in the financial markets. Signet’s success is dependent on the strength and effectiveness of its relationships with its various stakeholders: customers, shareholders, employees and suppliers. In recent years, stakeholder expectations have increased and Signet’s success and reputation will depend on its ability to meet these higher expectations. Signet’s success also depends upon its reputation for integrity in sourcing its merchandise, which, if adversely affected could impact consumer sentiment and willingness to purchase Signet’s merchandise.

Table of Contents

Inadequacies in and disruption to systems could result in lower sales and increased costs or adversely impact the reporting and control procedures.

Signet is dependent on the suitability, reliability and durability of its systems and procedures, including its accounting, information technology, data protection, warehousing and distribution systems, and those of our service providers. If support ceased for a critical externally supplied software package or system, management would have to implement an alternative software package or system or begin supporting the software internally. Disruption to parts of the business could result in lower sales and increased costs.

Signet is in the process of substantially modifying our enterprise resource planning systems, which involves updating or replacing legacy systems with successor systems over the course of several years. These system changes and upgrades can require significant capital investments and dedication of resources. While Signet follows a disciplined methodology when evaluating and making such changes, there can be no assurances that the Company will successfully implement such changes, that such changes will occur without disruptions to its operations or that the new or upgraded systems will achieve the desired business objectives. Any damage, disruption or shutdown of the Company's information systems, or the failure to successfully implement new or upgraded systems, could have a direct material adverse effect on Signet's results of operations.

An inability to successfully develop and maintain a relevant omni-channel experience for customers could adversely impact Signet's business and results of operations.

Signet's business has evolved from an in-store experience to interaction with customers across numerous channels, including in-store, online, mobile and social media, among others. Omni-channel retailing is rapidly evolving and Signet must keep pace with changing customer expectations and new developments by our competitors. Our customers are increasingly using computers, tablets, mobile phones and other devices to comparison shop, determine product availability and complete purchases online. Signet must compete by offering a consistent and convenient shopping experience for our customers regardless of the ultimate sales channel and by investing in, providing and maintaining digital tools for our customers that have the right features and are reliable and easy to use. If Signet is unable to make, improve, develop or acquire relevant customer-facing technology in a timely manner, the Company's ability to compete and its results of operations could be materially and adversely affected. In addition, if Signet's online activities or other customer-facing technology systems do not function as designed, the Company may experience a loss of customer confidence, data security breaches, lost sales or be exposed to fraudulent purchases, any of which could materially and adversely affect our business operations, reputation and results of operations.

Security breaches and other disruptions to Signet's information technology infrastructure and databases could interfere with Signet's operations, and could compromise Signet's and its customers' and suppliers' information, exposing Signet to liability which would cause Signet's business and reputation to suffer.

Signet operates in multiple channels and, in the Sterling Jewelers division, maintains its own customer financing operation. Signet is also increasingly using mobile devices, social media and other online activities to connect with customers, staff and other stakeholders. Therefore, in the ordinary course of business, Signet relies upon information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities, including e-commerce sales, supply chain, merchandise distribution, customer invoicing and collection of payments. Signet uses information technology systems to record, process and summarize financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal and tax requirements. Additionally, Signet collects and stores sensitive data, including intellectual property, proprietary business information, the propriety business information of our customers and suppliers, as well as personally identifiable information of Signet's customers and employees, in data centers and on information technology networks. The secure operation of these networks, and the processing and maintenance of this information is critical to Signet's business operations and strategy. Despite security measures and business continuity plans, we may not timely anticipate evolving techniques used to effect security breaches that may result in damage, disruptions or shutdowns of Signet's and our third-party vendors' networks and infrastructure due to attacks by hackers, including phishing or other cyber-attacks, or breaches due to employee error or malfeasance, or other disruptions during the process of upgrading or replacing computer software or hardware, power outages, computer viruses, telecommunication or utility failures or natural disasters or other catastrophic events. The occurrence of any of these events could compromise Signet’s networks and the information stored there, including personal, proprietary or confidential information about Signet, our customers or our third-party vendors, and personally identifiable information of Signet’s customers and employees could be accessed, manipulated, publicly disclosed, lost or stolen, exposing our customers to the risk of identity theft and exposing Signet or our third-party vendors to a risk of loss or misuse of this information. To date, these attacks or breaches have not had a material impact on Signet’s business or operations; however, any such access, disclosure or other loss of information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, significant breach-notification costs, lost sales and a disruption to operations (including our ability to process consumer transactions and manage inventories), media attention, and damage to Signet’s reputation, which could adversely affect Signet’s business. In addition, it could harm Signet’s reputation and ability to execute its business through service and business interruptions, management distraction and/or damage to physical infrastructure, which could adversely impact sales, costs and earnings. If Signet is the target of a cybersecurity attack resulting in unauthorized disclosure of our customer data, we may be required to undertake costly notification and credit monitoring procedures. Compliance with these laws will likely increase the costs of doing business.

The regulatory environment related to information security, data collection and privacy is becoming increasingly demanding, with new and changing requirements applicable to Signet’s business, and compliance with those requirements could result in additional costs, such as costs related to organizational changes, implementing additional protection technologies, training employees and engaging consultants.

Table of Contents

These risks could have a material adverse effect on Signet's results of operations, financial condition and cash flow.

An adverse decision in legal proceedings, tax matters, and/or regulatory or other state investigations could reduce earnings.

Signet is involved in legal proceedings incidental to its business. Litigation is inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in the diversion of significant operational resources.

In March 2008, private plaintiffs filed a class action lawsuit for an unspecified amount against Sterling Jewelers Inc. ("Sterling"), a subsidiary of Signet, in US District Court for the Southern District of New York, which has been referred to private arbitration. Sterling denies the allegations and has been defending this case vigorously. If, however, it is unsuccessful in its defense, Sterling could be required to pay substantial damages. At this point, no outcome or amount of loss is able to be estimated. See Note 26 in Item 8.

In August 2016, individual plaintiffs filed putative class actions asserting claims under the federal securities laws in the US District Court for the Southern District of New York against the Company and its Chief Executive Officer and Chief Financial Officer seeking an unspecified amount of damages. The cases were consolidated and an amended complaint was filed in January 2017. Plaintiffs sought leave from court which was granted to file a second amended complaint. Signet denies the current allegations and intends to defend the case vigorously. If, however, it is unsuccessful in its defense, Signet could be required to pay substantial damages. At this point, no outcome or amount of loss is able to be estimated. See Note 26 in Item 8.

On September 6, 2017, the Bureau 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 Attorney General for the State of New York ("NYAG") is investigating similar issues under its jurisdiction. See Note 26 in Item 8.

At any point in time, various tax years are subject to, or are in the process of, audit by various taxing authorities. To the extent that management's estimates of settlements change or the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax in the period in which such determinations are made.

Failure to comply with labor regulations could adversely affect the Company's business.

State, federal and global laws and regulations regarding employment change frequently and the ultimate cost of compliance cannot be precisely estimated. Failure by Signet to comply with labor regulations could result in fines and legal actions. In addition, the ability to recruit and retain staff could be harmed.

Collective bargaining activity could disrupt the Company's operations, increase our labor costs or interfere with the ability of our management to focus on executing our business strategies.

The employees of our diamond polishing factory in Garborone, Botswana are covered by a collective bargaining agreement. If relationships with these employees become adverse, operations at the factory could experience labor disruptions such as strikes, lockouts, boycotts and public demonstrations. Labor regulation and the negotiation of new or existing collective bargaining agreements could lead to higher wage and benefit costs, changes in work rules that raise operating expenses, legal costs and limitations on our ability to take cost saving measures during economic downturns.

The Company's ability to comply with changes in laws and regulations could adversely affect our business.

Signet's policies and procedures are designed to comply with all applicable laws and regulations. Changing legal and regulatory requirements in the US and other jurisdictions in which Signet operates have increased the complexity of the regulatory environment in which the business operates and the cost of compliance. Failure to comply with the various regulatory requirements may result in damage to Signet's reputation, civil and criminal liability, fines and penalties, and further increase the cost of regulatory compliance.

Changes in existing taxation benefits, rules or practices may adversely affect the Company's financial results.

The Company operates through various subsidiaries in numerous countries throughout the world. Consequently, Signet is subject to changes in tax laws, treaties or regulations or the interpretation or enforcement thereof in the

United States or jurisdictions where any subsidiaries operate or are incorporated. Tax laws, treaties and regulations are highly complex and subject to interpretation. The Company's income tax expense is based upon interpretation of the tax laws in effect in various countries at the time such expense was incurred. If these tax laws, treaties or regulations were to change or any tax authority were to successfully challenge our assessment of the effects of such laws, treaties and regulations in any country, this could result in a higher effective tax rate on the Company's taxable earnings, which could have a material adverse effect on the Company's results of operations.

