

SIGNET JEWELERS LTD  
Form 10-Q  
August 31, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the quarterly period ended July 30, 2016 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 including area code 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  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  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. (Check one).

Large accelerated filer  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 Act). Yes  No

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, 75,595,414 shares as of August 26, 2016



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## 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   |                   | 26 weeks ended   |                   | Notes |
|--|------------------|-------------------|------------------|-------------------|-------|
|  | July 30,<br>2016 | August 1,<br>2015 | July 30,<br>2016 | August 1,<br>2015 |       |
| Sales  | \$1,373.4        | \$1,410.6         | \$2,952.3        | \$2,941.2         | 3     |
| Cost of sales                                | (908.5 )         | (919.8 )          | (1,887.0 )       | (1,884.5 )        |       |
| Gross margin                                 | 464.9            | 490.8             | 1,065.3          | 1,056.7           |       |
| Selling, general and administrative expenses | (415.7 )         | (452.8 )          | (878.4 )         | (906.0 )          |       |
| Other operating income, net                  | 70.7             | 62.8              | 145.0            | 126.3             |       |
| Operating income                             | 119.9            | 100.8             | 331.9            | 277.0             | 3     |
| Interest expense, net                        | (11.9 )          | (11.1 )           | (23.7 )          | (22.1 )           |       |
| Income before income taxes                   | 108.0            | 89.7              | 308.2            | 254.9             |       |
| Income taxes                                 | (26.1 )          | (27.5 )           | (79.5 )          | (73.9 )           | 7     |
| Net income                                   | \$81.9           | \$62.2            | \$228.7          | \$181.0           |       |
| Earnings per share:                          |                  |                   |                  |                   |       |
| Basic  | \$1.06           | \$0.78            | \$2.94           | \$2.27            | 4     |
| Diluted                                      | \$1.06           | \$0.78            | \$2.94           | \$2.26            | 4     |
| Weighted average common shares outstanding:  |                  |                   |                  |                   |       |
| Basic  | 77.1             | 79.7              | 77.8             | 79.8              | 4     |
| Diluted                                      | 77.2             | 79.9              | 77.9             | 80.0              | 4     |
| Dividends declared per share                 | \$0.26           | \$0.22            | \$0.52           | \$0.44            | 5     |

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

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SIGNET JEWELERS LIMITED  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 (Unaudited)

| (in millions)  | 13 weeks ended<br>July 30, 2016 |                             |                     | August 1, 2015    |                             |                     |
|--|---------------------------------|-----------------------------|---------------------|-------------------|-----------------------------|---------------------|
|  | Pre-tax<br>amount               | Tax<br>(expense)<br>benefit | After-tax<br>amount | Pre-tax<br>amount | Tax<br>(expense)<br>benefit | After-tax<br>amount |
| Net income   |                                 |                             | \$ 81.9             |                   |                             | \$ 62.2             |
| Other comprehensive income:  |                                 |                             |                     |                   |                             |                     |
| Foreign currency translation adjustments   | \$(39.9)                        | \$ —                        | (39.9 )             | \$(4.7)           | \$ —                        | (4.7 )              |
| Available-for-sale securities:   |                                 |                             |                     |                   |                             |                     |
| Unrealized gain (loss)   | 0.3                             | (0.1 )                      | 0.2                 | (0.2 )            | —                           | (0.2 )              |
| Cash flow hedges:  |                                 |                             |                     |                   |                             |                     |
| Unrealized gain (loss)   | 3.4                             | (0.7 )                      | 2.7                 | (8.1 )            | 2.6                         | (5.5 )              |
| Reclassification adjustment for losses to net income                                       | 1.0                             | (0.4 )                      | 0.6                 | 1.1               | (0.3 )                      | 0.8                 |
| Pension plan:  |                                 |                             |                     |                   |                             |                     |
| Reclassification adjustment to net income for amortization of<br>actuarial losses          | 0.4                             | (0.1 )                      | 0.3                 | 0.9               | (0.2 )                      | 0.7                 |
| Reclassification adjustment to net income for amortization of<br>net prior service credits | (0.5 )                          | 0.1                         | (0.4 )              | (0.6 )            | 0.1                         | (0.5 )              |
| Total other comprehensive income   | \$(35.3)                        | \$ (1.2)                    | \$(36.5 )           | \$(11.6)          | \$ 2.2                      | \$ (9.4)            |
| Total comprehensive income   |                                 |                             | \$ 45.4             |                   |                             | \$ 52.8             |

| (in millions)  | 26 weeks ended<br>July 30, 2016 |                             |                     | August 1, 2015    |                             |                     |
|--|---------------------------------|-----------------------------|---------------------|-------------------|-----------------------------|---------------------|
|  | Pre-tax<br>amount               | Tax<br>(expense)<br>benefit | After-tax<br>amount | Pre-tax<br>amount | Tax<br>(expense)<br>benefit | After-tax<br>amount |
| Net income   |                                 |                             | \$ 228.7            |                   |                             | \$ 181.0            |
| Other comprehensive income:  |                                 |                             |                     |                   |                             |                     |
| Foreign currency translation adjustments   | \$(9.1 )                        | \$ —                        | (9.1 )              | \$ 2.8            | \$ —                        | 2.8                 |
| Available-for-sale securities:   |                                 |                             |                     |                   |                             |                     |
| Unrealized gain (loss)   | 0.7                             | (0.3 )                      | 0.4                 | (0.3 )            | —                           | (0.3 )              |
| Cash flow hedges:  |                                 |                             |                     |                   |                             |                     |
| Unrealized gain (loss)   | 9.3                             | (3.0 )                      | 6.3                 | (17.2)            | 5.8                         | (11.4 )             |
| Reclassification adjustment for losses to net income                                       | 2.6                             | (0.9 )                      | 1.7                 | 1.8               | (0.5 )                      | 1.3                 |
| Pension plan:  |                                 |                             |                     |                   |                             |                     |
| Reclassification adjustment to net income for amortization of<br>actuarial losses          | 0.8                             | (0.2 )                      | 0.6                 | 1.7               | (0.3 )                      | 1.4                 |
| Reclassification adjustment to net income for amortization of<br>net prior service credits | (1.0 )                          | 0.2                         | (0.8 )              | (1.1 )            | 0.2                         | (0.9 )              |
| Total other comprehensive income   | \$ 3.3                          | \$ (4.2)                    | \$(0.9 )            | \$(12.3)          | \$ 5.2                      | \$ (7.1)            |
| Total comprehensive income   |                                 |                             | \$ 227.8            |                   |                             | \$ 173.9            |

