Signet Jewelers (SIG)

$9.76 (As of 05/15/20)

Price Target (6-12 Months): **$11.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Neutral**
	(Since: 05/14/20)	
	Prior Recommendation: Underperform	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: B	Momentum: D

Summary

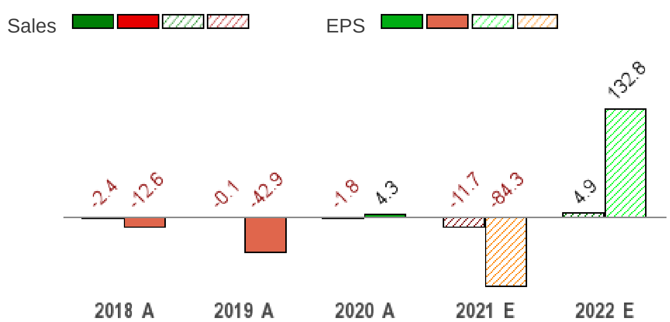
Although Signet has lagged the industry in the past three months, the stock has an attractive valuation and sound fundamentals. Its strategic initiatives including 'Path to Brilliance' Plan appears encouraging. The initiative focuses on customer-centric growth actions, enhancing omni-channel capabilities and driving cost effectiveness. The company has been strengthening footprint in the e-commerce arena with improved features. Signet's North America division has also been contributing on solid performance across Zales, Peoples and Piercing Pagoda brands, and growth at mall-based banners. Although the company is not free from challenges tied to the global pandemic, the retailer has been cutting down on capital spend, prioritizing investments and managing inventory. Moreover, the company is gradually reopening its stores.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$31.44 - $5.60**
20 Day Average Volume (sh)	**3,103,363**
Market Cap	**$472.7 M**
YTD Price Change	**-58.5%**
Beta	**2.27**
Dividend / Div Yld	**$1.48 / 16.4%**
Industry	**Retail - Jewelry**
Zacks Industry Rank	**Bottom 41% (150 out of 254)**
Last EPS Surprise	**5.8%**
Last Sales Surprise	**1.5%**
EPS F1 Est- 4 week change	**-63.1%**
Expected Report Date	**06/09/2020**
Earnings ESP	**0.0%**
P/E TTM	**2.6**
P/E F1	**16.0**
PEG F1	**2.5**
P/S TTM	**0.1**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022					5,686 E
2021	996 E	1,085 E	1,172 E	2,167 E	5,420 E
2020	1,432 A	1,364 A	1,188 A	2,153 A	6,137 A

EPS Estimates

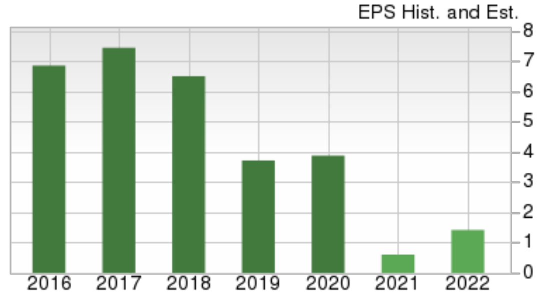
	Q1	Q2	Q3	Q4	Annual*
2022					$1.42 E
2021	-$1.52 E	-$0.51 E	-$0.98 E	$3.34 E	$0.61 E
2020	$0.08 A	$0.51 A	-$0.76 A	$3.67 A	$3.88 A

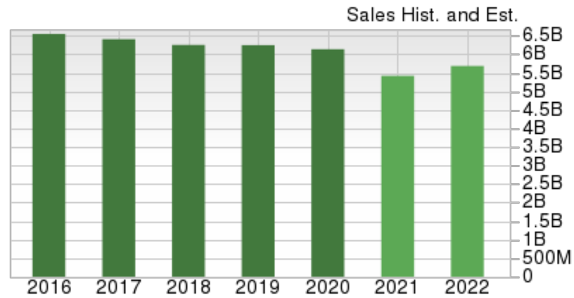
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/15/2020. The reports text is as of 05/18/2020.