Table of Contents

In addition, the Organization for Economic Co-Operation and Development ("OECD") has published an action plan seeking multilateral cooperation to reform the taxation of multinational companies. Countries already have begun to implement some of these action items, and likely will continue to adopt more of them over the next several years. This may result in unilateral or uncoordinated local country application of the action items. Any such inconsistencies in the tax laws of countries where the Company operates or is incorporated may lead to increased uncertainty with respect to tax positions or otherwise increase the potential for double taxation. Proposals for U.S. tax reform also potentially could have a significant adverse effect on us. In addition, the European Commission has conducted investigations in multiple countries focusing on whether local country tax legislation or rulings provide preferential tax treatment in violation of European Union state aid rules. Any impacts of these actions could increase the Company's tax liabilities, which in turn could have a material adverse effect on the Company's results of operations and financial condition.

The Parent Company is incorporated in Bermuda. The directors intend to conduct the Parent Company's affairs such that, based on current law and practice of the relevant tax authorities, the Parent Company will not become resident for tax purposes in any other territory. At the present time, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by the Parent Company or by its shareholders in respect of its common shares. The Parent Company has obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 31, 2035, be applicable to it or to any of its operations or to its shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or is payable by it in respect of real property owned or leased by it in Bermuda. Given the limited duration of the Minister of Finance's assurance, the Parent Company cannot be certain that it will not be subject to Bermuda tax after March 31, 2035. In the event the Parent Company were to become subject to any Bermuda tax after such date, it could have a material adverse effect on the Parent Company's results of operations and financial condition.

Likewise, Signet's non-U.S. subsidiaries operate in a manner that they should not be subject to U.S. income tax because none of them should be treated as engaged in a trade or business in the U.S. If, despite this, the IRS were to successfully contend that the Parent Company or any of its non-U.S. subsidiaries are engaged in a trade or business in the U.S., such entity could be subject to U.S. corporate income and branch profits taxes on the portion of its earnings effectively connected to such U.S. business, which could adversely affect the Company's results of operations.

In addition, The Tax Cuts and Jobs Act of 2017 (the "TCJ Act"), which was signed into law on December 22, 2017, makes significant changes to the taxation of U.S. business entities. These changes include a permanent reduction to the federal corporate income tax rate and changes in the deductibility of interest on corporate debt obligations, among others. The Company is currently evaluating the TCJ Act. The full impact of the TCJ Act on the Company in future periods cannot be predicted at this time and no assurances in that regard are made by the Company.

Investors may face difficulties in enforcing proceedings against Signet Jewelers Limited as it is domiciled in Bermuda.

It is doubtful whether courts in Bermuda would enforce judgments obtained by investors in other jurisdictions, including the US, Canada and the UK, against the Parent Company or its directors or officers under the securities laws of those jurisdictions or entertain actions in Bermuda against the Parent Company or its directors or officers under the securities laws of other jurisdictions.

Any difficulty executing or integrating an acquisition, a business combination or a major business initiative may result in expected returns and other projected benefits from such an exercise not being realized.

Any difficulty in executing or integrating an acquisition, a business combination, a major business initiative or a transformation plan, including our direct diamond sourcing capabilities, may result in expected returns and other projected benefits from such an exercise not being realized. The acquisition of companies with operating margins lower than that of Signet may cause an overall lower operating margin for Signet. Signet's current borrowing agreements place certain limited constraints on our ability to make an acquisition or enter into a business combination, and future borrowing agreements could place tighter constraints on such actions.

A significant transaction could also disrupt the operation of our current activities and divert significant management time and resources. For example, Signet experienced disruptions in its information technology systems and processes during its credit outsourcing transition in 2017, including server interruptions and downtime, which resulted in calls to customer service centers leading to long wait times. In addition, Signet announced a new transformation plan in 2018. Any such difficulty in executing an acquisition, business combination, a major business initiative or a transformation plan could have a direct material adverse effect on Signet's results of operations.

The Company's ability to protect intellectual property could have a negative impact on our brands, reputation and operating results.

Signet's trade names, trademarks, copyrights, patents and other intellectual property are important assets and an essential element of the Company's strategy. The unauthorized reproduction, theft or misappropriation of Signet's intellectual property could diminish the value of its brands or reputation and cause a decline in sales. Protection of Signet's intellectual property and maintenance of distinct branding are particularly important as they distinguish our products and services from those of our competitors. The costs of defending our intellectual property may adversely affect the Company's operating results. In addition, any infringement or other intellectual property claim made against Signet, whether or not it has merit, could be time-consuming, result in costly litigation, cause product delays, or require the Company to enter into royalty or licensing agreements. As a result, any such claim could have a material adverse effect on Signet's operating results.

Table of Contents

If the Company’s goodwill or indefinite-lived intangible assets become impaired, we may be required to record significant charges to earnings.

We have a substantial amount of goodwill and indefinite-lived intangible assets on our balance sheet as a result of acquisitions. We review goodwill and indefinite-lived intangible assets for impairment annually or whenever events or circumstances indicate impairment may have occurred. During the first quarter of Fiscal 2019, the Company observed a general decline in the market valuation of the Company’s common shares which could impact the assumptions used to perform an evaluation of its indefinite-lived intangible assets, including goodwill and trade names. Application of the impairment test requires judgment, including the identification of reporting units, assignment of assets, liabilities and goodwill to reporting units, and the determination of fair value of each reporting unit. There is a risk that a significant deterioration in a key estimate or assumption or a less significant deterioration to a combination of assumptions or the sale of a part of a reporting unit could result in an impairment charge in the future, which could have a significant adverse impact on our reported earnings.

For further information on our testing for goodwill impairment, see “Critical Accounting Policies” under Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Recent changes in the Company’s executive management team or the loss of additional key executive officers or employees could be disruptive to, or cause uncertainty in, its business or adversely impact performance.

On July 31, 2017, Mark Light retired from the Board of Directors and his position as Chief Executive Officer of the Company. The Company’s Board of Directors appointed Virginia C. Drosos, a member of the Board of Directors, as the Company’s Chief Executive Officer.

Signet’s future success will partly depend upon the ability of senior management and other key employees to implement an appropriate business strategy. While Signet has entered into termination protection agreements with such key personnel, the retention of their services cannot be guaranteed and the loss of such services could have a material adverse effect on Signet’s ability to conduct its business. If the Company is not effective in succession planning, there may be a negative impact on the Company's ability to successfully hire for key executive management roles in a timely manner. In addition, any new executives may wish, subject to Board approval, to change the strategy of Signet. The appointment of new executives may therefore adversely impact performance.

Signet’s business could be affected by extreme weather conditions or natural disasters.

Extreme weather conditions in the areas in which the Company’s stores are located could negatively affect the Company’s business and results of operations. For example, frequent or unusually heavy snowfall, ice storms, or other extreme weather conditions over a prolonged period could make it difficult for the Company’s customers to travel to its stores and thereby reduce the Company’s sales and profitability.

In addition, natural disasters such as hurricanes, tornadoes, earthquakes, or wildfires, or a combination of these or other factors, could damage or destroy the Company’s facilities or make it difficult for customers to travel to its stores, thereby negatively affecting the Company’s business and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Table of Contents

ITEM 2. PROPERTIES

The following table provides the location, use and size of our distribution, corporate and other non-retail facilities required to support the Company's global operations as of February 3, 2018:

Location	Function	Approximate square footage	Lease or Own	Lease expiration
Akron, Ohio	Corporate and distribution	460,000	Lease	2048
Akron, Ohio	Credit[(1)]	86,000	Lease	2048
Akron, Ohio	Training	12,000	Lease	2048
Akron, Ohio	Repair facility	38,000	Own	N/A
Akron, Ohio	Corporate	34,900	Lease	2019
Barberton, Ohio	Non-merchandise fulfillment	135,000	Lease	2032
New York City, New York	Design	4,600	Lease	2019
New York City, New York	Diamond trading	2,000	Lease	2021
New York City, New York	Corporate	10,824	Lease	2023
New York City, New York	Corporate	813	Lease	2018
New York City, New York	Storage	1,254	Lease	2023
Irving, Texas	Corporate and distribution	414,000	Lease	2018
Dallas, Texas	Repair facility	30,800	Lease	2028
Dallas, Texas	Corporate	225,000	Lease	2028
Frederick, Maryland	Customer service	7,716	Lease	2018
Toronto, Ontario (Canada)	Distribution and fulfillment	26,000	Lease	2019
Birmingham, UK	Corporate, distribution and e-commerce fulfillment	235,000	Own	N/A
Borehamwood, Hertfordshire (UK)	Corporate	36,200	Lease	2020
Gaborone, Botswana	Diamond polishing	34,200	Own	N/A
Mumbai, India	Diamond liaison	3,000	Lease	2018
Mumbai, India	Diamond liaison	2,936	Lease	2019
Ramat-Gan, Israel	Technology center	1,000	Lease	2019
Herzelia, Israel	Technology center	7,125	Lease	2019

(1) 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. In conjunction with this transaction, the indicated property has been subleased to multiple third party service providers. See Note 3 of Item 8 for further details.

