

SIGNET JEWELERS LTD
Form 8-K
May 27, 2010

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

Form 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):27-05-2010

SIGNET JEWELERS LIMITED

(Exact name of registrant as specified in its charter)

Commission File Number: 1-32349

Bermuda
(State or other jurisdiction of
incorporation)

(IRS Employer
Identification No.)

**Clarendon House
2 Church Street
Hamilton
HM11
Bermuda**
(Address of principal executive offices, including zip code)

441 296 5872
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item No. 2.02 - 1st Quarter Results

signet REPORTS ENCOURAGING FIRST quarter results

HAMILTON, Bermuda, May 27, 2010 - Signet Jewelers Limited ("Signet") (NYSE and LSE: SIG), the world's largest specialty retail jeweler, today announced its results for the 13 weeks ended May 1, 2010 ("first quarter fiscal 2011").

First Quarter Highlights

- **Same store sales: up 5.8%**
- **Total sales: \$810.0 million, up 6.2%**
- **Income before income taxes: \$76.8 million, up 85.5%**
- **Basic and diluted earnings per share: \$0.61 and \$0.60, up 96.8% and 93.5%**
- **Free cash flow now expected to be towards the top end of the anticipated \$150 million to \$200 million range for fiscal 2011⁽¹⁾**

(1) Fiscal 2010 is the year ended January 30, 2010 and fiscal 2011 is the year ending January 29, 2011.

Terry Burman, Chief Executive of Signet commented: "We are very pleased with our start to the year. Jared and Ernest Jones performed particularly well. Our ability to create differentiated and sought after product, supported by superior customer service and memorable marketing campaigns, is an important driver of sales. We continue to focus on enhancing our sustainable competitive advantages, improving our execution and maintaining a strong balance sheet and financial flexibility. We therefore believe we remain well positioned to gain profitable market share."

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Signet is the world's largest specialty retail jeweler and operated 1,904 stores at May 1, 2010; these included 1,354 stores in the US, where it trades as "Kay Jewelers," "Jared The Galleria Of Jewelry" and under a number of regional names. At that date Signet also operated 550 stores in the UK division, where it trades as "H.Samuel," "Ernest Jones" and "Leslie Davis." Further information on Signet is available at www.signetjewelers.com. See also www.kay.com, www.jared.com, www.hsamuel.co.uk and www.ernestjones.co.uk

Conference call

There will be a conference call today at 8.30 a.m. EDT (1.30 p.m. BST and 5.30 a.m. Pacific Time) and a simultaneous audio webcast and slide presentation available at www.signetjewelers.com. The slides are available to be downloaded from the website ahead of the conference call. To help ensure the conference call begins in a timely manner, could all participants please dial in 5 to 10 minutes prior to the scheduled start time. The call details are:

US dial-in:	+1 212 444 0895	
European dial-in:	+44 (0)20 7138 0845	
US replay until June 1, 2010:	+1 347 366 9565	Access code: 5573546#
European replay until June 1, 2010:	+44 (0)20 7111 1244	Access code: 5573546#

Quarterly Performance

During the first quarter Signet made good progress towards achieving its financial objectives for fiscal 2011. These are:

- \$150 million to \$200 million positive free cash flow;
- Capital expenditure of about \$80 million;
- Controllable costs⁽¹⁾ to be little changed from fiscal 2010 at constant exchange rates.

(1) Controllable costs exclude net bad debt charge, expense movements resulting from sales variance to plan, the impact of amendments to the Truth In Lending Act and the US vacation entitlement policy change in fiscal 2010.

Sales and operating income

Same store sales were up 5.8%, an encouraging start to fiscal 2011. Total sales rose by 6.2% to \$810.0 million (13 weeks to May 2, 2009: \$762.6 million), reflecting an underlying increase of 5.2% at constant exchange rates; non-GAAP measure, see Note 13. The breakdown of the performance was as follows:

	US	UK	Signet
Sales, million	\$667.1	\$142.9	\$810.0
% of total	82.4%	17.6%	100.0%

Change in sales	US	UK	Signet
	<u>%</u>	<u>%</u>	<u>%</u>
Same store sales	7.2	(0.2)	5.8
Change in net store space	<u>(0.4)</u>	<u>(1.5)</u>	<u>(0.6)</u>
Change at constant exchange rates	6.8	(1.7)	5.2
Exchange translation ⁽¹⁾	<u>-</u>	<u>5.5</u>	<u>1.0</u>
Total sales growth as reported	<u>6.8</u>	<u>3.8</u>	<u>6.2</u>

(1) The average pound sterling to US dollar exchange rate was £1/\$1.53 (13 weeks to May 2, 2009: £1/\$1.45).

Gross margin was \$296.3 million (13 weeks to May 2, 2009: \$255.5 million), up by 16.0% and by 15.0% at constant exchange rates; non-GAAP measure, see Note 13. Gross margin rate increased by 310 basis points, the factors influencing the change are set out in the table below. Selling, general and administrative expenses benefited from a further small decrease in controllable costs. Other operating income decreased by 6.7% to \$27.7 million (13 weeks to May 2, 2009: \$29.7 million) as a result of the comparable prior year figure including a gain on foreign exchange of \$0.9 million and some of the unfavorable impact of the amendments to the Truth In Lending Act.