Overview

Founded in 1950, and headquartered in Hamilton, Bermuda, Signet Jewelers Limited (SIG) is a retailer of diamond jewelry, watches as well as other products. The company operates in the U.S., Canada, U.K., the Republic of Ireland, and the Channel Islands. The company is often considered as the leading retailer of diamond jewelry.





Signet Jewelers reports operating results under the following divisions:

North America Segment (90.7% of FY20 Net Sales) consists of the legacy Sterling Jewelers and Zale units. The North America reportable segment operates across the United States and Canada. The U.S. stores operate nationally in malls and off-mall locations like Kay, Jared, Zales and Piercing Pagoda. The Canadian stores operate under the Peoples Jewellers banner and Mappins Jewellers regional banner. This segment also operates a variety of mall-based regional brands, including Gordon's Jewelers in the United States and Mappins in Canada along with the JamesAllen.com website, acquired through R2Net.

International Segment (8.4% of FY20 Net Sales), which consists of the legacy UK Jewelry division, operates stores in the United Kingdom, Republic of Ireland and Channel Islands. These stores operate as H.Samuel and Ernest Jones banners in shopping malls and off-mall locations

Other (0.9% of FY20 Net Sales) reportable segment comprises all non-reportable segments, which are below the quantifiable threshold for separate disclosure. These consist of subsidiaries involved in the purchasing and conversion of rough diamonds to polished stones as well as unallocated corporate administrative operations.

Reasons To Buy:

▲ **Better-Than-Expected Q4 Results:** Although Signet's shares have declined in the past three months, they have risen and outperformed the industry in a month on sound fundamentals. Notably, the stock has gained 18.3% in the past month against the industry's 0.9% decline. Moreover, Signet posted better-than-expected results for fourth-quarter fiscal 2020. Impressively, the quarter marked the ninth consecutive top and bottom-line beat. Also, the company witnessed solid growth in same-store sales and e-commerce business. Notably, same-store sales increased 2.3% year over year, while e-commerce sales grew 15.1% and brick-and-mortar same-store sales inched up 0.5%. Margins were also impressive in the reported quarter. While adjusted gross margin expanded 120 basis points (bps) on robust cost savings from transformation efforts, adjusted operating margin grew 140 bps on higher gross margin and lower SG&A, as a rate of sales.

The company is progressing well with its 'Signet Path to Brilliance' Plan, which focuses on customer-centric approach, omni-channel growth and cost-saving actions.

Meanwhile, Signet accomplished cost reduction of roughly $100 million, outpacing its cost-saving target for fiscal 2020. Management had cited that the momentum the company experienced during the holiday season has continued going into fiscal 2021.

▲ **Sturdy North America Segment:** Signet's North America division sales grew 0.6% on a reported basis to $1,953.8 million in fiscal fourth quarter. Also, the segment's same-store sales increased 2.9% from the year-ago period, owing to solid performance of Zales, Peoples and Piercing Pagoda brands and growth across all mall-based banners. Moreover, the segment's e-commerce sales grew 15% and brick-and-mortar same-store sales rose 1.1%. Furthermore, same-store sales rose 5.9% at Zales, 0.6% at Kay, 7.7% at Piercing Pagoda, 3.3% at Peoples and 32.6% at James Allen.

▲ **'Signet Path to Brilliance' Plan:** In an effort to drive growth in the long run, Signet announced strategic initiatives 'Signet Path to Brilliance' Plan in March 2018. Notably, this three-year strategic initiative comprises focusing on customer-centric growth actions, enhancing efficiency across omni-channel, and most importantly driving cost effectiveness. The initiative includes the customer-first approach, per which the company strives to build brands that meet consumers' needs more effectively. Also, the company is on track with differentiating its banners and launching new collections.