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

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SIGNET JEWELERS LIMITED  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

| (in millions, except par value per share amount)   | July 30,<br>2016 | January 30,<br>2016 | August 1,<br>2015 | Notes |
|--|------------------|---------------------|-------------------|-------|
| Assets   |                  |                     |                   |       |
| Current assets:  |                  |                     |                   |       |
| Cash and cash equivalents  | \$ 118.7         | \$ 137.7            | \$ 159.8          |       |
| Accounts receivable, net   | 1,650.6          | 1,756.4             | 1,493.2           | 8     |
| Other receivables  | 66.9             | 84.0                | 55.2              |       |
| Other current assets   | 152.0            | 152.6               | 125.0             |       |
| Income taxes   | 1.4              | 3.5                 | 3.0               |       |
| Inventories  | 2,418.3          | 2,453.9             | 2,414.2           | 9     |
| Total current assets   | 4,407.9          | 4,588.1             | 4,250.4           |       |
| Non-current assets:  |                  |                     |                   |       |
| Property, plant and equipment, net of accumulated depreciation of \$1,003.1, \$949.2 and \$915.1, respectively   | 739.5            | 727.6               | 685.1             |       |
| Goodwill   | 518.1            | 515.5               | 517.6             | 10    |
| Intangible assets, net   | 424.7            | 427.8               | 437.8             | 10    |
| Other assets   | 158.0            | 154.6               | 136.8             | 11    |
| Deferred tax assets  | —                | —                   | 3.2               |       |
| Retirement benefit asset   | 49.8             | 51.3                | 40.4              | 15    |
| Total assets   | \$6,298.0        | \$6,464.9           | \$6,071.3         |       |
| Liabilities and Shareholders' equity   |                  |                     |                   |       |
| Current liabilities:   |                  |                     |                   |       |
| Loans and overdrafts   | \$ 238.6         | \$ 57.7             | \$ 80.2           | 16    |
| Accounts payable   | 195.1            | 269.1               | 194.0             |       |
| Accrued expenses and other current liabilities   | 417.6            | 498.3               | 453.1             |       |
| Deferred revenue   | 254.5            | 260.3               | 230.2             | 17    |
| Income taxes   | 38.3             | 65.7                | 5.8               |       |
| Total current liabilities  | 1,144.1          | 1,151.1             | 963.3             |       |
| Non-current liabilities:   |                  |                     |                   |       |
| Long-term debt   | 1,330.5          | 1,321.0             | 1,340.1           | 16    |
| Other liabilities  | 223.8            | 230.5               | 226.2             |       |
| Deferred revenue   | 639.9            | 629.1               | 607.0             | 17    |
| Deferred tax liabilities   | 79.8             | 72.5                | 62.5              |       |
| Total liabilities  | 3,418.1          | 3,404.2             | 3,199.1           |       |
| Commitments and contingencies  |                  |                     |                   | 20    |
| Shareholders' equity:  |                  |                     |                   |       |
| Common shares of \$0.18 par value: authorized 500 shares, 75.6 shares outstanding (January 30, 2016: 79.4 outstanding; August 1, 2015: 79.7 outstanding) | 15.7             | 15.7                | 15.7              |       |
| Additional paid-in capital   | 281.2            | 279.9               | 269.7             |       |
| Other reserves   | 0.4              | 0.4                 | 0.4               |       |
| Treasury shares at cost: 11.6 shares (January 30, 2016: 7.8 shares; August 1, 2015: 7.5 shares)  | (869.7 )         | (495.8 )            | (452.7 )          | 5     |
| Retained earnings  | 3,727.3          | 3,534.6             | 3,282.8           |       |
| Accumulated other comprehensive loss   | (275.0 )         | (274.1 )            | (243.7 )          | 6     |
| Total shareholders' equity   | 2,879.9          | 3,060.7             | 2,872.2           |       |

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|  |           |           |           |
|--|-----------|-----------|-----------|
| Total liabilities and shareholders' equity | \$6,298.0 | \$6,464.9 | \$6,071.3 |
|--|-----------|-----------|-----------|

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

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SIGNET JEWELERS LIMITED  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

| (in millions)   | 26 weeks ended   |                   |
|---|------------------|-------------------|
|   | July 30,<br>2016 | August 1,<br>2015 |
| Cash flows from operating activities  |                  |                   |
| Net income  | \$228.7          | \$ 181.0          |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |                   |
| Depreciation and amortization   | 91.8             | 84.5              |
| Amortization of unfavorable leases and contracts                                  | (9.9 )           | (17.6 )           |
| Pension benefit   | (0.9 )           | —                 |
| Share-based compensation  | 8.8              | 7.1               |
| Deferred taxation   | 7.3              | 13.9              |
| Excess tax benefit from exercise of share awards                                  | (1.3 )           | (5.1 )            |
| Amortization of debt discount and issuance costs                                  | 1.6              | 1.6               |
| Other non-cash movements  | 0.3              | 2.0               |
| Changes in operating assets and liabilities:                                      |                  |                   |
| Decrease in accounts receivable   | 105.1            | 74.7              |
| Decrease (increase) in other receivables and other assets                         | 15.4             | (0.5 )            |
| Decrease in other current assets  | 4.3              | 4.8               |
| Decrease in inventories   | 33.8             | 28.4              |
| Decrease in accounts payable  | (71.7 )          | (80.8 )           |
| Decrease in accrued expenses and other liabilities                                | (75.5 )          | (28.6 )           |
| Increase in deferred revenue  | 2.7              | 24.0              |
| Decrease in income taxes payable  | (29.7 )          | (77.3 )           |
| Pension plan contributions  | (1.6 )           | (1.5 )            |
| Net cash provided by operating activities   | 309.2            | 210.6             |
| Investing activities  |                  |                   |
| Purchase of property, plant and equipment   | (101.0 )         | (98.9 )           |
| Purchase of available-for-sale securities   | (2.6 )           | (1.9 )            |
| Proceeds from sale of available-for-sale securities                               | 3.1              | 3.6               |
| Net cash used in investing activities   | (100.5 )         | (97.2 )           |
| Financing activities  |                  |                   |
| Dividends paid  | (37.9 )          | (32.1 )           |
| Proceeds from issuance of common shares   | 0.4              | 0.2               |
| Excess tax benefit from exercise of share awards                                  | 1.3              | 5.1               |
| Repayments of term loan   | (7.5 )           | (10.0 )           |
| Proceeds from securitization facility   | 1,278.9          | 1,196.3           |
| Repayments of securitization facility   | (1,278.9 )       | (1,196.3 )        |
| Proceeds from revolving credit facility   | 318.0            | —                 |
| Repayments of revolving credit facility   | (118.0 )         | —                 |
| Payment of debt issuance costs  | (2.7 )           | —                 |
| Repurchase of common shares   | (375.0 )         | (81.9 )           |
| Net settlement of equity based awards   | (4.8 )           | (8.3 )            |
| Principal payments under capital lease obligations                                | (0.1 )           | (0.6 )            |
| Repayment of short-term borrowings  | (2.3 )           | (20.0 )           |
| Net cash used in financing activities   | (228.6 )         | (147.6 )          |
| Cash and cash equivalents at beginning of period                                  | 137.7            | 193.6             |



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|  |         |         |
|--|---------|---------|
| Decrease in cash and cash equivalents                        | (19.9 ) | (34.2 ) |
| Effect of exchange rate changes on cash and cash equivalents | 0.9     | 0.4     |
| Cash and cash equivalents at end of period                   | \$118.7 | \$159.8 |

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

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SIGNET JEWELERS LIMITED  
 CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
 (Unaudited)

| (in millions)                            | Common<br>shares at<br>par value | Additional<br>paid-in<br>capital | Other<br>reserves | Treasury<br>shares | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>loss | Total<br>shareholders'<br>equity |
|--|----------------------------------|----------------------------------|-------------------|--------------------|----------------------|---|----------------------------------|
| Balance at January 30, 2016              | \$ 15.7                          | \$ 279.9                         | \$ 0.4            | \$(495.8)          | \$3,534.6            | \$ (274.1 )                                   | \$ 3,060.7                       |
| Net income                               | —                                | —                                | —                 | —                  | 228.7                | —   | 228.7                            |
| Other comprehensive loss                 | —                                | —                                | —                 | —                  | —                    | (0.9 )  | (0.9 )                           |
| Dividends                                | —                                | —                                | —                 | —                  | (40.1 )              | —   | (40.1 )                          |
| Repurchase of common shares              | —                                | —                                | —                 | (375.0 )           | —                    | —   | (375.0 )                         |
| Net settlement of equity based<br>awards | —                                | (7.5 )                           | —                 | 0.7                | 4.1                  | —   | (2.7 )                           |
| Share options exercised                  | —                                | —                                | —                 | 0.4                | —                    | —   | 0.4                              |
| Share-based compensation expense         | —                                | 8.8                              | —                 | —                  | —                    | —   | 8.8                              |
| Balance at July 30, 2016                 | \$ 15.7                          | \$ 281.2                         | \$ 0.4            | \$(869.7)          | \$3,727.3            | \$ (275.0 )                                   | \$ 2,879.9                       |

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

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SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and principal accounting policies

Signet Jewelers Limited (“Signet” or the “Company”), a holding company incorporated in Bermuda, is the world's largest retailer of diamond jewelry. The Company operates through its 100% owned subsidiaries with sales primarily in the US, UK and Canada. Signet manages its business as five reportable segments: the Sterling Jewelers division, the Zale division, which consists of the Zale Jewelry and Piercing Pagoda segments, the UK Jewelry division and Other. The “Other” reportable segment 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 3 for additional discussion of the Company’s segments.

