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Signet Jewelers (FY27 Q1 Earnings)

Signet Jewelers FY27 Q1 Earnings

TOTAL PAGES: 26

Signet Jewelers (FY27 Q1 Earnings)

Signet Jewelers FY27 Q1 Earnings

CORPORATE SPEAKERS:

Robert Ballew
Signet Jewelers; Senior Vice President, Investor Relations & Capital Markets
J.K. Symancyk
Signet Jewelers; Chief Executive Officer & Director
Joan Hilson
Signet Jewelers; Chief Financial & Operating Officer

CORPORATE SPEAKERS:

Jeffrey Lick
Stephens Inc.; Analyst
Randal Konik
Jefferies; Analyst
Brandon Cheatham
Citigroup, Inc.; Analyst
Lorraine Hutchinson
BofA Securities; Analyst
Juliana Duque
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Signet Jewelers (FY27 Q1 Earnings)

Signet Jewelers FY27 Q1 Earnings

PRESENTATION:

Operator^ Good morning. And welcome to the Signet Jewelers First Quarter Fiscal 2027 Earnings Call.

Please note, this event is being recorded.

Joining us on the call today are Rob Ballew, Senior Vice President of Investor Relations and Capital Markets; J.K. Symancyk, Chief Executive Officer; Joan Hilson, Chief Operating and Financial Officer.

At this time, I would like to turn the conference over to Rob.

Please go ahead.

Robert Ballew
Signet Jewelers; Senior Vice President, Investor Relations & Capital Markets

Good morning. Thank you for joining us for today's Earnings Conference Call.

During today's discussion, we will make certain forward-looking statements. Any statements that are not historical facts are subject to a number of risks and uncertainties. Actual results may differ materially.

We urge you to read the risk factors, cautionary language and other disclosures in our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

Except as required by law, we undertake no obligation to revise or publicly update forward-looking statements in light of new information or future events.

During the call we will discuss certain non-GAAP financial measures. For further discussion of the non-GAAP financial measures as well as the reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures, investors should review the news release we posted on our website at ir.signetjewelers.com.

With that, I'll turn the call over to J.K.

J.K. Symancyk
Signet Jewelers; Chief Executive Officer & Director

Thanks, Rob. And good morning, everyone.

Signet Jewelers (FY27 Q1 Earnings)

Signet Jewelers FY27 Q1 Earnings

I'd like to start the call this morning by thanking our Signet team. Your commitment to Grow Brand Love has delivered a great start to the year. Thank you for your hard work. And let's continue building on our momentum.

There are three key takeaways I'd like to leave you with today.

First, we delivered another quarter of comp sales growth with effective operating performance, driving strong earnings growth.

Second, we're balancing that performance with progress on our long-term transformation as we fuel this second year of Grow Brand Love.

Third, we're confident in our ability to deliver the year and are raising the midpoint of our guidance for fiscal '27.

We delivered comp sales growth across every category and most brands this quarter.

Within that performance, we've improved on the balance between fashion AUR growth and unit performance with unit comps improving sequentially three points to the fourth quarter.

Alongside this trend, we continue to see strength in the higher-end consumer with some of our best performance at higher price points.

Collections also continue to be an additional growth driver with Shy continuing to fuel fashion growth and Neil Lane and Monique Lhuillier driving growth for bridal.

We delivered positive comps each month of the quarter and the expected savings from last year's reorganization. Adjusted operating income exceeded our guidance range through spending discipline.

While still positive, the second half of the quarter slowed somewhat but rebounded from Mother's Day and second quarter to date.

With a positive performance in both Valentine's Day and Mother's Day as proof points, we're working to accelerate focus on the go-to-market priorities for our Grow Brand Love strategy. Recall in March, I laid out Signet's focus areas in the second year of our strategy would be brand distinction, unlocking portfolio value and further strengthening of our operating model. The focus on brand distinction is about sharpening our four core engines: Kay, Zales, Jared and Blue Nile.

Signet Jewelers (FY27 Q1 Earnings)

Signet Jewelers FY27 Q1 Earnings

We are currently in the development and testing phase of the website redesign for Kay, Zales and Jared to align the search, navigation and storytelling our sites offer to today's customer expectations. Alongside this, we're actively working through SKU rationalization to improve customer shopping experience, while also ultimately reducing inventory levels and improving working capital.