Notably, Signet's Path to Brilliance transformation plan is progressing well. In this regard, the plan has been favorably impacting quarterly results and traffic trends. Further, we note that a vital aspect in its three-year strategic initiative is to enhance savings. A portion of this cost savings will be used to invest in growth initiatives, which include e-commerce development, omni-channel capabilities and product innovations. Impressively, the company has accomplished cost savings of $185 million over the first two years of this plan. Going ahead, management continues to focus on cost savings in fiscal 2021.

▲ **Enhancement of Omni-channel & Digital Capabilities:** Signet has been focusing on augmenting its digital presence. Through the acquisition of R2Net (in September 2017), which owns popular online jewelry retailer — JamesAllen.com and Segoma Imaging Technologies —Signet has been able to combine its retail jewelry business with R2Net's solid digital operations. Management is utilizing the digital innovation capabilities of R2Net to come up with innovative offerings. The move is in sync with Signet's omni-channel transformation. Per management, omni-channel and e-commerce capabilities are key aspects of the 'Signet Path to Brilliance' Plan.

Notably, e-commerce sales grew 15.1% from the prior-year quarter to $299.9 million during fourth-quarter fiscal 2020. Markedly, e-commerce constituted 13.9% of total sales, up from 12.1% recorded in the year-ago quarter. Brick-and-mortar same-store sales inched up 0.5% year over year. Going ahead, the company plans to continue strengthening its footprint in the e-commerce arena with improved features and experiences.

▲ **Catalysts Driving Growth:** Signet remains committed to improve top- and bottom-line performance in the long run by leveraging capital investments made over the years in distribution, manufacturing and diamond sourcing processes. The company remains focused on evolving its brand, enhancing omni-channel experience, solidifying position in core markets, increasing operating model efficiency and enriching overall organization. It remains committed to elevating in-store experience and replenishing product portfolio. Moreover, Signet is focused on opening smaller format stores that enhance customer experience, which in turn boosts store productivity.

Also, the company is on track with its innovation and increasing customer value. It emphasizes on inspiring flagship brands, right value and on-trend product. To this end, it is focused on improving marketing and promotional strategies, enhancing in-store environment and advancing technology.

Reasons To Sell:

- **Weak International Unit:** Signet has been witnessing sluggishness in the International segment for a while now. We note that the International segment has been witnessing sluggish comps for the past few quarters now. Sales at the International segment declined 4.5% on a reported basis and 6.3% at constant currency (cc) to $186.2 million in the fiscal fourth quarter. Same-store sales at the segment dropped 3.1% from a year ago, with brick-and-mortar same-store sales decreasing 5.8%. Further, the number of transactions fell 4.6%. Dismal same-store sales performance mainly stemmed from softness across categories and a tough operating environment in the U.K.

Signet's weak International unit remains a major concern. Softness across categories and a tough operating environment in the U.K. are hurting performance as well.

- **COVID-19 Impact:** The coronavirus pandemic has jeopardized the global economy, with the retail sector suffering a hard blow. Signet is not immune to the challenges stemming from the pandemic. The retailer said that it was acutely affected in March owing to the temporary closure of all of its retail outlets. Consequently, it has not issued fiscal 2021 outlook. Also, Signet has temporarily suspended its dividend program but will pay the May quarterly dividend on its preference shares in kind. In addition, the company is looking to retain its financial strength by cutting down on capital spend, prioritizing investments, curbing operating costs and managing inventory. Moreover, it has taken actions like furloughing and reducing compensation of store and Support Center teams consisting of executives and board of directors.

- **Sluggish Top-Line Trend:** Signet's year-over-year sales decline continued in fourth-quarter fiscal 2020. Although Signet's top line surpassed the Zacks Consensus Estimate in the same quarter, the metric dropped 0.1% year over year. Also, sales slipped 0.3% on a cc basis. We expect the soft top-line trend to continue, thanks to the ill impacts of the coronavirus outbreak that compelled the jewelery retailer to shutter all retail stores. This should result in loss of sales and might weigh on the company's overall top line.

