SIGNET JEWELERS LTD
Form 10-K
April 02, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended 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.

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FISCAL 2018 ANNUAL REPORT ON FORM 10-K
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REFERENCES

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

PRESENTATION OF FINANCIAL INFORMATION

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

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PART I
ITEM 1. BUSINESS
OVERVIEW
Signet Jewelers Limited ("Signet" or the "Company") is the world's largest retailer of diamond jewelry. Signet is incorporated in Bermuda and its address and telephone number are shown on the cover of this document. The Company, with 3,556 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.

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- 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.

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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.

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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.

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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.

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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.

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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.

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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.

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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

		Change from previous year	
Fiscal 2018	Sales (millions)	Same store sales	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.

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

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

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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.

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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%).

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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.

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Sales data by brand

Fiscal 2017	Sales (millions)	Change from previous year Same store sales	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.

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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.

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Customer finance
Our consumer credit program is an integral part of our business and is a major driver of customer loyalty. 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.

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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.

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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.

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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.