The website redesign provides additional opportunity to clearly define brand identities. We're furthest along with the redesign work at Jared and continue to expect all three to be completed in the early part of the third quarter.

Websites are our largest storefronts, allowing us to reach the broadest number of both existing and new customers. Therefore, we believe this work to provide a clearer expression of each brand between both online and in-store experience is key to improving conversion ahead of this year's holiday season.

In parallel, we are advancing a more modern, data-driven marketing approach to strengthen each brand's relevance with its target consumer.

This includes shifting towards social-first storytelling and scaled creator partnerships to better connect with younger and more diverse audiences while also improving the efficiency of spend. Recent examples include Zales' partnership with Ashley Graham and Kay's collaboration with Christian McCaffrey, with the latter delivering more than twice our average social engagement rate.

As I've said before, this isn't about spending more but rather spending differently.

At Kay this quarter, our spend on social media was up only 1%, whereas we delivered a low double-digit growth in impressions. These early examples of our marketing transformation, similar to our website redesign efforts, represent our aim to deliver progress ahead of this year's holiday season as we focus on the right audiences, channels and messages to drive stronger customer engagement and build brand equity.

We're also making progress in unlocking portfolio value.

On our previous call we laid out actions we'd take to maximize our existing assets, including the transition of James Allen into Blue Nile and further centralization of back-of-house functions.

We've completed those steps and doubled down on our focus in this area to our strategy surrounding natural diamonds. To that end, we've centralized sourcing for diamonds across our North American brands, which we believe will allow us to improve margins and inventory turns.

That team has also taken steps to begin refining stone type, size, shape and quality of offerings by brand.

We continue to identify and implement scale benefits through sourcing, planning and pricing, particularly as we balance our use of promotion against recent commodity highs.

Further, with our scale and integrated sourcing, we see clear growth opportunities through a portfolio-level diamond strategy. We're getting clearer about the role each of our brands play across natural and lab-grown offerings.

Through brand-level improvements to mix, we can strengthen our position in the more valuable segments of the natural diamond category to support both sales growth and margin without exiting the customer base that's seeking lab-grown product.

Lastly, on our Grow Brand Love Strategy, we continue to make progress enhancing our operating model. An important factor in those efforts is strengthening our high-performing team, meaning we're organizing, developing and incentivizing talent to directly support execution.

Examples of this work are organizing for better leverage across the company alongside sharper accountability. This includes the centralization and integration of back-of-house teams I just mentioned.

Also developing long-term focus through the build-out of career development plans for high-potential talent as well as an enhanced performance review process. And finally, incentivizing through changes to how we pay how we train and how we recruit at the brand level to drive optimal in-store experience.

Talent is a big part of how we perform while we transform. As the jewelry customer evolves, our talent model has to evolve with them. Gen Z wants to shop in store, but they've set the bar higher for what experience looks like. They want a stronger personal connection.

In jewelry, the customer is often doing business with two brands, the name above the door and the name on the consultant's name tag. That connection is an increasingly important factor in customer experience. That's why aligning how we recruit, train and reward talent to that customer mindset is so important. We believe that work is key to winning the future of jewelry shopping.

This brings me to my third takeaway.

Our performance year-to-date and the progress we've made on our strategic priorities provide us the confidence to raise the midpoint of guidance today.

We've now delivered positive comps in 15 of the last 17 months and have seen recently our strongest two-year stack since pandemic stimulus spending. Top line performance has been balanced between categories.

We continue to see further opportunity to improve fashion units as well as upside for AUR expansion.

Said differently, while we've seen early benefits from our new strategy, we still see significant runway. We believe Grow Brand Love is setting the foundation for sustainable long-term growth, with the ability to grow even during turbulent macro periods.

Before I hand things over to Joan, I'd like to quickly provide an update on tariffs. The muscle we built last year to navigate the ever-changing landscape continues to bolster us this year.

Our team is monitoring updates, including potential new tariffs and will be ready to adjust as needed.

With regards to refunds, Signet is the importer of record on a small fraction of our purchases. We've already submitted claims for most of those purchases. And to date, a small amount has been approved and received. We are working with our vendors for the remainder of those refunds.

At this time, it's too early to quantify the amount or timing of those potential refunds as well as how any proceeds may be used and when it may impact our P&L.