Sufficient distribution exists in all geographies to meet the respective needs of the Company's operations.

Global retail property

Signet attributes great importance to the location and appearance of its stores. Accordingly, in each of Signet's divisions, investment decisions on selecting sites and refurbishing stores are made centrally, and strict real estate and investment criteria are applied. Below is a summary of property details by geography for our retail operations as of February 3, 2018:

	Sterling Jewelers division				Zale division						UK Jewelry division			Signet
	Kay	Jared	Regional brands	Total	Zales	Peoples	Regional brands	Total Zale Jewelry	Piercing Pagoda	Total	H.Samuel	Ernest Jones	Total	Total stores
US	1,247	274	65	1,586	704	—	17	721	598	1,319	—	—	—	2,905
Canada	—	—	—	—	—	129	18	147	—	147	—	—	—	147
United Kingdom	—	—	—	—	—	—	—	—	—	—	289	198	487	487
	—	—	—	—	—	—	—	—	—	—	10	4	14	14

Republic of Ireland														
Channel Islands	—	—	—	—	—	—	—	—	—	—	2	1	3	3
Total	1,247	274	65	1,586	704	129	35	868	598	1,466	301	203	504	3,556

Table of Contents

Store locations by US state and Canadian province, as of February 3, 2018, are as follows:

	Sterling Jewelers division				Zale division						Signet
	Kay	Jared	Regional brands	Total	Zales	Peoples	Regional brands	Total Zale Jewelry	Piercing Pagoda	Total	Total Stores
Alabama	28	4	1	33	12	—	—	12	4	16	49
Alaska	3	—	—	3	2	—	—	2	—	2	5
Arizona	20	8	1	29	12	—	—	12	10	22	51
Arkansas	10	1	—	11	9	—	1	10	—	10	21
California	80	20	—	100	53	—	—	53	41	94	194
Colorado	16	6	—	22	16	—	—	16	4	20	42
Connecticut	14	2	1	17	10	—	—	10	15	25	42
Delaware	4	2	—	6	4	—	—	4	6	10	16
Florida	89	23	6	118	52	—	2	54	71	125	243
Georgia	53	13	3	69	23	—	—	23	12	35	104
Hawaii	8	1	—	9	6	—	—	6	—	6	15
Idaho	5	1	—	6	2	—	—	2	—	2	8
Illinois	46	12	1	59	24	—	—	24	20	44	103
Indiana	31	6	5	42	13	—	—	13	14	27	69
Iowa	21	2	—	23	7	—	—	7	4	11	34
Kansas	9	2	—	11	7	—	—	7	5	12	23
Kentucky	21	3	3	27	8	—	—	8	6	14	41
Louisiana	19	3	1	23	15	—	4	19	—	19	42
Maine	6	1	—	7	1	—	—	1	2	3	10
Maryland	31	9	3	43	15	—	—	15	23	38	81
Massachusetts	25	6	1	32	11	—	—	11	21	32	64
Michigan	43	9	5	57	18	—	—	18	9	27	84
Minnesota	17	4	2	23	9	—	—	9	7	16	39
Mississippi	15	—	—	15	8	—	—	8	—	8	23
Missouri	24	5	—	29	10	—	—	10	6	16	45
Montana	3	—	—	3	—	—	—	—	—	—	3
Nebraska	8	—	—	8	3	—	—	3	1	4	12
Nevada	10	3	—	13	7	—	1	8	5	13	26
New Hampshire	11	4	2	17	5	—	—	5	7	12	29
New Jersey	31	8	—	39	18	—	—	18	33	51	90
New Mexico	5	1	—	6	9	—	—	9	3	12	18
New York	68	8	1	77	42	—	—	42	64	106	183
North Carolina	49	12	—	61	19	—	—	19	19	38	99
North Dakota	4	—	—	4	3	—	—	3	1	4	8
Ohio	72	16	10	98	19	—	—	19	22	41	139
Oklahoma	15	2	—	17	10	—	2	12	2	14	31
Oregon	15	3	—	18	4	—	—	4	5	9	27
Pennsylvania	62	11	4	77	31	—	—	31	60	91	168
Rhode Island	4	1	—	5	2	—	—	2	3	5	10
South Carolina	27	3	1	31	10	—	—	10	7	17	48
South Dakota	3	—	—	3	3	—	—	3	1	4	7
Tennessee	29	8	1	38	18	—	—	18	5	23	61

31

Table of Contents

Texas	84	31	—	115	99	—	7	106	19	125	240
Utah	11	3	—	14	1	—	—	1	3	4	18
Vermont	2	—	—	2	1	—	—	1	1	2	4
Virginia	41	10	3	54	25	—	—	25	25	50	104
Washington	19	3	4	26	12	—	—	12	13	25	51
West Virginia	10	—	4	14	5	—	—	5	7	12	26
Wisconsin	24	4	2	30	8	—	—	8	12	20	50
Wyoming	2	—	—	2	3	—	—	3	—	3	5
US	1,247	274	65	1,586	704	—	17	721	598	1,319	2,905
Alberta	—	—	—	—	—	20	2	22	—	22	22
British Columbia	—	—	—	—	—	21	2	23	—	23	23
Manitoba	—	—	—	—	—	5	—	5	—	5	5
New Brunswick	—	—	—	—	—	3	—	3	—	3	3
Newfoundland	—	—	—	—	—	2	—	2	—	2	2
Nova Scotia	—	—	—	—	—	5	—	5	—	5	5
Ontario	—	—	—	—	—	64	14	78	—	78	78
Prince Edward Island	—	—	—	—	—	1	—	1	—	1	1
Saskatchewan	—	—	—	—	—	8	—	8	—	8	8
Canada	—	—	—	—	—	129	18	147	—	147	147
Total North America	1,247	274	65	1,586	704	129	35	868	598	1,466	3,052

North America retail property

Signet's Sterling Jewelers, Zale Jewelry and Piercing Pagoda segments operate stores and kiosks in the US, with substantially all of the locations being leased. In addition to a minimum annual rent cost, the majority of mall stores are also liable to pay rent based on sales above a specified base level. In Fiscal 2018, most of the mall stores and kiosks only made base rental payments. Under the terms of a typical lease, the Company is required to conform and maintain its usage to agreed standards, including meeting required advertising expenditure as a percentage of sales, and are responsible for its proportionate share of expenses associated with common area maintenance, utilities and taxes of the mall.

The initial term of a mall store lease is generally ten years for Sterling Jewelers and Zale Jewelry and one to five years for Piercing Pagoda kiosks. Towards the end of a lease, management evaluates whether to renew a lease and refit the store, using similar operational and investment criteria as for a new store. Where management is uncertain whether the location will meet management's required return on investment, but the store is profitable, the leases may be renewed for one to five years, during which time the store's performance is further evaluated. There are typically 250 to 300 such mall stores at any one time in the Sterling Jewelers segment, as well as the Zale Jewelry segment. Jared stores are normally opened on 10 year leases with options to extend the lease, and rents are not sales related. A refurbishment of a Jared store is normally undertaken every five to ten years.

The Zale Jewelry segment operates stores in Canada, all under operating leases, with terms and characteristics similar to the US locations described above.

At February 3, 2018, the average unexpired lease term of leased premises for the Sterling Jewelers segment was approximately 5 years for mall locations and 7 years for off-mall locations. Approximately 52% of these leases had terms expiring within five years. The cost of remodeling a mall store is similar to the cost of a new mall store, which is typically between \$0.1 million and \$0.5 million, depending on the scope of the remodel project. Jared refurbishments typically cost on average less than \$0.2 million. New Jared stores typically cost between \$2.1 million and \$3.3 million. In Fiscal 2018, a total of 42 store locations were remodeled (Fiscal 2017: 64 locations).

At February 3, 2018, the average unexpired lease term of leased premises for the Zale Jewelry and Piercing Pagoda segments was 4 and 2 years, respectively, with approximately 80% of these leases having terms expiring within five years. The cost of remodeling a Zale Jewelry mall store is similar to the cost of a new mall store, which is typically between \$0.3 million and \$0.7 million. The cost of a new Piercing Pagoda kiosk approximates \$0.1 million. In Fiscal 2018, store remodels were completed at 36 Zale Jewelry stores and 53 Piercing Pagoda kiosks. In Fiscal 2017, store remodels were completed at 42 Zale Jewelry stores and 83 Piercing Pagoda kiosks.