Operating income increased by 63.2% to \$85.5 million (13 weeks to May 2, 2009: \$52.4 million which included a \$4.0 million non-recurring, favorable impact from a change in US vacation entitlement policy), up 63.8% at constant exchange rates; non-GAAP measure, see Note 13. Operating margin was 10.6% (13 weeks to May 2, 2009: 6.9%), the factors influencing the change in operating margin are set out in the table below.

Change in operating margin	US	UK	Signet
	<u>%</u>	<u>%</u>	<u>%</u>
Q1 fiscal 2010 operating margin	9.0	(0.9)	6.9⁽¹⁾
Gross merchandise margin movement	0.9	(1.0)	0.5
Net bad debt movement	1.2	-	1.0
Leverage, primarily of store occupancy costs	1.7	0.5	1.6
Gross margin	3.8	(0.5)	3.1
Selling, general & administrative expenses	1.4	0.2	1.0
Other operating income	<u>(0.5)</u>	<u>0.2</u>	<u>(0.4)</u>
Q1 fiscal 2011 operating margin	<u>13.7</u>	<u>(1.0)</u>	<u>10.6</u> ⁽¹⁾

(1) Includes unallocated costs, principally central costs.

Interest income and expense, income before income taxes and taxation

Interest income was \$0.1 million (13 weeks to May 2, 2009: \$0.6 million). Interest expense of \$8.8 million (13 weeks to May 2, 2009: \$11.6 million) benefitted from the repayment of debt and lower fees.

Income before income taxes rose by 85.5% to \$76.8 million (13 weeks to May 2, 2009: \$41.4 million). The tax rate was 32.3% (13 weeks to May 2, 2009: 36.5%), which is the anticipated rate for fiscal 2011 and similar to the annual rate for fiscal 2010.

Basic and diluted earnings per share increased by 96.8% and 93.5% to \$0.61 and \$0.60 respectively (13 weeks to May 2, 2009: basic and diluted \$0.31).

Cash Flow

Set out below is a summary of Signet's cash flows and movement in net cash/(net debt) for the first quarters of fiscal 2011 and fiscal 2010; non-GAAP measure, see Note 13:

First Quarter

	fiscal 2011	fiscal 2010
	(\$ million)	
Net income	52.0	26.3
Adjustments to reconcile net income to net cash provided by operations	<u>32.7</u>	<u>36.8</u>
Net income adjusted for non-cash items ⁽¹⁾	84.7	63.1
Changes in operating assets and liabilities	<u>99.5</u>	<u>134.9</u>
Net cash provided by operating activities	184.2	198.0
Net cash flows used in investing activities	<u>(6.3)</u>	<u>(8.4)</u>
Free cash flow ⁽¹⁾	177.9	189.6
Facility fees	(1.0)	(8.4)
Net change in Common Shares	<u>0.8</u>	=
	177.7	181.2
Cash & cash equivalents less total debt at start of period	(7.9)	(470.7)
Effect of exchange rate changes on cash & cash equivalents	1.0	0.4
Effect of exchange rate changes on debt	=	<u>(1.1)</u>
Net cash/(net debt)⁽¹⁾	<u>170.8</u>	<u>(290.2)</u>

(1) Non-GAAP measure, see Note 13.

Positive free cash flow was \$177.9 million in the 13 weeks to May 1, 2010 (13 weeks to May 2, 2009: \$189.6 million); non-GAAP measure, see Note 13. Net income adjusted for non-cash items increased by \$21.6 million to \$84.7 million (13 weeks to May 2, 2009: \$63.1 million). Changes in operating assets and liabilities generated cash flows of \$99.5 million (13 weeks to May 2, 2009: \$134.9 million). Inventories decreased by \$38.9 million (13 weeks to May 2, 2009: \$43.2 million decrease) as a result of a better than expected sales performance, store closures and timing differences that are expected to reverse in subsequent quarters. Accounts receivable decreased by \$55.1 million (13 weeks to May 2, 2009: \$55.3 million decline), reflecting a higher opening level of receivables and an improvement in collection rate offset by higher sales in the first quarter of fiscal 2011.

Net cash flow used in investing activities was \$6.3 million (13 weeks to May 2, 2009: \$8.4 million). Capital expenditure for fiscal 2011 continues to be planned to be about \$80 million, a level broadly consistent with

maintenance capital expenditure. Changes in operating assets and liabilities, and investing activities, due to new US space were \$2.2 million and \$1.1 million respectively.

For fiscal 2011, positive free cash flow is now expected to be towards the top end of the anticipated \$150 million to \$200 million range, subject to general economic conditions.

In the 13 weeks to May 1, 2010, a sum of \$0.8 million (13 weeks to May 2, 2009: nil) was received for the issuance of Common Shares pursuant to Signet's equity compensation programs.

