SIGNET JEWELERS LTD
Form 10-Q
May 23, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended May 4, 2013 or

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the transition period from to

Commission File Number 1-32349

Signet Jewelers Limited

(Exact name of Registrant as specified in its charter)

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

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

(441) 296 5872

(Address and telephone number of principal executive offices)

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

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

Common Stock, $0.18 par value, 80,878,264 shares as of May 17, 2013

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED INCOME STATEMENTS

(Unaudited)

(in millions, except per share amounts)	13 weeks ended May 4, 2013	13 weeks ended April 28, 2012	Notes
Sales	**$ 993.6**	$ 900.0	2
Cost of sales	**(610.8)**	(546.3)	
Gross margin	**382.8**	353.7	
Selling, general and administrative expenses	**(287.0)**	(264.5)	
Other operating income, net	**47.0**	40.2	
Operating income	**142.8**	129.4	2
Interest expense, net	**(0.9)**	(0.9)	
Income before income taxes	**141.9**	128.5	
Income taxes	**(50.1)**	(46.0)	
Net income	**$ 91.8**	$ 82.5	
Earnings per share: basic	**$ 1.14**	$ 0.96	5
diluted	**$ 1.13**	$ 0.96	5
Weighted average common shares outstanding: basic	**80.8**	85.5	5
diluted	**81.3**	86.3	5
Dividends declared per share	**$ 0.15**	$ 0.12	6

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

Table of Contents

SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	13 weeks ended	
(in millions)	**May 4, 2013**	**April 28, 2012**
Net income	**$ 91.8**	$ 82.5
Other comprehensive income (loss):		
Foreign currency translation adjustments	**(1.8)**	9.6
Derivative instruments qualifying as cash flow hedges:		
Unrealized loss, net of tax of $6.1 (April 28, 2012: $4.5)	**(11.4)**	(8.4)
Reclassification adjustment for gains to net income, net of tax of $0.4 (April 28, 2012: $3.1)	**(0.6)**	(5.5)
Pension plan:		
Reclassification adjustment to net income for amortization of actuarial loss, net of tax of $0.1 (April 28, 2012: $0.0)	**0.5**	0.8
Reclassification adjustment to net income for amortization of net prior service credit, net of tax of $0.0 (April 28, 2012: $0.0)	**(0.4)**	(0.4)
Total other comprehensive loss	**(13.7)**	(3.9)
Total comprehensive income	**$ 78.1**	$ 78.6

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

2

Table of Contents

SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in millions)	May 4, 2013	February 2, 2013	April 28, 2012	Notes
Assets				
Current assets:				
Cash and cash equivalents	**$ 263.7**	$ 301.0	$ 399.0	
Accounts receivable, net	**1,157.5**	1,205.3	1,025.1	8
Other receivables	**40.2**	42.1	43.9	
Other current assets	**82.1**	85.9	74.0	9
Deferred tax assets	**2.3**	1.6	2.0	
Inventories	**1,426.4**	1,397.0	1,335.0	
Total current assets	**2,972.2**	3,032.9	2,879.0	
Non-current assets:				
Property and equipment, net of accumulated depreciation of $737.5, $724.1, and $707.1, respectively	**429.9**	430.4	381.7	
Other assets	**107.2**	99.9	72.2	9
Deferred tax assets	**124.9**	104.1	116.5	
Retirement benefit asset	**50.3**	48.5	35.8	
Total assets	**$ 3,684.5**	$ 3,715.8	$ 3,485.2	2
Liabilities and Shareholders equity				
Current liabilities:				
Loans and overdrafts	**$ 5.7**	$	$	
Accounts payable	**176.8**	155.9	156.0	
Accrued expenses and other current liabilities	**269.4**	326.4	252.3	10
Deferred revenue	**157.6**	159.7	150.5	9
Deferred tax liabilities	**145.6**	129.6	133.8	
Income taxes payable	**54.7**	97.1	51.4	
Total current liabilities	**809.8**	868.7	744.0	
Non-current liabilities:				
Deferred tax liabilities	**1.0**			
Other liabilities	**113.3**	111.3	103.1	10
Deferred revenue	**415.9**	405.9	380.4	9
Total liabilities	**1,340.0**	1,385.9	1,227.5	
Commitments and contingencies				13
Shareholders equity:				
Common shares of $0.18 par value: authorized 500 shares, 80.9 shares outstanding (February 2, 2013: 81.4 shares outstanding; April 28, 2012: 85.4 shares outstanding)	**15.7**	15.7	15.7	
Additional paid-in capital	**242.0**	246.3	228.3	
Other reserves	**235.2**	235.2	235.2	
Treasury shares at cost: 6.3 shares (February 2, 2013: 5.8 shares; April 28, 2012: 1.8 shares)	**(297.7)**	(260.0)	(88.6)	