In the US, the Sterling Jewelers, Zale Jewelry and Piercing Pagoda segments collectively lease approximately 15% of store and kiosk locations from a single lessor. In Canada, Zale Jewelry leases approximately 50% of its store locations from four lessors, with no individual lessor relationship exceeding 15% of its store locations. The segments had no other relationship with any lessor relating to 10% or more of its locations.

During the past five fiscal years, the Company generally has been successful in renewing its store leases as they expire and has not experienced difficulty in securing suitable locations for its stores. No store lease is individually material to Signet's Sterling Jewelers, Zale Jewelry or Piercing Pagoda operations.

UK retail property

The UK Jewelry division's stores are generally leased under full repairing and insuring leases (equivalent to triple net leases in the US). Wherever possible, Signet is shortening the length of new leases that it enters into, or including break clauses in order to improve the flexibility of its lease commitments. At February 3, 2018, the average unexpired lease term of UK Jewelry premises was 6 years, and a majority of leases had either break clauses or terms expiring within five years. Rents are usually subject to upward review every five years if market conditions so warrant. An increasing proportion of rents also have an element related to the sales of a store, subject to a minimum annual value. At the end of the lease period, subject to certain limited exceptions, UK Jewelry leaseholders generally have statutory rights to enter into a new lease of the premises on negotiated terms. As current leases expire, Signet believes that it will be able to renew leases, if desired, for present store locations or to obtain leases in equivalent or improved locations in the same general area. Signet has not experienced difficulty in securing leases for suitable locations for its UK Jewelry stores. No store lease is individually material to Signet's UK Jewelry operations.

A typical UK Jewelry store undergoes a major remodel every ten years and a less costly refurbishment every five years. It is intended that these investments will be financed by cash from operating activities. The cost of remodeling a regular store is typically between £150,000 and £600,000 for both H.Samuel and Ernest Jones, while remodels in prestigious locations typically doubles those costs.

The UK Jewelry division has no relationship with any lessor relating to 10% or more of its store locations.

Other

The Company has entered into agreements to assign or sublease certain premises as of February 3, 2018. See Note 26 of Item 8 for additional information.

ITEM 3. LEGAL PROCEEDINGS

See discussion of legal proceedings in Note 26 of Item 8.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market and dividend information

The Company's common shares (symbol: SIG) are traded on the New York Stock Exchange. The following table sets forth the high and low sale prices per common share and the dividends per share declared on the common shares during the periods indicated:

	Fiscal 2018			Fiscal 2017		
	High	Low	Dividend	High	Low	Dividend
First quarter	$79.16	$63.25	$ 0.31	$124.03	$94.71	$ 0.26
Second quarter	$65.68	$47.88	$ 0.31	$109.48	$79.26	$ 0.26
Third quarter	$69.75	$51.89	$ 0.31	$95.50	$73.16	$ 0.26
Fourth quarter	$76.58	$49.80	$ 0.31	$98.72	$79.99	$ 0.26

On March 14, 2018, the Board of Directors (the "Board") declared a 20% increase in the first quarter dividend, resulting in an increase from $0.31 to $0.37 per Signet common share. Future payments of quarterly dividends will be based on Signet's ability to satisfy all applicable statutory and regulatory requirements and its continued financial strength. Any future payment of cash dividends will depend upon such factors as Signet's earnings, capital requirements, financial condition, restrictions under Signet's credit facility, legal restrictions and other factors deemed relevant by the Board.

Number of common shareholders

As of March 28, 2018, there were approximately 7,144 shareholders of record.

Repurchases of equity securities

The following table contains the Company's repurchases of common shares in the fourth quarter of Fiscal 2018:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs[1]	Approximate dollar value of shares that may yet be purchased under the plans or programs
October 29, 2017 to November 25, 2017	—	$ —	—	$650,586,636
November 26, 2017 to December 30, 2017	—	$ —	—	$650,586,636
December 31, 2017 to February 3, 2018	—	$ —	—	$650,586,636
Total	—	$ —	—	$650,586,636

(1) In February 2016 and August 2016, the Board of Directors authorized the repurchase of Signet's common shares up to $750.0 million and $625.0 million, respectively, for a combined total of $1,375.0 million (the "2016 Program"). In June 2017, the Board of Directors authorized a new program to repurchase $600.0 million of Signet's common shares (the "2017 Program"). The 2016 Program and 2017 Program may be suspended or discontinued at any time without notice. See Note 7 of Item 8 for additional information.

Table of Contents

Performance graph

The following performance graph and related information shall not be deemed "soliciting material" or to be filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that Signet specifically incorporates it by reference into such filing.

Historical share price performance should not be relied upon as an indication of future share price performance. The following graph compares the cumulative total return to holders of Signet's common shares against the cumulative total return of the S&P 500 Index and the S&P 500 Specialty Retail Index for the five year period ended February 3, 2018. The comparison of the cumulative total returns for each investment assumes that $100 was invested in Signet's common shares and the respective indices on February 2, 2013 through February 3, 2018.

Related Shareholder Matters

The Parent Company is classified by the Bermuda Monetary Authority as a non-resident of Bermuda for exchange control purposes. Issues and transfers of common shares involving persons regarded as non-residents of Bermuda for exchange control purposes may be effected without specific consent under the Exchange Control Act 1972 of Bermuda and regulations thereunder. Issues and transfers of common shares involving persons regarded as residents in Bermuda for exchange control purposes may require specific prior approval under the Exchange Control Act 1972 of Bermuda and regulations thereunder.

The owners of common shares who are non-residents of Bermuda are not subject to any restrictions on their rights to hold or vote their shares. Because the Parent Company is classified as a non-resident of Bermuda for exchange control purposes, there are no restrictions on its ability to transfer funds into and out of Bermuda or to pay dividends, other than in respect of local Bermuda currency.

There is no reciprocal tax treaty between Bermuda and the United States regarding withholding taxes. Under existing Bermuda law, there is no Bermuda income or withholding tax on dividends paid by the Parent Company to its shareholders. Furthermore, under existing Bermuda law, no Bermuda tax is levied on the sale or transfer of Signet common shares.

Table of Contents

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The financial data included below for Fiscal 2018, Fiscal 2017 and Fiscal 2016 has been derived from the audited consolidated financial statements included in Item 8. The financial data for these periods should be read in conjunction with the financial statements, including the notes thereto, and Item 7. The financial data included below for Fiscal 2015 and Fiscal 2014 has been derived from the previously published consolidated audited financial statements not included in this document.

FINANCIAL DATA:	Fiscal 2018(1)	Fiscal 2017	Fiscal 2016	Fiscal 2015(2)	Fiscal 2014
Income statement:	(in millions)				
Sales	$6,253.0	$6,408.4	$6,550.2	$5,736.3	$4,209.2
Gross margin	$2,190.0	$2,360.8	$2,440.4	$2,074.2	$1,580.5
Selling, general and administrative expenses	$(1,872.2)	$(1,880.2)	$(1,987.6)	$(1,712.9)	$(1,196.7)
Operating income	$579.9	$763.2	$703.7	$576.6	$570.5
Net income attributable to common shareholders	$486.4	$531.3	$467.9	$381.3	$368.0
Adjusted EBITDA(3)	$770.3	$955.0	$891.5	$762.9	$680.7
Same store sales percentage (decrease) increase	(5.3)%	(1.9)%	4.1%	4.1%	4.4%
	(Income statement as a % of sales)				
Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Gross margin	35.0%	36.8%	37.3%	36.2%	37.5%
Selling, general and administrative expenses	(29.9)%	(29.3)%	(30.4)%	(29.9)%	(28.4)%
Operating income	9.3%	11.9%	10.7%	10.0%	13.5%
Net income attributable to common shareholders	7.8%	8.3%	7.1%	6.6%	8.7%
Adjusted EBITDA(3)	12.3%	14.9%	13.6%	13.3%	16.2%
Per share data:					
Earnings per common share:					
Basic	$7.72	$7.13	$5.89	$4.77	$4.59
Diluted	$7.44	$7.08	$5.87	$4.75	$4.56
Dividends declared per common share	$1.24	$1.04	$0.88	$0.72	$0.60
Weighted average common shares outstanding:	(in millions)				
Basic	63.0	74.5	79.5	79.9	80.2
Diluted	69.8	76.7	79.7	80.2	80.7
Balance sheet:	(in millions)				
Total assets	$5,839.6	$6,597.8	$6,464.9	$6,203.0	$3,916.1
Total liabilities	$2,726.2	$3,495.7	$3,404.2	$3,392.6	$1,353.0
Series A redeemable convertible preferred shares	$613.6	$611.9	n/a	n/a	n/a
Net (debt) cash(3)	$(507.1)	$(1,310.3)	$(1,241.0)	$(1,256.4)	$228.3
Working capital	$2,408.9	$3,438.9	$3,437.0	$3,210.3	$2,467.0
Common shares outstanding	60.5	68.3	79.4	80.3	80.2

(1) On September 12, 2017, the Company completed the acquisition of R2Net. Fiscal 2018 results include R2Net's results since the date of acquisition. See Note 3 of Item 8 for additional information.