Liquidity

Net cash at May 1, 2010 was \$170.8 million (May 2, 2009: \$290.2 million net debt); non-GAAP measure, see Note 13. Debt at May 1, 2010 was \$276.3 million (May 2, 2009: \$359.4 million), with cash and cash equivalents of \$447.1 million (May 2, 2009: \$69.2 million). During the first quarter of fiscal 2011, there was a prepayment at par of \$50.9 million of the private placement notes. In addition, a change was agreed with Signet's revolving credit facility banking group that the facility be reduced to \$300 million from \$370 million. The facility was undrawn at May 1, 2010 (May 2, 2009: \$40.0 million).

Operating Review

US division (~80% of annual sales)

The US division's sales were up by 6.8% to \$667.1 million (13 weeks to May 2, 2009: \$624.9 million), see table below for analysis. Same store sales were up 7.2%. Operating income increased by 61.5% to \$91.1million (13 weeks to May 2, 2009: \$56.4 million, which included a \$4.0 million non-recurring, favorable impact from the change in vacation entitlement policy). The operating margin was 13.7% (13 weeks to May 2, 2009: 9.0%); see table above for an analysis of the movement in operating margin.

	Sales	Average unit selling price	<u>Change from previous year</u>		
			Total sales	Same store sales	Average unit selling price
First quarter fiscal 2011					
Kay	\$386.8m	\$322	4.0%	4.2%	6.0%
Regional brands	\$76.9m	\$339	(6.4)%	2.7%	(1.4)%
Jared	<u>\$203.4m</u>	\$741 ⁽¹⁾	19.0%	15.8%	2.9% ⁽¹⁾
US	<u>\$667.1m</u>	\$380⁽¹⁾	6.8%	7.2%	5.1%⁽¹⁾

(1) Excludes the charm bracelet category.

While the wider economic environment in the US remains challenging, the division continued to benefit from both its sustainable competitive advantages, as many competitors are financially constrained, and the accelerated level of capacity reduction within the sector in recent years. Kay achieved a further increase in same store sales. Jared's sales increase reflected a continued recovery in expenditure among households with above average incomes and the impact of merchandising initiatives. Set out above is the sales performance by format. In the US division, average selling price rose by 5.1%, excluding the charm bracelet category in Jared, as a result of changes in mix and selective price increases.

Gross merchandise margin was up 90 basis points, benefitting from price increases implemented during the quarter, lower average diamond inventory costs and favorable changes in the sales mix, offsetting a higher cost of gold. As a result of higher than anticipated diamond and gold costs, it is now expected that the US division's gross merchandise margin for fiscal 2011 will be broadly similar to the level of fiscal 2010, however this remains subject to future movements in commodity costs.

Credit participation was little changed at 51.6% (13 weeks to May 2, 2009: 51.2%). The net bad debt to total sales ratio was down by 120 basis points over the comparable period in fiscal 2010, with an underlying improvement in performance being evident. While some of the amendments to the Truth In Lending Act were implemented on February 22, 2010, their full impact on fiscal 2011 remains uncertain and continues to have an expected net direct adverse impact on operating income in the \$15 million to \$20 million range.

During the first quarter of fiscal 2011, costs continued to be tightly managed and controllable expenses were slightly below last year, with a small benefit from the fiscal 2010 cost saving program continuing into the first quarter of fiscal 2011. The additional impact of the cost saving program in the balance of fiscal 2011 is expected to be minimal.

Net cash flows used in investing activities in the US were \$5.3 million (13 weeks to May 2, 2009: \$7.0 million). Stores opened and closed in the quarter, together with planned changes for the balance of fiscal 2011 are set out below.

	Kay mall	Kay Off-mall	Regionals	Jared⁽¹⁾	Total	Annual net space change
January 30, 2010	794	129	260	178	1,361	(1)%
Opened	-	-	-	1	1	
Closed	<u>(4)</u>	<u>(2)</u>	<u>(2)</u>	<u>-</u>	<u>(8)</u>	
May 1, 2010	790	127	258	179	1,354	
Openings, planned	5	2	-	1	8	
Closures, forecast	<u>(7)</u>	<u>(2)</u>	<u>(34)</u>	<u>-</u>	<u>(43)</u>	
January 29, 2011	<u>788</u>	<u>127</u>	<u>224</u>	<u>180</u>	<u>1,319</u>	(2)%

(1) A Jared store is equivalent in size to just over four mall stores.

UK division (~20% of annual sales)

The UK division's sales were up by 3.8% to \$142.9 million (13 weeks to May 2, 2009: \$137.7 million); see table below for analysis. Same store sales were down 0.2%. There was an operating loss of \$1.4 million (13 weeks to May 2, 2009: \$1.3 million loss); see table above for an analysis of the movement in operating margin.

	Sales	Average unit selling price	<u>Change from previous year</u>			Average unit selling price
			Total sales	Sales at constant exchange rates ⁽¹⁾	Same store sales	
First quarter fiscal 2011						
H.Samuel	\$74.5m	£54	2.2%	(3.1)%	(2.1)%	