- **Debt Analysis:** As of Feb 1, 2020, Signet had long-term debt of $1,954 million, which shows a decline of 12.7% sequentially. Also, the company's interest expenses of $7.7 million at fourth-quarter fiscal 2020 end indicates a decrease of 10.5% from the fiscal third quarter. Although the company has been lowering debt, its debt-to-capitalization ratio stands at 0.66 higher than that of the industry's ratio of 0.45. Moreover, the company's times interest earned ratio stands at 4.6 lower than the industry's ratio of 12.6. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet its debt obligations based on its current income. To bolster its financial position, Signet has decided to access an additional $900 million from its senior secured asset-based revolving credit facility. As of Feb 1, 2020, the company's both corporate and senior unsecured notes credit ratings from Standard & Poor's is BB-, while that of Moody's are Ba2 and Ba3, respectively.

- **Prone to Currency Fluctuations:** Signet generates a significant amount of net sales outside the United States. Due to exposure to international markets, it remains prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside of the U.S. An increase in price may have an adverse impact on the demand for the products. Net sales fall victim of the adverse foreign currency fluctuations that lower value of the sales generated in the overseas market and also result in reduced spending by tourists.

Last Earnings Report

Signet's Q4 Earnings and Sales Beat Estimates

Quarter Ending	01/2020
Report Date	Mar 26, 2020
Sales Surprise	1.48%
EPS Surprise	5.76%
Quarterly EPS	3.67
Annual EPS (TTM)	3.50

Signet posted better-than-expected fourth-quarter fiscal 2020 results. Impressively, the quarter marked its ninth consecutive sales beat. Also, the company witnessed solid growth in its same-store sales and e-commerce business. Margins were also impressive in the reported quarter.

Moreover, Signet accomplished cost reduction of roughly $100 million, thus outpaced its cost-saving target for fiscal 2020. Management cited that the momentum the company experienced during the holiday season has continued while going into fiscal 2021.

However, March-to-date performance saw higher impact of coronavirus pandemic, compelling management to shutter all its retail stores. Consequently, it has not issued fiscal 2021 outlook. Also, Signet has temporarily suspended its dividend program, but will pay the May quarterly dividend on its preference shares in kind.

Q4 in Detail

The company reported adjusted earnings of $3.67 per share, which outshined the Zacks Consensus Estimate of $3.47. However, the figure declined 7.3% from the year-ago quarter.

This jewelry retailer generated total revenues of $2,153.3 million that surpassed the Zacks Consensus Estimate of $2,122 million. However, the top line dipped 0.1% year over year and 0.3% on a constant-currency (cc) basis. Nevertheless, the company's same-store sales increased 2.3% year over year.

Meanwhile, e-commerce sales grew 15.1% from the prior-year quarter to $299.9 million. Markedly, e-commerce constituted 13.9% of total sales, up from 12.1% recorded in the year-ago quarter. Brick-and-mortar same-store sales inched up 0.5% year-over-year. Further, North America payment plan participation rate with both the credit and leasing sales was 47%, down from 50.1% in the year-ago quarter.

Adjusted gross profit rose 2.8% to $901.3 million, while adjusted gross margin expanded 120 basis points (bps) to 41.9%, driven by robust cost savings from transformation efforts.

However, adjusted selling, general & administrative expenses dipped 0.3% from the prior-year period to $633.2 million in the quarter. As a rate of sales, the metric leveraged 60 bps to 29.4%.

The company posted adjusted operating profit of $270.3 million, up nearly 12% from the year-ago quarter. Also, adjusted operating margin grew 140 bps to 12.6%, on higher gross margin and lower SG&A.

Segment Discussion

Sales at the **North America** segment grew 0.6% on a reported basis (or 0.5% at cc) to $1,953.8 million. Same-store sales increased 2.9% from the year-ago period, owing to solid performance of Zales, Peoples and Piercing Pagoda brands and growth across all mall-based banners.