(2) On May 29, 2014, the Company completed the acquisition of Zale Corporation. Fiscal 2015 results include Zale Corporation's results since the date of acquisition.

(3) Adjusted EBITDA and net (debt) cash are non-GAAP measures; see “GAAP and non-GAAP Measures” below.
n/a Not applicable as Series A redeemable convertible preferred shares were issued in October 2016.

Table of Contents

	Fiscal 2018	Fiscal 2017	Fiscal 2016	Fiscal 2015[1]	Fiscal 2014
Other financial data:					
Free cash flow (in millions)[2]	$1,703.1	$400.3	$216.8	$62.8	$82.8
Effective tax rate	1.5 %	23.9 %	28.9 %	29.5 %	35.0 %
ROCE[2]	19.1 %	21.4 %	21.0 %	19.5 %	25.2 %
Adjusted leverage ratio[2]	3.1x	3.6x	3.3x	3.5x	1.8x
Store and employee data:					
Store locations (at end of period)	3,556	3,682	3,625	3,579	1,964
Number of employees (full-time equivalents)	24,888	[3] 29,566	[3] 29,057	[3] 28,949	[3] 18,179

(1) On May 29, 2014, the Company completed the acquisition of Zale Corporation. Fiscal 2015 includes Zale Corporation's results since the date of acquisition.

(2) Free cash flow, ROCE and adjusted leverage ratio are non-GAAP measures; see "GAAP and non-GAAP Measures" below.

(3) Number of employees includes 127, 194, 226 and 211 full-time equivalents employed in the diamond polishing plant located in Botswana for Fiscal 2017, Fiscal 2016, Fiscal 2015, and Fiscal 2014, respectively.

GAAP AND NON-GAAP MEASURES

The discussion and analysis of Signet's results of operations, financial condition and liquidity contained in this Annual Report on Form 10-K are based upon the consolidated financial statements of Signet which are prepared in accordance with US GAAP and should be read in conjunction with Signet's financial statements and the related notes included in Item 8. A number of non-GAAP measures are used by management to analyze and manage the performance of the business, and the required disclosures for these non-GAAP measures are shown below.

Signet provides such 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 substitution for, financial information prepared in accordance with GAAP.

1. Net Debt

Net debt is a non-GAAP measure defined as 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)	February 3, 2018	January 28, 2017	January 30, 2016
Cash and cash equivalents	$ 225.1	$98.7	$137.7
Loans and overdrafts	(44.0)	(91.1)	(57.7)
Long-term debt	(688.2)	(1,317.9)	(1,321.0)
Net debt	$ (507.1)	$(1,310.3)	$(1,241.0)

2. Return on Capital Employed Excluding Goodwill ("ROCE")

ROCE is a non-GAAP measure calculated by dividing the 52 week annual operating income by the average quarterly capital employed and is expressed as a percentage. Capital employed includes accounts and other receivables, inventories, property, plant and equipment, other assets, accounts payable, accrued expenses and other current liabilities, other liabilities, deferred revenue and retirement benefit asset/obligation. This is a key performance indicator used by management for assessing the effective operation of the business and is considered a useful disclosure for investors as it provides a measure of the return on Signet's operating assets. Further, this metric is utilized in evaluating management performance and incorporated into management's long-term incentive plan metrics.

	Fiscal 2018	Fiscal 2017	Fiscal 2016	Fiscal 2015	Fiscal 2014
ROCE	19.1%	21.4%	21.0%	19.5%	25.2%

37

Table of Contents

3. 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 that this is 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 millions)	Fiscal 2018	Fiscal 2017	Fiscal 2016
Net cash provided by operating activities	$1,940.5	$678.3	$443.3
Purchase of property, plant and equipment	(237.4)	(278.0)	(226.5)
Free cash flow	$1,703.1	$400.3	$216.8

4. Leverage Ratio

The leverage ratio is a non-GAAP measure calculated by dividing Signet's adjusted debt by adjusted EBITDAR. Adjusted debt is a non-GAAP measure defined as debt recorded in the consolidated balance sheet, plus Series A redeemable convertible preferred shares, plus an adjustment for operating leases (5x annual rent expense). Prior to the termination of the asset-backed securitization in Fiscal 2018, this measure was also reduced by 70% of outstanding in-house finance receivables recorded in the consolidated balance sheet. Adjusted EBITDAR is a non-GAAP measure. Adjusted EBITDAR is defined as earnings before interest and income taxes, depreciation and amortization, and non-cash acquisition-related accounting adjustments ("Adjusted EBITDA") and further excludes rent expense for properties occupied under operating leases. Prior to Fiscal 2018, this measure also excluded non-cash share-based compensation expense and the income statement impact of the finance receivables related to the in-house credit program. Adjusted EBITDA and Adjusted EBITDAR are considered important indicators of operating performance as they exclude the effects of financing and investing activities by eliminating the effects of interest, depreciation and amortization costs and accounting adjustments. Management believes these financial measures are helpful to enhancing investors' ability to analyze trends in Signet's business and evaluate Signet's performance relative to other companies. Management also utilizes these metrics to evaluate its current credit profile, which is similar to rating agency methodologies.

Table of Contents

(in millions)	Fiscal 2018		Fiscal 2017	Fiscal 2016	Fiscal 2015	Fiscal 2014
Adjusted debt:						
Long-term debt	$688.2		$1,317.9	$1,321.0	$1,354.3	$—
Loans and overdrafts	44.0		91.1	57.7	95.7	19.3
Series A redeemable convertible preferred shares[(1)]	613.6		611.9	n/a	n/a	n/a
Adjustments:						
5x Rent expense	2,640.5	(3)				
8x Rent expense	*	(3)	4,195.2	4,205.6	3,703.2	2,589.6
70% of in-house credit program financing receivables	n/a		(1,269.3)	(1,208.2)	(1,087.0)	(949.2)
Adjusted debt	$3,986.3		$4,946.8	$4,376.1	$4,066.2	$1,659.7
Adjusted EBITDAR:						
Net income	$519.3		$543.2	$467.9	$381.3	$368.0
Income taxes	7.9		170.6	189.9	159.3	198.5
Interest expense, net	52.7		49.4	45.9	36.0	4.0
Depreciation and amortization on property, plant and equipment[(2)]	194.1		175.0	161.4	140.4	110.2
Amortization of definite-lived intangibles[(2)]	9.3		13.8	13.9	9.3	—
Amortization of unfavorable leases and contracts	(13.0)		(19.7)	(28.7)	(23.7)	—
Other non-cash accounting adjustments	—		22.7	41.2	60.3	—
Adjusted EBITDA	$770.3		$955.0	$891.5	$762.9	$680.7
Rent expense	528.1		524.4	525.7	462.9	323.7
Share-based compensation expense	*	(3)	8.0	16.4	12.1	14.4
Finance income from in-house credit program	n/a		(277.6)	(252.5)	(217.9)	(186.4)
Late charge income	n/a		(36.0)	(33.9)	(31.3)	(29.4)
Net bad debt expense	n/a		212.1	190.5	160.0	138.3
Adjusted EBITDAR	$1,298.4		$1,385.9	$1,337.7	$1,148.7	$941.3
Adjusted Leverage ratio[(4)]	3.1x		3.6x	3.3x	3.5x	1.8x

(1) Series A redeemable convertible preferred shares were issued in October 2016.

(2) Total amount of depreciation and amortization reflected on the consolidated statement of cash flows for Fiscal 2018, Fiscal 2017 and Fiscal 2016 equals $203.4 million, $188.8 million and $175.3 million, respectively, which includes $9.3 million, $13.8 million and $13.9 million, respectively, related to the amortization of definite-lived intangibles, primarily favorable leases and trade names.

(3) Adjusted debt and adjusted EBITDA have been recalculated to align with methodologies commonly utilized by credit rating agencies and others in evaluating leverage.

(4) Adjusted leverage ratio would have been as follows in the comparable periods if adjusted debt reflected 5x rent expense:

Fiscal 2017: 2.4x, Fiscal 2016: 2.1x, Fiscal 2015: 2.3x, and Fiscal 2014: 0.7x.

n/a Not applicable.