Retained earnings	**2,338.7**	2,268.4	2,030.2
Accumulated other comprehensive loss	**(189.4)**	(175.7)	(163.1)
Total shareholders equity	**2,344.5**	2,329.9	2,257.7
Total liabilities and shareholders equity	**$ 3,684.5**	$ 3,715.8	$ 3,485.2

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

Table of Contents

SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in millions)	**13 weeks ended May 4, 2013**	**13 weeks ended April 28, 2012**
Cash flows from operating activities		
Net income	**$ 91.8**	$ 82.5
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization of property and equipment	**25.6**	23.1
Pension expense	**(0.1)**	0.8
Share-based compensation	**3.0**	4.1
Deferred taxation	**1.9**	(3.5)
Facility amendment fee amortization and charges	**0.1**	0.1
Other non-cash movements	**(0.2)**	
Changes in operating assets and liabilities:		
Decrease in accounts receivable	**47.6**	63.5
Increase in other receivables and other assets	**(5.5)**	(0.1)
Decrease in other current assets	**4.5**	4.3
Increase in inventories	**(54.7)**	(25.6)
Increase (decrease) in accounts payable	**18.3**	(27.7)
Decrease in accrued expenses and other liabilities	**(51.3)**	(62.0)
Increase in deferred revenue	**8.0**	2.7
Decrease in income taxes payable	**(42.4)**	(25.6)
Pension plan contributions	**(1.8)**	(3.4)
Effect of exchange rate changes on currency swaps	**0.3**	0.8
Net cash provided by operating activities	**45.1**	34.0
Investing activities		
Purchase of property and equipment	**(23.2)**	(18.6)
Net cash used in investing activities	**(23.2)**	(18.6)
Financing activities		
Dividends paid	**(9.8)**	(8.7)
Proceeds from issuance of common shares	**5.0**	5.1
Repurchase of common shares	**(50.1)**	(90.7)
Net settlement of equity based awards	**(9.1)**	(8.3)
Proceeds from short-term borrowings	**5.7**	
Net cash used in financing activities	**(58.3)**	(102.6)
Effect of exchange rate changes on cash and cash equivalents	**(0.9)**	(0.6)
Cash and cash equivalents at beginning of period	**301.0**	486.8
Decrease in cash and cash equivalents	**(36.4)**	(87.2)
Cash and cash equivalents at end of period	**$ 263.7**	$ 399.0

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

Table of Contents

SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(Unaudited)

(in millions)	Common shares at par value	Additional paid-in capital	Other reserves	Treasury shares	Retained earnings	Accumulated other comprehensive loss	Total shareholders equity
Balance at February 2, 2013	**$ 15.7**	**$ 246.3**	**$ 235.2**	**$ (260.0)**	**$ 2,268.4**	**$ (175.7)**	**$ 2,329.9**
Net income					91.8		91.8
Other comprehensive (loss) income						(13.7)	(13.7)
Dividends					(12.1)		(12.1)
Repurchase of common shares				(50.1)			(50.1)
Net settlement of equity based awards		(7.3)		6.4	(8.2)		(9.1)
Share options exercised				6.0	(1.2)		4.8
Share-based compensation expense		3.0					3.0
Balance at May 4, 2013	**$ 15.7**	**$ 242.0**	**$ 235.2**	**$ (297.7)**	**$ 2,338.7**	**$ (189.4)**	**$ 2,344.5**

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

5

Table of Contents

SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Principal accounting policies and basis of preparation

Basis of preparation

Signet Jewelers Limited (Signet or the Company), including its subsidiaries, is a leading retailer of jewelry, watches and associated services. Signet manages its business as two geographical segments, the United States of America (the US) and the United Kingdom (the UK). The US division operates retail stores under brands including Kay Jewelers, Jared The Galleria Of Jewelry, Ultra and various regional brands. Ultra was acquired by Signet in October 2012. The UK division s retail stores operate under brands including H.Samuel and Ernest Jones.

These condensed consolidated financial statements included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) have been condensed or omitted from this report, as is permitted by such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes included in Signet s Annual Report on Form 10-K for the year ended February 2, 2013.

Use of estimates

The preparation of these condensed consolidated financial statements, in conformity with US GAAP and SEC regulations for interim reporting, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are primarily made in relation to the valuation of receivables, inventory and deferred revenue, fair value of derivatives, depreciation and asset impairment, the valuation of employee benefits, income taxes and contingencies.

Fiscal year

The Company s fiscal year ends on the Saturday nearest to January 31st. Fiscal 2014 is the 52 week year ending February 1, 2014 and Fiscal 2013 is the 53 week year ended February 2, 2013. Within these financial statements, the first quarter of the fiscal years 2014 and 2013 refers to the 13 weeks ended May 4, 2013 and April 28, 2012, respectively.