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.

Basis of preparation

These condensed consolidated financial statements are 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 fiscal year ended January 30, 2016 filed with the SEC on March 24, 2016.

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 accounts receivables, inventories, deferred revenue, derivatives, employee benefits, income taxes, contingencies, asset impairments, indefinite-lived intangible assets, as well as depreciation and amortization of long-lived assets.

Fiscal year

The Company’s fiscal year ends on the Saturday nearest to January 3<sup>rd</sup>. Fiscal 2017 and Fiscal 2016 refer to the 52 week periods ending January 28, 2017 and January 30, 2016, respectively. Within these condensed consolidated financial statements, the second quarter of the relevant fiscal years 2017 and 2016 refer to the 13 and 26 weeks ended July 30, 2016 and August 1, 2015, respectively.

Foreign currency translation

The financial position and operating results of certain foreign operations, including the UK Jewelry division and the Canadian operations of the Zale Jewelry segment, are consolidated using the local currency as the functional currency. Assets and liabilities are translated at the rates of exchange on the balance sheet date, and revenues and expenses are translated at the monthly average rates of exchange during the period. Resulting translation gains or losses are included in the accompanying condensed consolidated statements of equity as a component of accumulated other comprehensive income (loss) (“AOCI”). Gains or losses resulting from foreign currency transactions are included within the condensed consolidated income statements, whereas translation adjustments and gains or losses related to intercompany loans of a long-term investment nature are recognized as a component of AOCI.

See Note 6 for additional information regarding the Company's foreign currency translation.

**Reclassification**

The Company has reclassified the presentation of certain prior year amounts to conform to the current year presentation. During the fourth quarter of Fiscal 2016, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes." As a result, the Company adjusted the presentation of deferred taxes in the condensed consolidated balance sheet as of August 1, 2015 to reflect a reduction in current assets of \$4.3 million, a reduction in non-current assets of \$125.8 million, a reduction in current liabilities of \$172.4 million and an increase in non-current liabilities of \$42.3 million. See Note 2 for additional information regarding new accounting guidance adopted in Fiscal 2017.

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2. New accounting pronouncements

New accounting pronouncements adopted during the period

Share-based compensation

In June 2014, the FASB issued ASU No. 2014-12, "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." The new guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. ASU No. 2014-12 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. Signet adopted this guidance during the first quarter of Fiscal 2017. The adoption of this guidance did not have a material impact on the Company's financial position or results of operations.

Debt issuance costs

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." The new guidance requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. In August 2015, the FASB issued ASU No. 2015-15, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." The new guidance provides clarity that the SEC would not object to the deferral and presentation of debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. ASU Nos. 2015-03 and 2015-15 are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. Signet adopted this guidance during the first quarter of Fiscal 2017. Accordingly, the Company adjusted the condensed consolidated balance sheets as of January 30, 2016 and August 1, 2015 by reducing total assets and debt for amounts classified as deferred debt issuance costs of \$9.5 million and \$10.4 million, respectively. Signet continues to present debt issuance costs relating to its revolving credit facility and asset-backed securitization facility as assets in the condensed consolidated balance sheets.

See Note 16 for additional discussion of the Company's debt issuance costs.

New accounting pronouncements to be adopted in future periods

Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The new guidance requires entities to measure and recognize expected credit losses for financial assets measured at amortized cost basis. The estimate of expected credit losses should consider historical information, current information, and reasonable and supportable forecasts of expected losses over the remaining contractual life that affect collectibility. ASU No. 2016-13 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019, with early adoption permitted. Signet is currently assessing the impact the adoption of this guidance will have on the Company's financial position or results of operations.

Revenue recognition

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The new guidance affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 provides alternative methods of retrospective adoption. In August 2015, the FASB issued an update (ASU No. 2015-14) that defers the effective date by one year. As a result, ASU No. 2014-09 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted for annual periods beginning after December 15, 2016, including interim periods within that annual period.

There are many aspects of this new accounting guidance that are still being interpreted. The FASB has recently issued updates to certain aspects of the guidance to address implementation issues. In March 2016, the FASB issued

additional guidance concerning "Principal versus Agent" considerations (reporting revenue gross versus net); in April 2016, the FASB issued additional guidance on identifying performance obligations and licensing; and in May 2016, the FASB issued additional guidance on collectibility, noncash consideration, presentation of sales tax, and transition. These updates are intended to improve the operability and understandability of the implementation guidance and have the same effective date and transition requirements as ASU No. 2014-09 guidance discussed above.

Signet continues to assess the impact, as well as the available methods of implementation, the adoption of this guidance will have on the Company's financial position or results of operations.

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### Inventory

In July 2015, the FASB issued ASU No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory.” The new guidance states that inventory will be measured at the lower of cost and net realizable value. The ASU defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU No. 2015-11 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted and is to be applied prospectively. Signet is currently assessing the impact, if any, the adoption of this guidance will have on the Company’s financial position or results of operations.

### Financial instruments

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” The new guidance primarily impacts accounting for equity investments and financial liabilities under the fair value option, as well as, the presentation and disclosure requirements for financial instruments. Under the new guidance, equity investments will generally be measured at fair value, with subsequent changes in fair value recognized in net income. ASU No. 2016-01 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Signet does not expect the adoption of this guidance to have a material impact on the Company’s financial position or results of operations.

### Leases

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” The new guidance primarily impacts lessee accounting by requiring the recognition of a right-of-use asset and a corresponding lease liability on the balance sheet for long-term lease agreements. The lease liability will be equal to the present value of all reasonably certain lease payments. The right-of-use asset will be based on the liability, subject to adjustment for initial direct costs. Lease agreements that are 12 months or less are permitted to be excluded from the balance sheet. In general, leases will be amortized on a straight-line basis with the exception of finance lease agreements. ASU No. 2016-02 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, with early adoption permitted. Signet is currently assessing the impact the adoption of this guidance will have on the Company’s financial position or results of operations.

### Liabilities

In March 2016, the FASB issued ASU No. 2016-04, “Liabilities - Extinguishments of Liabilities (Subtopic 405-20).” The new guidance addresses diversity in practice related to the derecognition of a prepaid stored-value product liability. Liabilities related to the sale of prepaid stored-value products within the scope of this update are financial liabilities. ASU No. 2016-04 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. Signet does not expect the adoption of this guidance to have a material impact on the Company’s financial position or results of operations.

### Share-based compensation

In March 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” The new guidance simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU No. 2016-09 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016, with early adoption permitted. Signet is currently assessing the impact the adoption of this guidance will have on the Company’s results of operations.