Table of Contents

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements which are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, based upon management’s beliefs and expectations as well as on assumptions made by and data currently available to management, appear in a number of places throughout this Annual Report on Form 10-K and include statements regarding, among other things, Signet’s results of operation, financial condition, liquidity, prospects, growth, strategies and the industry in which Signet operates. The use of the words “expects,” “intends,” “anticipates,” “estimates,” “predicts,” “believes,” “should,” “potential,” “r “forecast,” “objective,” “plan,” or “target,” and other similar expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to a number of risks and uncertainties, including but not limited to 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 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 IT disruptions, future financial results and operating results, the timing and expected completion of the second phase of the credit outsourcing, the impact of weather-related incidents on Signet’s business, the benefits and integration of R2Net, general economic conditions, regulatory changes following the United Kingdom’s announcement to exit from the European Union, a decline in consumer spending, the merchandising, pricing and inventory policies followed by Signet, the reputation of Signet and its brands, the level of competition in the jewelry sector, the cost and availability of diamonds, gold and other precious metals, regulations relating to customer credit, seasonality of Signet’s business, financial market risks, deterioration in customers’ financial condition, exchange rate fluctuations, changes in Signet’s credit rating, changes in consumer attitudes regarding jewelry, management of social, ethical and environmental risks, the development and maintenance of Signet’s omni-channel retailing, security breaches and other disruptions to Signet’s information technology infrastructure and databases, inadequacy in and disruptions to internal controls and systems, changes in assumptions used in making accounting estimates relating to items such as extended service plans and pensions, risks 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, and our ability to successfully integrate Zale Corporation’s operations and to realize synergies from the transaction.

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

GAAP AND NON-GAAP MEASURES

The following discussion and analysis of the results of operations, financial condition and liquidity is based upon the consolidated financial statements of Signet which are prepared in accordance with US GAAP. The following information should be read in conjunction with Signet’s financial statements and the related notes included in Item 8. A number of non-GAAP measures are used by management to analyze and manage the performance of the business. See Item 6 for the required disclosures related to these measures. Signet provides such non-GAAP information in reporting its financial results to give investors additional data to evaluate its operations. The Company’s management does not, nor does it suggest investors should, consider such non-GAAP measures in isolation from, or in substitution for, financial information prepared in accordance with GAAP.

Exchange Translation Impact

The monthly average exchange rates are used to prepare the income statement and are calculated each month from the weekly average exchange rates weighted by sales. In Fiscal 2019, it is anticipated a five percent movement in the British pound to US dollar exchange rate would impact income before income taxes by approximately $2.0 million, while a five percent movement in the Canadian dollar to US dollar exchange rate would have a negligible impact on income before income taxes.

Fiscal 2018 Overview

Similar to many other retailers, Signet follows the retail 4-4-5 reporting calendar, which included an extra week in the fourth quarter of Fiscal 2018 (the "53rd week"). The 53rd week added $84.3 million in net sales and increased diluted earnings per share by approximately $0.12 for both the quarter and Fiscal 2018.

Same store sales decreased 5.3% compared to a decrease of 1.9% in Fiscal 2017; total sales were down 2.4% to $6.3 billion compared to $6.4 billion in Fiscal 2017. Operating margin decreased 260 basis points to 9.3% compared to 11.9% in Fiscal 2017. Operating income decreased 24.0% to $579.9 million compared to $763.2 million in Fiscal 2017. Diluted earnings per share increased 5.1% to $7.44 compared to $7.08 in Fiscal 2017. Merchandise categories and collections were broadly lower, partially offset by e-commerce and Piercing Pagoda total sales increases.

Table of Contents

Signet's long-term debt was $688.2 million at February 3, 2018 and $1.3 billion at January 28, 2017. Cash and cash equivalents were $225.1 million and $98.7 million, as of February 3, 2018 and January 28, 2017, respectively. During Fiscal 2018, Signet repurchased 8.1 million shares, which represented approximately 12% of the common shares outstanding, at an average cost of $56.91 per share.

Drivers of Operating Profitability

The key measures and drivers of operating profitability are:

- total sales - driven by the change in same store sales and net store selling space;
- gross margin - including the mix of results by store banner including brick-and-mortar locations and online;
- level of selling, general and administrative expenses; and
- other operating income, which primarily consists of finance income from the Company's credit operations.

Same Store Sales

Same store sales growth is calculated by comparison of sales in stores that were open in both the current and the prior fiscal year. Sales from stores that have been open for less than 12 months, are excluded from the comparison until their 12-month anniversary. Sales after the 12-month anniversary are compared against the equivalent prior period sales within the comparable store sales comparison. Stores closed in the current financial period are included up to the date of closure and the comparative period is correspondingly adjusted. Stores that have been relocated or expanded, but remain within the same local geographic area, are included within the comparison with no adjustment to either the current or comparative period. Stores that have been refurbished are also included within the comparison except for the period when the refurbishment was taking place, when those stores are excluded from the comparison both for the current year and for the comparative period. Sales to employees are also excluded. Comparisons at divisional level are made in local currency and consolidated comparisons are made at constant exchange rates and exclude the effect of exchange rate movements by recalculating the prior period results as if they had been generated at the weighted average exchange rate for the current period. E-commerce sales are included in the calculation of same store sales for the period and the comparative figures from the anniversary of the launch of the relevant website. Same store sales exclude the 53rd week in the fiscal year in which it occurs. Management considers same store sales useful as it is a major benchmark used by investors to judge performance within the retail industry.

Net Store Selling Space

	Sterling Jewelers division	Zale division	UK Jewelry division	Total Signet
Fiscal 2018				
Openings	87	26	3	116
Closures	(89)	(146)	(7)	(242)
Net change in store selling space	1.3 %	(9.0)%	(0.4)%	(1.7)%
Fiscal 2017				
Openings	76	77	9	162
Closures	(28)	(73)	(4)	(105)
Net change in store selling space	4.3 %	(0.2)%	1.0 %	2.6 %
Fiscal 2016				
Openings	60	38	10	108
Closures	(24)	(33)	(5)	(62)
Net change in store selling space	5.0 %	0.5 %	1.5 %	3.3 %

Cost of Sales and Gross Margin

Cost of sales is mostly composed of merchandise costs (net of discounts and allowances). Cost of sales also contains:

- Occupancy costs such as rent, common area maintenance, depreciation and real estate tax.
- Net bad debt expense and customers' late payments primarily under the in-house customer finance program.
- Store operating expenses such as utilities, displays and merchant credit costs.
- Distribution and warehousing costs including freight, processing, inventory shrinkage and related payroll.

As the classification of cost of sales or selling, general and administrative expenses varies from retailer to retailer and few retailers have in-house customer finance programs, Signet's gross margin percentage may not be directly comparable to other retailers.

Table of Contents

Factors that influence gross margin include pricing, changes in merchandise costs (principally diamonds), changes in non-merchandise components of cost of sales (as described above), changes in sales mix, foreign exchange, gold and currency hedges and the economics of services such as repairs and extended service plans. The price of diamonds varies depending on their size, cut, color and clarity. At times, Signet uses gold and currency hedges to reduce its exposure to market volatility in the cost of gold and the pound sterling to the US dollar exchange rate, but it is not able to do so for diamonds. For gold and currencies, the hedging period can extend to 24 months, although the majority of hedge contracts will normally be for a maximum of 12 months.

The percentage mix of the merchandise cost component of cost of sales, based on US dollars, is as follows:

	Sterling Jewelers division	Zale division	UK Jewelry division	Total Signet
Fiscal 2018				
Diamonds	54 %	35 %	16 %	45 %
Gold	13 %	15 %	15 %	14 %
All Other	33 %	50 %	69 %	41 %
Fiscal 2017				
Diamonds	54 %	36 %	16 %	45 %
Gold	14 %	14 %	15 %	14 %
All Other	32 %	50 %	69 %	41 %

Signet uses an average cost inventory methodology and, as jewelry inventory turns slowly, the impact of movements in the cost of diamonds and gold takes time to be fully reflected in the gross margin. Signet’s inventory turns faster in the fourth quarter than in the other three quarters, therefore, changes in the cost of merchandise is more impactful on the gross margin in that quarter. Furthermore, Signet’s hedging activities result in movements in the purchase cost of merchandise taking some time before being reflected in the gross margin. An increase in inventory turn would accelerate the rate at which commodity costs impact gross margin.

Accounts receivable comprise a large volume of transactions with no one customer representing a significant balance. The net bad debt expense includes an estimate of the allowance for losses as of the balance sheet date. In the fourth quarter of Fiscal 2018, the Company began measuring delinquency under the contractual basis which aligns with the processes and collection strategies utilized by the Company’s third party credit service provider for the remaining in-house finance receivable portfolio beginning in October 2017. Under this measure of delinquency, credit card accounts are considered delinquent if the minimum payment is not received by the specified due date. The aging method is based on the number of completed billing cycles during which the customer has failed to make a minimum payment. Management utilizes the delinquency rates identified within the portfolio when calculating the overall allowance for the portfolio.