Moreover, the segment's e-commerce sales grew 15% and brick-and-mortar same-store sales rose 1.1%. Its average transaction value ("ATV") dipped 0.5% while the number of transactions grew 3.4% in higher conversion in-store.

Further, same-store sales rose 5.9% at Zales, 0.6% at Kay, 7.7% at Piercing Pagoda, 3.3% at Peoples and 32.6% at James Allen. Meanwhile, the metric declined 7.5% and 2% at Regional banners and Jared, respectively.

Sales at the **International** segment declined 4.5% on a reported basis and 6.3% at cc to $186.2 million. Same-store sales at the segment dipped 3.1% year over year, with e-commerce sales rise of 15.8%, compensated with brick-and-mortar same-store sales decrease of 5.8%. Further, ATV increased 1.6%, while number of transactions fell 4.6%. Dismal same-store sales performance mainly stemmed from softness across categories and a tough operating environment in the U.K.

Financial Details

Signet ended the quarter with cash and cash equivalents of $374.5 million, accounts receivable of $38.8 million and net inventories of $2,331.7 million. Long-term debt was $515.9 million and total shareholders' equity was $1,222.6 million at the end of the quarter.

During fiscal 2020, the company generated net cash of $555.7 million from operating activities. It had free cash flow of $419.4 million at the end of the fiscal year. As of Feb 1, 2020, Signet operated nearly 3,200 stores.

Recent News

Signet Issues Updates Amid Coronavirus – Mar 23, 2020

Signet announced that it has temporarily shuttered all its stores in North America effective Mar 23. This consists of the company's Kay Jewelers, James Allen, Zales, Jared, Peoples and Piercing Pagoda banners as well as the support centers.

Moreover, management reduced the overall capital expenditures and remains focused on inventory management. The company has chosen to access its additional $900 million from the senior secured asset-based revolving credit facility to strengthen financial flexibility. It had over $1.2 billion cash and an additional $292 million available in the revolving credit facility, at the time of drawdown. Its recent borrowing base under the credit facility was roughly $1.4 billion.

Valuation

Signet shares are down 58.4% in the year-to-date period and 55.9% in the trailing 12-month period. Stocks in the Zacks sub-industry are down 5.7% but those in the Zacks Retail-Wholesale sector are up 3.2% in the year-to-date period. Over the past year, the sub-industry and the sector are up 22.6% and 13.8%, respectively.

The S&P 500 index is down 10.9% in the year-to-date period but up 0.7% in the past year.

The stock is currently trading at 10.67X forward 12-month earnings, which compares to 26.66X for the Zacks sub-industry, 30.38X for the Zacks sector and 20.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.25X and as low as 1.62X, with a 5-year median of 9.39X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $11 price target reflects 13X forward 12-month earnings.

The table below shows summary valuation data for SIG

Valuation Multiples - SIG

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.67	26.66	30.38	20.8
	5-Year High	19.25	26.66	30.38	20.8
	5-Year Low	1.62	11.8	19.06	15.19
	5-Year Median	9.39	15.74	23.3	17.45
P/S F12M	Current	0.09	1.46	1.03	3.23
	5-Year High	1.76	1.93	1.11	3.44
	5-Year Low	0.06	0.91	0.8	2.54
	5-Year Median	0.6	1.5	0.93	3.02
EV/EBITDA TTM	Current	4.91	11.23	15.72	10.37
	5-Year High	15.65	11.63	16.33	12.86
	5-Year Low	1.66	5.08	10.9	8.28
	5-Year Median	5.95	8.82	12.57	10.77

As of 05/15/2020

Industry Analysis **Zacks Industry Rank:** Bottom 41% (150 out of 254)