Seasonality

Signet s sales are seasonal, with the first and second quarters each normally accounting for slightly more than 20% of annual sales, the third quarter a little under 20% and the fourth quarter for about 40% of sales, with December being by far the most important month of the year. Sales made in November and December are known as the Holiday Season. Due to sales leverage, Signet s operating income is even more seasonal; about 45% to 50% of Signet s operating income normally occurs in the fourth quarter, comprised of nearly all of the UK division s operating income and about 40% to 50% of the US division s operating income.

Revenue recognition

Extended service plans and lifetime warranty agreements

The US division sells extended service plans where it is obliged, subject to certain conditions, to perform repair work over the lifetime of the product. Revenue from the sale of extended service plans is deferred over 14 years. Revenue is recognized in relation to the costs expected to be incurred in performing these services, with approximately 45% of revenue recognized within the first two years (February 2, 2013 and April 28, 2012: 46% and 46%, respectively). The deferral period is determined from patterns of claims costs, including estimates of future claims costs expected to be incurred. Management reviews the trends in claims to assess whether changes are required to the revenue and cost recognition rates used. All direct costs associated with the sale of these plans are deferred and amortized in proportion to the revenue recognized and disclosed as either other current assets or other assets.

Table of Contents

SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

New accounting pronouncements adopted during the period

Reclassification out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of amounts Reclassified Out of Accumulated Other Comprehensive Income. The new guidance does not change the current requirements for reporting net income or other comprehensive income, but it does require disclosure of amounts reclassified out of accumulated other comprehensive income by component, as well as require the presentation of these amounts on the face of the statements of comprehensive income or in the notes to the consolidated financial statements. ASU 2013-02 is effective for the reporting periods beginning after December 15, 2012. Signet adopted this guidance effective for the first quarter ended May 4, 2013 and the implementation of this accounting pronouncement did not have a material impact on Signet s consolidated financial statements.

Reclassification

Signet has reclassified the presentation of certain prior year information to conform to the current year presentation.

2. Segment information

Signet s sales are derived from the retailing of jewelry, watches, other products and services. Signet is managed as two geographical operating segments, being the US and UK divisions. These segments represent channels of distribution that offer similar merchandise and services and have similar marketing and distribution strategies. Both divisions are managed by executive committees, which report through a divisional Chief Executive to Signet s Chief Executive Officer, who in turn reports to the Board. Each divisional executive committee is responsible for operating decisions within parameters set by the Board. The performance of each segment is regularly evaluated based on sales and operating income. The operating segments do not include certain corporate administrative costs. There are no material transactions between the operating segments.

	13 weeks ended	
(in millions)	**May 4, 2013**	**April 28, 2012**
Sales:		
US	**$ 858.6**	$ 751.5
UK	**135.0**	148.5
Total sales	**$ 993.6**	$ 900.0
Operating income (loss):		
US	**$ 152.8**	$ 137.7
UK	**(4.1)**	(3.0)
Unallocated[(1)]	**(5.9)**	(5.3)
Total operating income	**$ 142.8**	$ 129.4

(in millions)	**May 4, 2013**	**February 2, 2013**	**April 28, 2012**

Total assets:			
US	**$ 3,062.2**	3,018.8	$ 2,684.1
UK	**431.9**	446.7	458.0
Unallocated[1]	**190.4**	250.3	343.1
Total assets	**$ 3,684.5**	3,715.8	$ 3,485.2

(1) Unallocated principally relates to corporate administrative costs, assets, and liabilities.

Table of Contents

SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Foreign currency translation

Assets and liabilities denominated in the UK pound sterling are translated into the US dollar at the exchange rate prevailing at the balance sheet date. Equity accounts denominated in the UK pound sterling are translated into US dollars at historical exchange rates. Revenues and expenses denominated in the UK pound sterling are translated into the US dollar at the monthly average exchange rate for the period and calculated each month from the weekly exchange rates weighted by sales of the UK division. Gains and losses resulting from foreign currency transactions are included within the consolidated income statement, whereas translation adjustments and gains and losses related to intercompany loans of a long-term investment nature are reported as an element of other comprehensive income (loss).

4. Income taxes

Signet has business activity in all states within the US and files income tax returns for the US federal jurisdiction and all applicable states. Signet also files income tax returns in the UK and certain other foreign jurisdictions. Signet is subject to US federal and state examinations by tax authorities for tax years ending after November 1, 2008 and is subject to examination by the UK tax authority for tax years ending after January 31, 2010.

As of February 2, 2013, Signet had approximately $4.5 million of unrecognized tax benefits in respect of uncertain tax positions, all of which would favorably affect the effective income tax rate if resolved in Signet s favor. These unrecognized tax benefits relate to financing arrangements and intra-group charges which are subject to different and changing interpretations of tax law. There has been no material change in the amount of unrecognized tax benefits in respect of uncertain tax positions during the 13 weeks ended May 4, 2013.