### 3. Segment information

Financial information for each of Signet’s reportable segments is presented in the tables below. Signet’s chief operating decision maker utilizes sales and operating income, after the elimination of any inter-segment transactions, to determine resource allocations and performance assessment measures. Signet’s sales are derived from the retailing of jewelry, watches, other products and services as generated through the management of its five reportable segments: the Sterling Jewelers division, the Zale division, which consists of the Zale Jewelry and Piercing Pagoda segments, the UK Jewelry division and Other.

The Sterling Jewelers division operates in all 50 US states. Its stores operate nationally in malls and off-mall locations principally as Kay Jewelers (“Kay”), Kay Jewelers Outlet, Jared The Galleria Of Jewelry (“Jared”) and Jared Vault. The

division also operates a variety of mall-based regional brands.

The Zale division operates jewelry stores (Zale Jewelry) and kiosks (Piercing Pagoda), located primarily in shopping malls throughout the US, Canada and Puerto Rico. 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. The division also operates regional brands Gordon's Jewelers and Mappins. Piercing Pagoda operates through mall-based kiosks.

The UK Jewelry division operates stores in the UK, Republic of Ireland and Channel Islands. Its stores operate in shopping malls and off-mall locations (i.e. high street) principally as H.Samuel and Ernest Jones.



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The Other reportable segment consists of all non-reportable segments, including subsidiaries involved in the purchasing and conversion of rough diamonds to polished stones, that are below the quantifiable threshold for separate disclosure as a reportable segment and unallocated corporate administrative functions.

| (in millions)     | 13 weeks ended   |                   | 26 weeks ended   |                   |
|-------------------|------------------|-------------------|------------------|-------------------|
|                   | July 30,<br>2016 | August 1,<br>2015 | July 30,<br>2016 | August 1,<br>2015 |
| Sales:            |                  |                   |                  |                   |
| Sterling Jewelers | \$839.4          | \$858.5           | \$1,819.8        | \$1,802.7         |
| Zale Jewelry      | 331.0            | 336.4             | 712.4            | 709.3             |
| Piercing Pagoda   | 57.0             | 52.9              | 126.0            | 117.1             |
| UK Jewelry        | 145.2            | 159.1             | 289.2            | 305.6             |
| Other             | 0.8              | 3.7               | 4.9              | 6.5               |
| Total sales       | \$1,373.4        | \$1,410.6         | \$2,952.3        | \$2,941.2         |

|                                |         |         |         |         |
|--------------------------------|---------|---------|---------|---------|
| Operating income:              |         |         |         |         |
| Sterling Jewelers              | \$140.9 | \$157.8 | \$339.2 | \$336.0 |
| Zale Jewelry <sup>(1)</sup>    | 0.5     | (2.0 )  | 18.8    | 8.4     |
| Piercing Pagoda <sup>(2)</sup> | (0.2 )  | (0.1 )  | 7.6     | 5.0     |
| UK Jewelry                     | 1.7     | 3.2     | 3.0     | 3.7     |
| Other <sup>(3)</sup>           | (23.0 ) | (58.1 ) | (36.7 ) | (76.1 ) |
| Total operating income         | \$119.9 | \$100.8 | \$331.9 | \$277.0 |

Includes net operating loss of \$4.3 million and \$9.5 million related to the effects of purchase accounting associated <sup>(1)</sup> with the acquisition of Zale Corporation for the 13 and 26 weeks ended July 30, 2016 and \$4.4 million and \$13.5 million for the 13 and 26 weeks ended August 1, 2015, respectively.

Includes net operating loss of \$0.1 million and \$0.2 million related to the effects of purchase accounting associated <sup>(2)</sup> with the acquisition of Zale Corporation for the 13 and 26 weeks ended July 30, 2016 and \$0.7 million and \$3.0 million for the 13 and 26 weeks ended August 1, 2015, respectively.

Includes \$5.3 million and \$10.6 million for the 13 and 26 weeks ended July 30, 2016 of integration costs for <sup>(3)</sup> consulting expenses associated with IT implementations and severance related to organizational changes. Includes \$43.6 million and \$50.0 million for the 13 and 26 weeks ended August 1, 2015 of transaction and integration expenses primarily attributable to the legal settlement over appraisal rights and consulting expenses.

| (in millions)     | July 30,<br>2016 | January 30,<br>2016 | August 1,<br>2015 |
|-------------------|------------------|---------------------|-------------------|
| Total assets:     |                  |                     |                   |
| Sterling Jewelers | \$3,699.5        | \$ 3,788.0          | \$3,445.7         |
| Zale Jewelry      | 1,931.1          | 1,955.1             | 1,864.0           |
| Piercing Pagoda   | 138.4            | 141.8               | 116.9             |
| UK Jewelry        | 392.3            | 427.8               | 432.2             |
| Other             | 136.7            | 152.2               | 212.5             |
| Total assets      | \$6,298.0        | \$ 6,464.9          | \$ 6,071.3        |

## 4. Earnings per share

| (in millions, except per share amounts)               | 13 weeks ended   |                   | 26 weeks ended   |                   |
|---|------------------|-------------------|------------------|-------------------|
|   | July 30,<br>2016 | August 1,<br>2015 | July 30,<br>2016 | August 1,<br>2015 |
| Net income  | \$81.9           | \$ 62.2           | \$228.7          | \$ 181.0          |
| Basic weighted average number of shares outstanding   | 77.1             | 79.7              | 77.8             | 79.8              |
| Dilutive effect of share awards                       | 0.1              | 0.2               | 0.1              | 0.2               |
| Diluted weighted average number of shares outstanding | 77.2             | 79.9              | 77.9             | 80.0              |
| Earnings per share – basic                            | \$1.06           | \$ 0.78           | \$2.94           | \$ 2.27           |

|                              |        |         |        |         |
|------------------------------|--------|---------|--------|---------|
| Earnings per share – diluted | \$1.06 | \$ 0.78 | \$2.94 | \$ 2.26 |
|------------------------------|--------|---------|--------|---------|

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The dilutive effect of share awards represents the potential impact of outstanding awards issued under the Company's share-based compensation plans, including restricted shares and restricted stock units issued under the Omnibus Plan and stock options issued under the Share Saving Plans and the Executive Plans. The potential impact is calculated using the treasury stock method. The calculation of fully diluted earnings per share for the 13 and 26 weeks ended July 30, 2016 excludes awards of 207,046 shares (13 and 26 weeks ended August 1, 2015: 72,406 share awards) on the basis that their effect would be anti-dilutive.

## 5. Shareholders' equity

## Share repurchases

| (in millions, except per share amounts) | Amount authorized | 26 weeks ended July 30, 2016 |                    | 26 weeks ended August 1, 2015      |                    |                                    |
|---|-------------------|------------------------------|--------------------|------------------------------------|--------------------|------------------------------------|
|   |                   | Shares repurchased           | Amount repurchased | Average repurchase price per share | Shares repurchased | Average repurchase price per share |
| 2016 Program <sup>(1)</sup>             | \$ 750.0          | 2.7                          | \$ 239.4           | \$ 88.39                           | n/a                | n/a                                |
| 2013 Program <sup>(2)</sup>             | \$ 350.0          | 1.2                          | 135.6              | \$ 111.26                          | 0.6                | \$ 81.9                            |
| Total                                   |                   | 3.9                          | \$ 375.0           | \$ 95.49                           | 0.6                | \$ 81.9                            |

In February 2016, the Board of Directors authorized the repurchase of up to \$750 million of Signet's common shares (the "2016 Program"). The 2016 Program may be suspended or discontinued at any time without notice. The 2016 Program had \$510.6 million remaining as of July 30, 2016.