Top Peers

Company (Ticker)	Rec	Rank
AbercrombieFitch Company **(ANF)**	Neutral	3
Guess, Inc. **(GES)**	Neutral	3
L Brands, Inc. **(LB)**	Neutral	3
Movado Group Inc. **(MOV)**	Neutral	3
Ralph Lauren Corporation **(RL)**	Neutral	4
Stitch Fix, Inc. **(SFIX)**	Neutral	3
Carters, Inc. **(CRI)**	Underperform	5
TiffanyCo. **(TIF)**	Underperform	4

Industry Comparison Industry: Retail - Jewelry

	SIG	X Industry	S&P 500	MOV	RL	TIF
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	4	4
VGM Score	A	-	-	B	A	D
Market Cap	472.68 M	229.40 M	18.98 B	229.40 M	4.82 B	15.41 B
# of Analysts	2	2	14	1	6	9
Dividend Yield	16.39%	0.00%	2.21%	0.00%	4.21%	1.83%
Value Score	A	-	-	A	A	D
Cash/Price	0.65	0.08	0.06	0.83	0.36	0.06
EV/EBITDA	5.32	2.37	11.60	2.37	5.59	16.60
PEG Ratio	2.46	2.63	2.58	NA	0.62	3.39
Price/Book (P/B)	0.39	0.65	2.59	0.65	1.55	4.61
Price/Cash Flow (P/CF)	1.04	8.87	10.28	6.49	5.88	18.81
P/E (F1)	16.00	16.56	19.01	14.03	11.85	33.93
Price/Sales (P/S)	0.08	0.96	1.92	0.33	0.75	3.48
Earnings Yield	6.76%	6.04%	5.06%	7.13%	8.44%	2.94%
Debt/Equity	1.60	0.57	0.75	0.25	0.65	0.57
Cash Flow ($/share)	8.68	0.71	7.01	1.53	11.12	6.75
Growth Score	B	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	-14.60%	3.89%	10.82%	3.89%	1.80%	5.28%
Proj. EPS Growth (F1/F0)	-84.41%	-17.47%	-10.48%	-54.78%	-23.20%	-18.45%
Curr. Cash Flow Growth	-60.42%	10.79%	5.68%	-31.56%	9.60%	3.40%
Hist. Cash Flow Growth (3-5 yrs)	-4.93%	0.24%	8.52%	-3.81%	-3.42%	2.30%
Current Ratio	1.91	1.91	1.27	4.25	1.94	3.99
Debt/Capital	67.77%	42.43%	44.25%	20.62%	39.49%	36.20%
Net Margin	1.72%	1.72%	10.54%	6.09%	10.40%	12.23%
Return on Equity	20.61%	17.39%	16.29%	7.17%	20.83%	17.39%
Sales/Assets	1.00	0.69	0.54	0.83	0.91	0.69
Proj. Sales Growth (F1/F0)	-11.68%	0.00%	-2.55%	0.00%	-5.31%	-8.92%
Momentum Score	D	-	-	F	D	C
Daily Price Chg	4.03%	0.15%	0.20%	-0.60%	-0.74%	-0.21%
1 Week Price Chg	22.14%	3.20%	3.23%	-1.01%	-1.38%	1.18%
4 Week Price Chg	27.18%	0.83%	0.88%	9.09%	-4.58%	-0.59%
12 Week Price Chg	-68.51%	-21.49%	-23.26%	-38.63%	-46.35%	-5.35%
52 Week Price Chg	-55.58%	-48.35%	-12.56%	-71.35%	-43.02%	27.73%
20 Day Average Volume	3,103,363	64,338	2,553,422	288,671	1,391,182	1,611,750
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-5.21%	0.00%
(F1) EPS Est 4 week change	-63.11%	-14.18%	-5.57%	0.00%	-17.39%	0.00%
(F1) EPS Est 12 week change	-83.49%	-41.57%	-16.22%	-54.78%	-37.06%	-21.66%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-11.63%	NA	-86.54%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	D
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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