Signet recognizes accrued interest and, where appropriate, penalties related to unrecognized tax benefits within income tax expense. As of February 2, 2013, Signet had accrued interest of $0.2 million and there has been no material change in the amount of accrued interest as of May 4, 2013.

Over the next twelve months management believes that it is reasonably possible that there could be a reduction of substantially all of the unrecognized tax benefits as of February 2, 2013, due to settlement of the uncertain tax positions with the tax authorities.

Table of Contents

SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Earnings per share

Earnings per share

(in millions, except per share amount)	**13 weeks ended May 4, 2013**	**13 weeks ended April 28, 2012**
Net income	**$ 91.8**	$ 82.5
Basic weighted average number of shares outstanding	**80.8**	85.5
Dilutive effect of share options	**0.5**	0.8
Diluted weighted average number of shares outstanding	**81.3**	86.3
Earnings per share basic	**$ 1.14**	$ 0.96
Earnings per share diluted	**$ 1.13**	$ 0.96

The basic weighted average number of shares excludes non-vested time-based restricted shares, shares held by the Employee Stock Ownership Trust and treasury shares. Such shares are not considered outstanding and do not qualify for dividends, except for time-based restricted shares for which dividends are earned and payable by the Company subject to full vesting. The effect of excluding these shares is to reduce the average number of shares in the 13 week period ended May 4, 2013 by 6,365,336 shares (13 week period ended April 28, 2012: 1,686,503 shares). The calculation of fully diluted earnings per share for the 13 week period ended May 4, 2013 excludes 105,771 non-vested time-based restricted shares (13 week period ended April 28, 2012: 160,135 shares) on the basis that their effect on earnings per share was anti-dilutive.

6. Shareholders equity

Share repurchase

Signet s Board of Directors authorized a two year program to repurchase up to $350 million of Signet s common shares (the Repurchase Program). The Repurchase Program, which began in January 2012 was completed at May 4, 2013. All repurchases were funded through Signet s existing cash reserves. Repurchased shares are being held as treasury shares and may be used by Signet for general corporate purposes.

The Company repurchased 749,245 shares and 1,956,147 shares at an average price of $66.92 and $46.83 in the 13 weeks ended May 4, 2013 and the 13 weeks ended April 28, 2012, respectively, under the authorized Repurchase Program.

Dividend

For the first quarter of Fiscal 2014, a cash dividend of $0.15 per share on Signet s Common Shares was approved on March 27, 2013 for payment on May 29, 2013 to shareholders of record on May 3, 2013. As a result, $12.1 million has been recorded in accrued expenses and other current liabilities reflecting this dividend, which is not presented in the condensed consolidated statement of cash flows as it is a non-cash transaction as of May 4, 2013.

Table of Contents

SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Reclassification out of accumulated OCI

Reclassification activity by individual accumulated OCI component:		Amounts reclassified from accumulated OCI 13 weeks ended May 4, 2013	Income statement caption
(in millions)			
(Gains) losses on cash flow hedges:			
Foreign currency contracts	$	**(0.2)**	Cost of sales (see Note 11)
Commodity contracts		**(0.8)**	Cost of sales (see Note 11)
Total before income tax		**(1.0)**	
		0.4	Income taxes
Net of tax		**(0.6)**	
Defined benefit pension plan items:			
Amortization of unrecognized net prior service credit		**(0.4)**	Selling, general and administrative expenses [1]
Amortization of unrecognized actuarial loss		**0.6**	Selling, general and administrative expenses [1]
Total before income tax		**0.2**	
		(0.1)	Income taxes
Net of tax		**0.1**	
Total reclassifications	$	**(0.5)**	

(1) These items are included in the computation of net periodic pension benefit (cost). See Note 12 for additional information.

8. Accounts receivable, net

Signet s accounts receivable primarily consist of US customer in-house financing receivables. The accounts receivable portfolio consists of a population that is of similar characteristics and is evaluated collectively for impairment. The allowance is an estimate of the losses as of the balance sheet date, and is calculated using a proprietary model that analyzes factors such as delinquency rates and recovery rates. A 100% allowance is made for any amount that is more than 90 days aged on a recency basis and any amount associated with an account the owner of which has filed for bankruptcy, as well as an allowance for those amounts 90 days aged and under based on historical loss information and payment performance. The calculation is reviewed by management to assess whether, based on economic events, additional analyses are required to appropriately estimate losses inherent in the portfolio.

(in millions)	**May 4, 2013**	**February 2, 2013**	**April 28, 2012**
Accounts receivable by portfolio segment, net:			
US customer in-house finance receivables	**$ 1,145.9**	$ 1,192.9	$ 1,016.3
Other accounts receivable	**11.6**	12.4	8.8
Total accounts receivable, net	**$ 1,157.5**	$ 1,205.3	$ 1,025.1