<sup>(2)</sup> In June 2013, the Board of Directors authorized the repurchase of up to \$350 million of Signet's common shares (the "2013 Program"). The 2013 Program was completed in May 2016.

n/a Not applicable.

## Dividends

| (in millions, except per share amounts) | Fiscal 2017             |                 | Fiscal 2016             |                 |
|---|-------------------------|-----------------|-------------------------|-----------------|
|   | Cash dividend per share | Total dividends | Cash dividend per share | Total dividends |
| First quarter                           | \$0.26                  | \$ 20.4         | \$0.22                  | \$ 17.6         |
| Second quarter <sup>(1)</sup>           | 0.26                    | 19.7            | 0.22                    | 17.6            |
| Total                                   | \$0.52                  | \$ 40.1         | \$0.44                  | \$ 35.2         |

Signet's dividend policy results in the dividend payment date being a quarter in arrears from the declaration date.

<sup>(1)</sup> As a result, as of July 30, 2016 and August 1, 2015, \$19.7 million and \$17.6 million, respectively, has been recorded in accrued expenses and other current liabilities in the condensed consolidated balance sheets reflecting the cash dividends declared for the second quarter of Fiscal 2017 and Fiscal 2016, respectively.

## 6. Accumulated other comprehensive income (loss)

The following tables present the changes in AOCI by component and the reclassifications out of AOCI, net of tax:

| (in millions)  | Foreign currency translation | Losses on available-for-sale securities, net | Gains (losses) on cash flow hedges | Pension plan     |                       | Accumulated other comprehensive loss |
|--|------------------------------|--|------------------------------------|------------------|-----------------------|--------------------------------------|
|  |                              |  |                                    | Actuarial losses | Prior service credits |                                      |
| Balance at January 30, 2016  | \$ (237.8 )                  | \$ (0.4 )                                    | \$ (3.9 )                          | \$(43.1)         | \$ 11.1               | \$ (274.1 )                          |
| Other comprehensive income (loss) ("OCI") before reclassifications | (9.1 )                       | 0.4  | 6.3                                | —                | —                     | (2.4 )                               |
| Amounts reclassified from AOCI to net income                       | —                            | —  | 1.7                                | 0.6              | (0.8 )                | 1.5                                  |
| Net current-period OCI   | (9.1 )                       | 0.4  | 8.0                                | 0.6              | (0.8 )                | (0.9 )                               |
| Balance at July 30, 2016   | \$ (246.9 )                  | \$ —   | \$ 4.1                             | \$(42.5)         | \$ 10.3               | \$ (275.0 )                          |



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The amounts reclassified from AOCI were as follows:

| (in millions)  | Amounts reclassified from AOCI |                |                |                | Income statement caption                                    |
|--|--------------------------------|----------------|----------------|----------------|---|
|  | 13 weeks ended                 |                | 26 weeks ended |                |   |
|  | July 30, 2016                  | August 1, 2015 | July 30, 2016  | August 1, 2015 |   |
| <b>(Gains) losses on cash flow hedges:</b>             |                                |                |                |                |   |
| Foreign currency contracts                             | \$(0.4)                        | \$ —           | \$(0.6)        | \$ 0.1         | Cost of sales (see Note 13)                                 |
| Interest rate swaps                                    | 0.6                            | 0.8            | 1.2            | 1.1            | Interest expense, net (see Note 13)                         |
| Commodity contracts                                    | 0.8                            | 0.3            | 2.0            | 0.6            | Cost of sales (see Note 13)                                 |
| Total before income tax                                | 1.0                            | 1.1            | 2.6            | 1.8            |   |
| Income taxes   | (0.4 )                         | (0.3 )         | (0.9 )         | (0.5 )         |   |
| Net of tax   | 0.6                            | 0.8            | 1.7            | 1.3            |   |
| <b>Defined benefit pension plan items:</b>             |                                |                |                |                |   |
| Amortization of unrecognized actuarial losses          | 0.4                            | 0.9            | 0.8            | 1.7            | Selling, general and administrative expenses <sup>(1)</sup> |
| Amortization of unrecognized net prior service credits | (0.5 )                         | (0.6 )         | (1.0 )         | (1.1 )         | Selling, general and administrative expenses <sup>(1)</sup> |
| Total before income tax                                | (0.1 )                         | 0.3            | (0.2 )         | 0.6            |   |
| Income taxes   | —                              | (0.1 )         | —              | (0.1 )         |   |
| Net of tax   | (0.1 )                         | 0.2            | (0.2 )         | 0.5            |   |
| Total reclassifications, net of tax                    | \$0.5                          | \$ 1.0         | \$1.5          | \$ 1.8         |   |

(1) These items are included in the computation of net periodic pension benefit. See Note 15 for additional information.

#### 7. 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, Canada and certain other foreign jurisdictions. The provision for income taxes is based on the current estimate of the consolidated annual effective tax rate. As of July 30, 2016, the effective tax rate for the Company was 25.8% compared to 28.9% in Fiscal 2016. The effective tax rate as of July 30, 2016 excludes the effects of any discrete items that may be recognized in future periods.

During the second quarter of Fiscal 2017, there has been no material change in the amounts of unrecognized tax benefits, or the related accrued interest and penalties (where appropriate), in respect of uncertain tax positions identified as of January 30, 2016.

#### 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.

| (in millions) | July 30, 2016 | January 30, 2016 | August 1, 2015 |
|---------------|---------------|------------------|----------------|
|---------------|---------------|------------------|----------------|

Accounts receivable by portfolio segment, net:

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|   |           |            |            |
|---|-----------|------------|------------|
| Sterling Jewelers customer in-house finance receivables | \$1,615.6 | \$ 1,725.9 | \$ 1,483.1 |
| Zale customer in-house finance receivables              | 25.0      | 13.6       | —          |
| Other accounts receivable                               | 10.0      | 16.9       | 10.1       |
| Total accounts receivable, net                          | \$1,650.6 | \$ 1,756.4 | \$ 1,493.2 |

Signet grants credit to customers based on a variety of credit quality indicators, including consumer financial information and prior payment experience. On an ongoing basis, management monitors the credit exposure based on past due status and collection experience, as it has found a meaningful correlation between the past due status of customers and the risk of loss.

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During the third quarter of Fiscal 2016, Signet implemented a program to provide in-house credit to customers in the Zale division's US locations ("second look"). The allowance for doubtful accounts associated with Zale customer in-house finance receivables was immaterial as of July 30, 2016 and January 30, 2016. The credit function for the Zale division was entirely outsourced during the second quarter of Fiscal 2016 and, as such, no accounts receivable existed as of August 1, 2015.

Other accounts receivable is comprised primarily of accounts receivable relating to the insurance loss replacement business in the UK Jewelry division of \$7.6 million (January 30, 2016 and August 1, 2015: \$13.6 million and \$7.4 million, respectively).

The allowance for credit losses on Sterling Jewelers customer in-house finance receivables is shown below:

| (in millions)  | 26 weeks ended |                |
|--|----------------|----------------|
|  | July 30, 2016  | August 1, 2015 |
| Beginning balance:   | \$(130.0 )     | \$(113.1 )     |
| Charge-offs, net   | 89.5           | 74.6           |
| Recoveries   | 18.3           | 18.4           |
| Provision  | (107.2 )       | (95.9 )        |
| Ending balance   | \$(129.4 )     | \$(116.0 )     |
| Ending receivable balance evaluated for impairment           | 1,745.0        | 1,599.1        |
| Sterling Jewelers customer in-house finance receivables, net | \$1,615.6      | \$1,483.1      |

Net bad debt expense is defined as the provision expense less recoveries.