The overall allowance continues to be based on the Company’s historical loss experience and payment performance information for accounts with similar credit quality characteristics as the remaining portfolio since the inception of the in-house consumer financing program, which was operated under the Company’s aging and collection methodologies in place prior to October 2017. As a result of the credit transaction disclosed in Note 3 of Item 8, the aging and collection methodologies have been revised to align with contractual method, which may result in different customer payment behaviors. A 100% allowance is made for accounts associated with bankrupt or deceased cardholders, as well as for accounts more than 120 days past due on the contractual basis. The Company’s policy for charging off uncollectible receivables is 180 days.

A small portion of sales under the Zale banners are financed through our in-house customer programs but represent an immaterial amount of the Company’s credit sales, receivable balance, and bad debt expense.

Selling, General and Administrative Expense (“SGA”)

SGA expense primarily includes store staff and store administrative costs as well as advertising and promotional costs. It also includes field support center expenses such as information technology, in-house credit operations prior to the Company’s outsourcing initiatives and third-party servicing of receivables subsequent to the outsourcing initiative, finance, e-commerce and other operating expenses not specifically categorized elsewhere in the consolidated income statements.

The primary drivers of staffing costs are the number of full time equivalent employees and the level of compensation, taxes and other benefits paid. Management varies, on a store by store basis, the hours worked based on the expected level of selling activity, subject to minimum staffing levels required to operate the store. Non-store staffing levels are less variable. A significant element of compensation is performance based and is primarily dependent on sales and operating profit.

The level of advertising expenditure can vary. The largest element of advertising expenditure is national television advertising and is determined by management's judgment of the appropriate level of advertising impressions and the cost of purchasing media.

Table of Contents

Other Operating Income

Other operating income is predominantly interest income arising from in-house customer finance provided to the customers of the Sterling Jewelers division. Its level is dependent on the rate of interest charged, the credit program selected by the customer and the level of outstanding balances. The level of outstanding balances is primarily dependent on the sales of the Sterling Jewelers division, the proportion of sales that use the in-house customer finance, as well as program mix and the monthly collection rate.

In October 2017, Signet, through its subsidiary Sterling Jewelers Inc., completed the sale of the prime-only credit quality portion of Sterling's in-house finance receivable portfolio to Comenity. In addition, during March 2018, the Company announced that it entered a definitive agreement with CarVal Investors to sell all eligible non-prime in-house accounts receivable. Subsequent to these transactions, the Company expects a material reduction in the amount of interest income it recognizes. See Note 3 in Item 8 for further detail on the Company's credit transactions.

Operating Income

To maintain current levels of operating income, Signet needs to achieve same store sales growth sufficient to offset any adverse movement in gross margin, any increase in operating costs, and any adverse changes in other operating income. Same store sales growth above the level required to offset the factors outlined above allows the business to achieve leverage of its cost base and improve operating income. Slower sales growth or a sales decline would normally result in reduced operating income. When foreseen, Signet may be able to reduce costs to help offset the impact of slow or negative sales growth. A key factor in driving operating income is the level of average sales per store, with higher productivity allowing leverage of expenses.

Results of Operations

	Fiscal 2018		Fiscal 2017		Fiscal 2016	
(in millions)	$	% of sales	$	% of sales	$	% of sales
Sales	$6,253.0	100.0 %	$6,408.4	100.0 %	$6,550.2	100.0 %
Cost of sales	(4,063.0)	(65.0)	(4,047.6)	(63.2)	(4,109.8)	(62.7)
Gross margin	2,190.0	35.0	2,360.8	36.8	2,440.4	37.3
Selling, general and administrative expenses	(1,872.2)	(29.9)	(1,880.2)	(29.3)	(1,987.6)	(30.4)
Credit transaction, net	1.3	—	—	—	—	—
Other operating income, net	260.8	4.2	282.6	4.4	250.9	3.8
Operating income	579.9	9.3	763.2	11.9	703.7	10.7
Interest expense, net	(52.7)	(0.9)	(49.4)	(0.8)	(45.9)	(0.7)
Income before income taxes	527.2	8.4	713.8	11.1	657.8	10.0
Income taxes	(7.9)	(0.1)	(170.6)	(2.6)	(189.9)	(2.9)
Net income	$519.3	8.3 %	$543.2	8.5 %	$467.9	7.1 %

COMPARISON OF FISCAL 2018 TO FISCAL 2017

- Same store sales: down 5.3%.
- Diluted earnings per share: up 5.1% to $7.44.

In Fiscal 2018, Signet's same store sales, which excluded the impact of the 53rd week from its calculation, decreased by 5.3%, compared to a decrease of 1.9% in Fiscal 2017. Total sales were $6.3 billion compared to $6.4 billion in Fiscal 2017, down $155.4 million or 2.4% compared to a decrease of 2.2% in Fiscal 2017. Merchandise categories and collections were broadly lower, partially offset by e-commerce, Piercing Pagoda total sales increase, the benefit of the 53rd week which contributed $84.3 million of sales and the addition of R2Net (acquired in September 2017) which contributed $88.1 million in sales for the year. E-commerce sales were $497.7 million and 8.0% of sales compared to $363.1 million and 5.7% of sales in Fiscal 2017.

Table of Contents

The breakdown of Signet's sales performance is set out in the table below.

Fiscal 2018	Change from previous year Same store sales(1)	Non-same store sales, net	Impact of 53rd week on total sales	Total sales at constant exchange rate	Exchange translation impact	Total sales as reported	Total sales (in millions)
Sterling Jewelers division	(7.0)%	3.0 %	1.2 %			(2.8)%	$ 3,820.5
Zale Jewelry	(1.9)%	(2.2)%	1.6 %	(2.5)%	0.3 %	(2.2)%	$ 1,516.2
Piercing Pagoda	3.0 %	1.4 %	1.5 %			5.9 %	$ 278.5
Zale division	(1.2)%	(1.7)%	1.6 %	(1.3)%	0.3 %	(1.0)%	$ 1,794.7
UK Jewelry division	(6.0)%	0.8 %	1.6 %	(3.6)%	(1.1)%	(4.7)%	$ 616.7
Other(2)						16.6 %	$ 21.1
Signet	(5.3)%	1.6 %	1.3 %	(2.4)%	— %	(2.4)%	$ 6,253.0

(1) Based on stores open for at least 12 months. E-commerce sales are included in the calculation of same store sales for the period and comparative figures from the anniversary of the launch of the relevant website. The Sterling Jewelers division includes R2Net sales for the 145 days since the date of acquisition.

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

Sterling Jewelers sales

In Fiscal 2018, Sterling Jewelers total sales were $3,820.5 million, down 2.8%, compared to $3,930.4 million in Fiscal 2017, and same store sales decreased 7.0% compared to a decrease of 2.6% in Fiscal 2017. Fiscal 2018 sales were driven by weakness in bridal in Kay and Jared, including lower year over year sales of the Ever Us collection. The decrease in bridal was disproportionately affected by systems and process disruptions associated with the outsourcing of credit services. Sterling Jewelers' average merchandise transaction value ("ATV") increased 3.1%, while the number of transactions decreased 10.9%. These results were driven by relatively stronger sales of higher-priced diamond jewelry collections.

Fiscal 2018	Changes from previous year Same store sales(1)	Non-same store sales, net	Impact of 53rd week on total sales	Total sales as reported	Total sales (in millions)
Kay	(8.0)%	2.5 %	1.1 %	(4.4)%	$ 2,428.1
Jared(2)	(5.5)%	1.1 %	1.5 %	(2.9)%	$ 1,192.1
R2Net(3)	29.9 %				$ 88.1
Regional brands	(19.8)%	(12.2)%	0.7 %	(31.3)%	$ 112.2
Sterling Jewelers division	(7.0)%	3.0 %	1.2 %	(2.8)%	$ 3,820.5

(1) Based on stores open for at least 12 months. E-commerce sales are included in the calculation of same store sales for the period and comparative figures from the anniversary of the launch of the relevant website.

(2) Includes smaller concept Jared stores such as Jared Vault and Jared Jewelry Boutique.

(3) Includes R2Net sales for the 145 day period since the date of acquisition. Same store sales presented for R2Net to provide comparative performance measure.

	Average Merchandise Transaction Value(1)(2)		Merchandise Transactions	
	Average Value	Change from previous year	Change from previous year	
Fiscal Year		Fiscal 2017	Fiscal 2018	Fiscal 2017

	Fiscal 2018	Fiscal 2017	Fiscal 2018				
Kay	$466	$458	1.5 %	6.5 %	(10.2)%	(8.4)%	
Jared	$594	$556	6.1 %	(0.4)%	(11.0)%	(5.1)%	
Regional brands	$484	$454	4.3 %	6.6 %	(23.4)%	(15.9)%	
Sterling Jewelers division	$502	$485	3.1 %	4.5 %	(10.9)%	(7.9)%	

(1) Average merchandise transaction value is defined as net merchandise sales on a same store basis divided by the total number of customer transactions.