The credit quality indicator and age analysis of Sterling Jewelers customer in-house finance receivables are shown below:

| (in millions)                             | July 30, 2016 |                     | January 30, 2016 |                     | August 1, 2015 |                     |
|---|---------------|---------------------|------------------|---------------------|----------------|---------------------|
|   | Gross         | Valuation allowance | Gross            | Valuation allowance | Gross          | Valuation allowance |
| Performing:                               |               |                     |                  |                     |                |                     |
| Current, aged 0 – 30 days                 | \$1,350.7     | \$(41.3 )           | \$1,473.0        | \$(45.4 )           | \$1,252.4      | \$(38.1 )           |
| Past due, aged 31 – 60 days               | 264.1         | (8.6 )              | 259.6            | (8.3 )              | 232.3          | (7.5 )              |
| Past due, aged 61 – 90 days               | 53.2          | (2.5 )              | 49.2             | (2.2 )              | 46.1           | (2.1 )              |
| Non Performing:                           |               |                     |                  |                     |                |                     |
| Past due, aged more than 90 days          | 77.0          | (77.0 )             | 74.1             | (74.1 )             | 68.3           | (68.3 )             |
|   | \$1,745.0     | \$(129.4 )          | \$1,855.9        | \$(130.0 )          | \$1,599.1      | \$(116.0 )          |
| (as a % of the ending receivable balance) | July 30, 2016 |                     | January 30, 2016 |                     | August 1, 2015 |                     |
|   | Gross         | Valuation allowance | Gross            | Valuation allowance | Gross          | Valuation allowance |
| Performing                                |               |                     |                  |                     |                |                     |
| Current, aged 0 – 30 days                 | 77.4 %        | 3.1 %               | 79.4 %           | 3.1 %               | 78.3 %         | 3.0 %               |
| Past due, aged 31 – 60 days               | 15.1 %        | 3.3 %               | 14.0 %           | 3.2 %               | 14.5 %         | 3.2 %               |
| Past due, aged 61 – 90 days               | 3.1 %         | 4.7 %               | 2.6 %            | 4.5 %               | 2.9 %          | 4.6 %               |
| Non Performing                            |               |                     |                  |                     |                |                     |
| Past due, aged more than 90 days          | 4.4 %         | 100.0 %             | 4.0 %            | 100.0 %             | 4.3 %          | 100.0 %             |
|   | 100.0 %       | 7.4 %               | 100.0 %          | 7.0 %               | 100.0 %        | 7.3 %               |

## Securitized credit card receivables

The Sterling Jewelers division securitizes its credit card receivables through its Sterling Jewelers Receivables Master Note Trust established on May 15, 2014. See Note 16 for additional information regarding this asset-backed securitization facility.





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## 9. Inventories

The following table summarizes the Company's inventory by classification:

| (in millions)     | July 30,<br>2016 | January 30,<br>2016 | August 1,<br>2015 |
|-------------------|------------------|---------------------|-------------------|
| Raw materials     | \$75.4           | \$81.8              | \$114.2           |
| Finished goods    | 2,342.9          | 2,372.1             | 2,300.0           |
| Total inventories | \$2,418.3        | \$2,453.9           | \$2,414.2         |

## 10. Goodwill and intangibles

## Goodwill

The following table summarizes the Company's goodwill by reportable segment:

| (in millions)               | Sterling<br>Jewelers | Zale<br>Jewelry | Piercing<br>Pagoda | UK<br>Jewelry | Other  | Total   |
|-----------------------------|----------------------|-----------------|--------------------|---------------|--------|---------|
| Balance at January 31, 2015 | \$23.2               | \$492.4         | \$—                | —             | —\$3.6 | \$519.2 |
| Impact of foreign exchange  | —                    | (3.7)           | —                  | —             | —      | (3.7)   |
| Balance at January 30, 2016 | 23.2                 | 488.7           | —                  | —             | 3.6    | 515.5   |
| Impact of foreign exchange  | —                    | 2.6             | —                  | —             | —      | 2.6     |
| Balance at July 30, 2016    | \$23.2               | \$491.3         | \$—                | —             | —\$3.6 | \$518.1 |

There have been no goodwill impairment losses recognized during the fiscal periods presented in the condensed consolidated income statements. If future economic conditions are different than those projected by management, future impairment charges may occur.

## Intangibles

The following table provides detail regarding the composition of intangible assets and liabilities:

| (in millions)                          | Balance<br>sheet<br>location | July 30, 2016               |                             |                           | January 30, 2016            |                             |                           | August 1, 2015              |                             |                           |
|--|------------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
|  |                              | Gross<br>carrying<br>amount | Accumulated<br>amortization | Net<br>carrying<br>amount | Gross<br>carrying<br>amount | Accumulated<br>amortization | Net<br>carrying<br>amount | Gross<br>carrying<br>amount | Accumulated<br>amortization | Net<br>carrying<br>amount |
| Definite-lived intangible assets:      |                              |                             |                             |                           |                             |                             |                           |                             |                             |                           |
| Trade names                            | Intangible assets, net       | \$1.4                       | \$(0.6)                     | \$0.8                     | \$1.4                       | \$(0.5)                     | \$0.9                     | \$1.5                       | \$(0.3)                     | \$1.2                     |
| Favorable leases                       | Intangible assets, net       | 47.8                        | (29.4)                      | 18.4                      | 47.0                        | (22.3)                      | 24.7                      | 47.6                        | (15.8)                      | 31.8                      |
| Total definite-lived intangible assets |                              | 49.2                        | (30.0)                      | 19.2                      | 48.4                        | (22.8)                      | 25.6                      | 49.1                        | (16.1)                      | 33.0                      |
| Indefinite-lived trade names           | Intangible assets, net       | 405.5                       | —                           | 405.5                     | 402.2                       | —                           | 402.2                     | 404.8                       | —                           | 404.8                     |
| Total intangible assets, net           |                              | \$454.7                     | \$(30.0)                    | \$424.7                   | \$450.6                     | \$(22.8)                    | \$427.8                   | \$453.9                     | \$(16.1)                    | \$437.8                   |
| Definite-lived intangible liabilities: |                              |                             |                             |                           |                             |                             |                           |                             |                             |                           |
| Unfavorable leases                     | Other liabilities            | \$(48.4)                    | \$31.2                      | \$(17.2)                  | \$(47.7)                    | \$23.7                      | \$(24.0)                  | \$(48.3)                    | \$16.8                      | \$(31.5)                  |
| Unfavorable contracts                  | Other liabilities            | (65.6)                      | 30.8                        | (34.8)                    | (65.6)                      | 28.1                        | (37.5)                    | (65.6)                      | 24.2                        | (41.4)                    |
| Total intangible liabilities, net      |                              | \$(114.0)                   | \$62.0                      | \$(52.0)                  | \$(113.3)                   | \$51.8                      | \$(61.5)                  | \$(113.9)                   | \$41.0                      | \$(72.9)                  |



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## 11. Other assets

| (in millions)               | July 30, January 30, August 1, |          |          |
|-----------------------------|--------------------------------|----------|----------|
|                             | 2016                           | 2016     | 2015     |
| Deferred ESP selling costs  | \$ 82.6                        | \$ 79.4  | \$ 75.2  |
| Investments <sup>(1)</sup>  | 27.0                           | 26.8     | 23.2     |
| Other assets <sup>(2)</sup> | 48.4                           | 48.4     | 38.4     |
| Total other assets          | \$ 158.0                       | \$ 154.6 | \$ 136.8 |

<sup>(1)</sup> See Note 12 for additional information.

<sup>(2)</sup> Amounts adjusted to reflect the reclassification of capitalized debt issuance costs in accordance with Signet's adoption of FASB ASU 2015-03 during the first quarter of Fiscal 2017. See Note 2 for additional information. In addition, other current assets include deferred direct selling costs in relation to the sale of ESP of \$27.7 million as of July 30, 2016 (January 30, 2016 and August 1, 2015: \$26.4 million and \$23.9 million, respectively).

## 12. Investments

Investments in debt and equity securities are held by certain insurance subsidiaries and are reported at fair value as other assets in the accompanying condensed consolidated balance sheets. All investments are classified as available-for-sale and include the following:

| (in millions)                   | July 30, 2016 |                        |            | January 30, 2016 |                        |            | August 1, 2015 |                        |            |
|---------------------------------|---------------|------------------------|------------|------------------|------------------------|------------|----------------|------------------------|------------|
|                                 | Cost          | Unrealized gain (loss) | Fair Value | Cost             | Unrealized gain (loss) | Fair Value | Cost           | Unrealized gain (loss) | Fair Value |
| US Treasury securities          | \$8.7         | \$ (0.4 )              | \$ 8.3     | \$9.2            | \$ (0.4 )              | \$ 8.8     | \$9.2          | \$ (0.3 )              | \$ 8.9     |
| US government agency securities | 4.3           | —                      | 4.3        | 4.0              | —                      | 4.0        | 1.0            | (0.1 )                 | 0.9        |
| Corporate bonds and notes       | 10.5          | 0.3                    | 10.8       | 10.8             | —                      | 10.8       | 9.9            | —                      | 9.9        |
| Corporate equity securities     | 3.5           | 0.1                    | 3.6        | 3.5              | (0.3 )                 | 3.2        | 3.4            | 0.1                    | 3.5        |
| Total investments               | \$27.0        | \$ —                   | \$ 27.0    | \$27.5           | \$ (0.7 )              | \$ 26.8    | \$23.5         | \$ (0.3 )              | \$ 23.2    |

Realized gains and losses on investments are determined on the specific identification basis. There were no material net realized gains or losses during the 13 and 26 weeks ended July 30, 2016 and August 1, 2015. Investments with a carrying value of \$6.6 million were on deposit with various state insurance departments at July 30, 2016 (January 30, 2016 and August 1, 2015: \$7.1 million and \$7.2 million, respectively), as required by law.

Investments in debt securities outstanding as of July 30, 2016 mature as follows:

| (in millions)                       | Cost   | Fair Value |
|-------------------------------------|--------|------------|
| Less than one year                  | \$4.5  | \$ 4.0     |
| Year two through year five          | 11.7   | 11.8       |
| Year six through year ten           | 7.3    | 7.6        |
| After ten years                     | —      | —          |
| Total investment in debt securities | \$23.5 | \$ 23.4    |

## 13. Derivatives

Derivative transactions are used by Signet for risk management purposes to address risks inherent in Signet's business operations and sources of financing. The main risks arising from Signet's operations are market risk including foreign currency risk, commodity risk, liquidity risk and interest rate risk. Signet uses derivative financial instruments to manage and mitigate these risks under policies reviewed and approved by the Board of Directors. Signet does not enter into derivative transactions for speculative purposes.

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Market risk

Signet generates revenues and incurs expenses in US dollars, Canadian dollars and British pounds. As a portion of UK Jewelry purchases and purchases made by the Canadian operations of the Zale division are denominated in US dollars, Signet enters into forward foreign currency exchange contracts and foreign currency swaps to manage this exposure to the US dollar.

Signet holds a fluctuating amount of British pounds and Canadian dollars reflecting the cash generative characteristics of operations. Signet's objective is to minimize net foreign exchange exposure to the income statement on non-US dollar denominated items through managing cash levels, non-US dollar denominated intra-entity balances and foreign currency swaps. In order to manage the foreign exchange exposure and minimize the level of funds denominated in British pounds and Canadian dollars, dividends are paid regularly by subsidiaries to their immediate holding companies and excess British pounds and Canadian dollars are sold in exchange for US dollars.

Signet's policy is to minimize the impact of precious metal commodity price volatility on operating results through the use of outright forward purchases of, or by entering into options to purchase, precious metals within treasury guidelines approved by the Board of Directors. In particular, Signet undertakes some hedging of its requirements for gold through the use of options, net zero-cost collar arrangements (a combination of call and put option contracts), forward contracts and commodity purchasing, while fluctuations in the cost of diamonds are not hedged.

Liquidity risk

Signet's objective is to ensure that it has access to, or the ability to generate, sufficient cash from either internal or external sources in a timely and cost-effective manner to meet its commitments as they become due and payable. Signet manages liquidity risks as part of its overall risk management policy. Management produces forecasting and budgeting information that is reviewed and monitored by the Board of Directors. Cash generated from operations and external financing are the main sources of funding which supplement Signet's resources in meeting liquidity requirements.

The main external sources of funding are a senior unsecured credit facility, senior unsecured notes and securitized credit card receivables, as described in Note 16.

Interest rate risk

Signet has exposure to movements in interest rates associated with cash and borrowings. Signet may enter into various interest rate protection agreements in order to limit the impact of movements in interest rates.

Interest rate swap (designated) — The Company entered into an interest rate swap in March 2015 with an aggregate notional amount of \$300.0 million that is scheduled to mature through April 2019. Under this contract, the Company agrees to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional amounts. This contract was entered into to reduce the consolidated interest rate risk associated with variable rate, long-term debt. The Company designated this derivative as a cash flow hedge of the variability in expected cash outflows for interest payments. The Company has effectively converted a portion of its variable-rate senior unsecured term loan into fixed-rate debt.

The fair value of the swap is presented within the condensed consolidated balance sheets, and the Company recognizes any changes in the fair value as an adjustment of AOCI within equity to the extent the swap is effective. The ineffective portion, if any, is recognized in current period earnings. As interest expense is accrued on the debt obligation, amounts in AOCI related to the interest rate swap are reclassified into income resulting in a net interest expense on the hedged amount of the underlying debt obligation equal to the effective yield of the fixed rate of the swap. In the event that the interest rate swap is dedesignated prior to maturity, gains or losses in AOCI remain deferred and are reclassified into earnings in the periods in which the hedged forecasted transaction affects earnings.

Credit risk and concentrations of credit risk

Credit risk represents the loss that would be recognized at the reporting date if counterparties failed to perform as contracted. Signet does not anticipate non-performance by counterparties of its financial instruments, except for customer in-house financing receivables as disclosed in Note 8 of which no single customer represents a significant portion of the Company's receivable balance. Signet does not require collateral or other security to support cash investments or financial instruments with credit risk; however, it is Signet's policy to only hold cash and cash equivalent investments and to transact financial instruments with financial institutions with a certain minimum credit

rating. Management does not believe Signet is exposed to any significant concentrations of credit risk that arise from cash and cash equivalent investments, derivatives or accounts receivable.

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## Commodity and foreign currency risks

The following types of derivative financial instruments are utilized by Signet to mitigate certain risk exposures related to changes in commodity prices and foreign exchange rates:

Forward foreign currency exchange contracts (designated) — These contracts, which are principally in US dollars, are entered into to limit the impact of movements in foreign exchange rates on forecasted foreign currency purchases. The total notional amount of these foreign currency contracts outstanding as of July 30, 2016 was \$39.2 million (January 30, 2016 and August 1, 2015: \$10.7 million and \$17.7 million, respectively). These contracts have been designated as cash flow hedges and will be settled over the next 12 months (January 30, 2016 and August 1, 2015: 6 months and 9 months, respectively).