(2) Net merchandise sales include all merchandise product sales, net of discounts and returns. In addition, excluded from net merchandise sales are sales tax in the US, repairs, warranty, insurance, employee and other miscellaneous sales.

Table of Contents

Zale division sales

The Zale division's Fiscal 2018 sales were $1,794.7 million compared to $1,812.8 million in Fiscal 2017. Zale Jewelry contributed $1,516.2 million and Piercing Pagoda contributed $278.5 million of revenues, compared to $1,549.7 million and $263.1 million, respectively, in the prior year. Same store sales decreased 1.2% compared to a decrease of 1.2% in Fiscal 2017. Sales reflected strength in diamond fashion jewelry, most notably in the Disney Enchanted and Vera Wang Love collections offset by weakness in bridal and beads which helped drive an ATV increase of 3.2%. Piercing Pagoda ATV increased 8.6%, while the number of transactions decreased 5.0% due to improved performance of gold fashion jewelery.

	Change from previous year						
Fiscal 2018	Same store sales(1)	Non-same store sales, net	Impact of 53rd week on total sales	Total sales at constant exchange rate	Exchange translation impact	Total sales as reported	Total sales (in millions)
Zales	(2.0)%	(0.6)%	1.6 %			(1.0)%	$ 1,244.3
Gordon's	(15.9)%	(21.3)%	1.0 %			(36.2)%	$ 36.8
Zale US Jewelry	(2.5)%	(1.7)%	1.6 %			(2.6)%	$ 1,281.1
Peoples	2.6 %	(1.7)%	1.7 %	2.6 %	2.5 %	5.1 %	$ 215.4
Mappins	(10.8)%	(25.5)%	0.9 %	(35.4)%	1.7 %	(33.7)%	$ 19.7
Zale Canada Jewelry	1.3 %	(5.1)%	1.6 %	(2.2)%	2.4 %	0.2 %	$ 235.1
Total Zale Jewelry	(1.9)%	(2.2)%	1.6 %	(2.5)%	0.3 %	(2.2)%	$ 1,516.2
Piercing Pagoda	3.0 %	1.4 %	1.5 %			5.9 %	$ 278.5
Zale division	(1.2)%	(1.7)%	1.6 %	(1.3)%	0.3 %	(1.0)%	$ 1,794.7

(1) Based on stores open for at least 12 months. E-commerce sales are included in the calculation of same store sales for the period and comparative figures from the anniversary of the launch of the relevant website.

	Average Merchandise Transaction Value(1)(2)				Merchandise Transactions	
	Average Value		Change from previous year		Change from previous year	
Fiscal Year	Fiscal 2018	Fiscal 2017	Fiscal 2018	Fiscal 2017	Fiscal 2018	Fiscal 2017
Zales	$470	$460	2.0 %	2.0 %	(4.3)%	(3.2)%
Gordon's	$479	$435	8.1 %	1.2 %	(19.6)%	(13.1)%
Peoples(3)	$429	$401	5.4 %	6.6 %	(3.7)%	(10.9)%
Mappins(3)	$371	$347	(1.6)%	4.5 %	(8.7)%	(8.4)%
Total Zale Jewelry	$440	$424	2.3 %	3.4 %	(4.7)%	(5.3)%
Piercing Pagoda	$63	$58	8.6 %	13.7%	(5.0)%	(6.2)%
Zale division	$224	$217	3.2 %	5.3 %	(4.9)%	(5.8)%

(1) Average merchandise transaction value is defined as net merchandise sales on a same store basis divided by the total number of customer transactions.

(2) Net merchandise sales include all merchandise product sales net of discounts and returns. In addition, excluded from net merchandise sales are repairs, warranty, insurance, employee and other miscellaneous sales.

(3) Amounts for Zale Canada Jewelry stores are denominated in Canadian dollars.

UK Jewelry sales

In Fiscal 2018, the UK Jewelry division's total sales were $616.7 million, down 4.7%, compared to $647.1 million in Fiscal 2017. Sales declines were due principally to bridal and diamond fashion jewelry partially offset by higher sales in select prestige watch brands and strength in e-commerce. Same store sales decreased by 6.0% compared to an increase of 0.1% in Fiscal 2017. ATV increased 9.7%, offset by a 14.7% decrease in the number of transactions.

	Change from previous year						
Fiscal 2018	Same store sales[1]	Non-same store sales, net	Impact of 53rd week on total sales	Total sales at constant exchange rate	Exchange translation impact	Total sales as reported	Total sales (in millions)
H.Samuel	(6.5)%	0.6 %	1.6 %	(4.3)%	(0.9)%	(5.2)%	$ 306.7
Ernest Jones	(5.6)%	1.1 %	1.6 %	(2.9)%	(1.3)%	(4.2)%	$ 310.0
UK Jewelry division	(6.0)%	0.8 %	1.6 %	(3.6)%	(1.1)%	(4.7)%	$ 616.7

(1) Based on stores open for at least 12 months. E-commerce sales are included in the calculation of same store sales for the period and comparative figures from the anniversary of the launch of the relevant website.

	Average Merchandise Transaction Value[1][2]				Merchandise Transactions	
	Average Value		Change from previous year		Change from previous year	
Fiscal Year	Fiscal 2018	Fiscal 2017	Fiscal 2018	Fiscal 2017	Fiscal 2018	Fiscal 2017
H.Samuel	£84	£77	9.1 %	2.7 %	(14.4)%	(4.9)%
Ernest Jones	£349	£309	12.2 %	14.0 %	(15.8)%	(11.3)%
UK Jewelry division	£136	£124	9.7 %	6.0 %	(14.7)%	(6.3)%

(1) Average merchandise transaction value is defined as net merchandise sales on a same store basis divided by the total number of customer transactions.

(2) Net merchandise sales 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.

Fourth Quarter Sales

In the fourth quarter, Signet's total sales were $2,293.1 million, down $23.2 million or 1.0%, compared to a decrease of 5.1% in the prior year fourth quarter. Same store sales were down 5.2% compared to a decrease of 4.5% in the prior year fourth quarter. The total sales increase was driven by the 14th week in sales, which contributed $84.3 million of sales, as well as the addition of R2Net which contributed $64.4 million in sales in the quarter, offset by the year-over-year decline in base same store sales. E-commerce sales in the fourth quarter were $253.8 million or 11.1% of total sales, compared to $161.8 million or 7.1% of total sales in the prior year fourth quarter. The breakdown of the sales performance is set out in the table below.

	Change from previous year						
Fourth quarter of Fiscal 2018	Same store sales[1]	Non-same store sales, net	Impact of 14th week on total sales	Total sales at constant exchange rate	Exchange translation impact	Total sales as reported	Total sales (in millions)
Sterling Jewelers division	(8.6)%	4.2 %	3.3 %			(1.1)%	$ 1,382.7
Zale Jewelry	4.3 %	(4.6)%	4.4 %	4.1 %	0.9 %	5.0 %	$ 582.5
Piercing Pagoda	4.6 %	(0.6)%	4.8 %			8.8 %	$ 91.1

Zale division	4.4 %	(4.2)%	4.5 %	4.7 %	0.8 %	5.5 %	$ 673.6
UK Jewelry division	(9.2)%	(0.2)%	4.2 %	(5.2)%	8.0 %	2.8 %	$ 233.9
Other[2]						(48.2)%	$ 2.9
Signet	(5.2)%	1.5 %	3.7 %	— %	1.0 %	1.0 %	$ 2,293.1

(1) Based on stores open for at least 12 months. E-commerce sales are included in the calculation of same store sales for the period and comparative figures from the anniversary of the launch of the relevant website.

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

Table of Contents

Sterling Jewelers sales

In the fourth quarter, the Sterling Jewelers division's total sales were $1,382.7 million compared to $1,398.1 million in the prior year fourth quarter, a decline of 1.1%. Same store sales decreased 8.6%, compared to a decrease of 4.9% in the prior year fourth quarter. Approximately 500 bps of the same store sales decline was a result of the credit outsourcing transition, most notably in sales of bridal merchandise. While both Kay and Jared experienced issues related to the credit transition, impacts were more pronounced at Kay, where a greater percentage of customers utilize in-store credit for bridal purchases. In addition to credit transition issues, Sterling sales were driven by less effective promotional spending and lower sales of the Ever Us collection partially offset by the success of the Chosen collection at Jared. Sterling Jewelers' ATV increased 1.7% and the number of transactions decreased 12.8%. ATV increased driven by mix with particular strength in higher-value diamond jewelry.

	Change from previous year		
Fourth quarter of Fiscal 2018	Same store sales[1]	Non-same store sales, net	Impact of 14