Forward foreign currency exchange contracts (undesignated) — Foreign currency contracts not designated as cash flow hedges are used to limit the impact of movements in foreign exchange rates on recognized foreign currency payables and to hedge currency flows through Signet's bank accounts to mitigate Signet's exposure to foreign currency exchange risk in its cash and borrowings. The total notional amount of these foreign currency contracts outstanding as of July 30, 2016 was \$19.5 million (January 30, 2016 and August 1, 2015: \$32.0 million and \$4.2 million, respectively).

Commodity forward purchase contracts and net zero-cost collar arrangements (designated) — These contracts are entered into to reduce Signet's exposure to significant movements in the price of the underlying precious metal raw material. The total notional amount of these commodity derivative contracts outstanding as of July 30, 2016 was 27,000 ounces of gold (January 30, 2016 and August 1, 2015: 76,000 ounces and 106,000 ounces, respectively). These contracts have been designated as cash flow hedges and will be settled over the next 6 months (January 30, 2016 and August 1, 2015: 12 months and 17 months, respectively).

The bank counterparties to the derivative instruments expose Signet to credit-related losses in the event of their non-performance. However, to mitigate that risk, Signet only contracts with counterparties that meet certain minimum requirements under its counterparty risk assessment process. As of July 30, 2016, Signet believes that this credit risk did not materially change the fair value of the foreign currency or commodity contracts.

The following table summarizes the fair value and presentation of derivative instruments in the condensed consolidated balance sheets:

|  |                           | Fair value of derivative assets      |                  |                |
|--|---------------------------|--------------------------------------|------------------|----------------|
| (in millions)                                      | Balance sheet location    | July 30, 2016                        | January 30, 2016 | August 1, 2015 |
| Derivatives designated as hedging instruments:     |                           |                                      |                  |                |
| Foreign currency contracts                         | Other current assets      | \$ 2.6                               | \$ 0.8           | \$ 0.1         |
| Commodity contracts                                | Other current assets      | 4.0                                  | 0.6              | —              |
|  |                           | 6.6                                  | 1.4              | 0.1            |
| Derivatives not designated as hedging instruments: |                           |                                      |                  |                |
| Foreign currency contracts                         | Other current assets      | 0.2                                  | —                | —              |
| Total derivative assets                            |                           | \$ 6.8                               | \$ 1.4           | \$ 0.1         |
|  |                           | Fair value of derivative liabilities |                  |                |
| (in millions)                                      | Balance sheet location    | July 30, 2016                        | January 30, 2016 | August 1, 2015 |
| Derivatives designated as hedging instruments:     |                           |                                      |                  |                |
| Foreign currency contracts                         | Other current liabilities | \$(0.1 )                             | \$ —             | \$(0.3 )       |
| Commodity contracts                                | Other current liabilities | —                                    | (0.8 )           | (6.7 )         |
| Commodity contracts                                | Other liabilities         | —                                    | —                | (0.2 )         |
| Interest rate swaps                                | Other liabilities         | (3.8 )                               | (3.4 )           | (0.9 )         |
|  |                           | (3.9 )                               | (4.2 )           | (8.1 )         |
| Derivatives not designated as hedging instruments: |                           |                                      |                  |                |
| Foreign currency contracts                         | Other current liabilities | —                                    | (0.2 )           | —              |
| Total derivative liabilities                       |                           | \$(3.9 )                             | \$(4.4 )         | \$(8.1 )       |



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## Derivatives designated as cash flow hedges

The following table summarizes the pre-tax gains (losses) recorded in AOCI for derivatives designated in cash flow hedging relationships:

| (in millions)                   | July 30, January 30, August 1, |           |           |
|---------------------------------|--------------------------------|-----------|-----------|
|                                 | 2016                           | 2016      | 2015      |
| Foreign currency contracts      | \$ 3.8                         | \$ 1.4    | \$ 0.4    |
| Commodity contracts             | 6.2                            | (3.7 )    | (8.3 )    |
| Interest rate swaps             | (3.8 )                         | (3.4 )    | (0.9 )    |
| Gains (losses) recorded in AOCI | \$ 6.2                         | \$ (5.7 ) | \$ (8.8 ) |

The following tables summarize the effect of derivative instruments designated as cash flow hedges in OCI and the condensed consolidated income statements:

## Foreign currency contracts

| (in millions)                                       | Income statement caption | 13 weeks ended |                | 26 weeks ended |                |
|---|--------------------------|----------------|----------------|----------------|----------------|
|   |                          | July 30, 2016  | August 1, 2015 | July 30, 2016  | August 1, 2015 |
| Gains recorded in AOCI, beginning of period         |                          | \$0.6          | \$ 0.8         | \$1.4          | \$ 0.9         |
| Current period gains (losses) recognized in OCI     |                          | 3.6            | (0.4 )         | 3.0            | (0.6 )         |
| (Gains) losses reclassified from AOCI to net income | Cost of sales            | (0.4 )         | —              | (0.6 )         | 0.1            |
| Gains recorded in AOCI, end of period               |                          | \$3.8          | \$ 0.4         | \$3.8          | \$ 0.4         |

| (in millions)  | Income statement caption | 13 weeks ended |                | 26 weeks ended |                |
|--|--------------------------|----------------|----------------|----------------|----------------|
|  |                          | July 30, 2016  | August 1, 2015 | July 30, 2016  | August 1, 2015 |
| Gains (losses) recorded in AOCI, beginning of period |                          | \$4.4          | \$ (2.0 )      | \$(3.7)        | \$ 5.7         |
| Current period gains (losses) recognized in OCI      |                          | 1.0            | (6.6 )         | 7.9            | (14.6 )        |
| (Gains) losses reclassified from AOCI to net income  | Cost of sales            | 0.8            | 0.3            | 2.0            | 0.6            |
| Gains (losses) recorded in AOCI, end of period       |                          | \$6.2          | \$ (8.3 )      | \$6.2          | \$ (8.3 )      |

| (in millions)                                | Income statement caption | 13 weeks ended |                | 26 weeks ended |                |
|--|--------------------------|----------------|----------------|----------------|----------------|
|  |                          | July 30, 2016  | August 1, 2015 | July 30, 2016  | August 1, 2015 |
| Losses recorded in AOCI, beginning of period |                          | \$(3.2)        | \$ (0.6 )      | \$(3.4)        | \$ —           |
| Current period losses recognized in OCI      |                          | (1.2 )         | (1.1 )         | (1.6 )         | (2.0 )         |
| Losses reclassified from AOCI to net income  | Interest expense, net    | 0.6            | 0.8            | 1.2            | 1.1            |
| Losses recorded in AOCI, end of period       |                          | \$(3.8)        | \$ (0.9 )      | \$(3.8)        | \$ (0.9 )      |

There was no material ineffectiveness related to the Company's derivative instruments designated in cash flow hedging relationships for the 13 and 26 weeks ended July 30, 2016 and August 1, 2015. Based on current valuations, the Company expects approximately \$6.6 million of net pre-tax derivative gains to be reclassified out of AOCI into earnings within the next 12 months.



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Derivatives not designated as hedging instruments

The following table presents the effects of the Company's derivatives instruments not designated as cash flow hedges in the condensed consolidated income statements:

13

weeks

ended