Summarizing my key takeaways today.

First, we delivered another quarter of comp sales growth with effective operating performance, driving strong earnings growth.

Second, we're balancing that performance with progress on our long-term transformation as we fuel this second year of Grow Brand Love.

Finally, we're confident in our ability to deliver the year and are raising the midpoint of guidance for fiscal '27.

With that, I'd like to turn it over to Joan.

Joan Hilson
Signet Jewelers; Chief Financial & Operating Officer

Signet Jewelers (FY27 Q1 Earnings)

Signet Jewelers FY27 Q1 Earnings

Thank you, J.K.. And good morning, everyone.

Before discussing our first quarter results, I'd like to provide an update on the transition of Blue Nile. Recall, we are repositioning Blue Nile as a premium brand serving a broader age group with a more affluent customer.

We are evolving the brand to achieve an elevated luxury position, creating a clear brand distinction as part of our Grow Brand Love Strategy, anchored in the enduring value of natural diamonds.

For context, we believe approximately 70% of engagement market revenue remains natural diamonds. And at the higher end or over $5,000 is more than 90% natural diamonds. This repositioning will distinguish Blue Nile at the highest end of the Signet portfolio.

To accelerate this strategy, we recently acquired The Clear Cut, a digitally native natural diamond jewelry brand, known for technology innovation, its bespoke concierge service in both bridal and fine jewelry and a significant social media following. This small tuck-in acquisition combines the reach and credibility of an established brand like Blue Nile with rich diamond expertise, a proprietary curation process and a white glove approach to customer experience. The Clear Cut has demonstrated a strong ability to connect with a younger, digitally native luxury customer through authentic, education led storytelling, and we're pleased the entire team is joining Blue Nile.

Ultimately, this partnership allows us to accelerate innovation within Blue Nile to deliver a more distinctive, luxury experience rooted in transparency, craftsmanship and trusted expertise.

With regards to James Allen, with the sunsetting of the commercial site in mid-May, we've redirected traffic to Blue Nile with meaningful transference to date.

As I mentioned last quarter, we are now leveraging the James Allen brand as a proprietary collection and transitioned complementary products and styles to the Blue Nile website.

Finally, we have discontinued the remaining James Allen assortment that is not relevant to other brands.

With the exit of this inventory, we've taken a $32 million noncash inventory write-down. Along with the other organizational changes announced last quarter, we saw total restructuring and related charges of $42 million, of which the majority was noncash.

We don't anticipate any material charges relating to James Allen's transition moving forward.

Signet Jewelers (FY27 Q1 Earnings)

Signet Jewelers FY27 Q1 Earnings

Turning to the quarter. Revenue was $1.6 billion, with comp growth of 1.8%. James Allen represented a one-point drag to the quarter.

By category, growth was low single digit for bridal and fashion with stronger growth in watches and services. AUR grew nearly 5% up in all categories again this quarter with bridal up high single digits.

Adjusted gross margin was $589 million for the quarter, with the rate down approximately one point.

As expected, this reflects 70 basis points of merchandise margin decline, primarily from higher gold cost. Conversely, we continue to leverage higher gold value to opportunistically melt clearance product and make room for new introductions with a small impact to gross margin. Further, this was largely offset by 20 basis points of occupancy leverage.

SG&A expenses were down 3% to last year, resulting from the Grow Brand Love operating model, restructuring and ongoing spend discipline to drive 12% growth in adjusted operating income.

We believe that at low single-digit sales growth we can expand operating margin, a formula that will fuel organic investment and return of capital to shareholders.

Adjusted diluted earnings per share grew more than 30% to $1.56, reflecting earnings growth, higher interest income and a lower diluted share count. As of this morning, we've repurchased approximately 1.3 million shares for $114 million.

Additionally, we announced today a $50 million accelerated share repurchase program that we intend to initiate in June.

Our intent is to utilize ASRs in instances where we can lock in a discount to VWAP more frequently as part of our programmatic repurchases moving forward.

We also continue to leverage 10b5-1 plans in the open market for both programmatic and opportunistic repurchases. The company will have approximately $355 million in share repurchase authorization remaining once the ASR is completed.

Turning to the balance sheet.

Inventory ended the quarter at $2 billion, roughly flat to last year. Cash grew nearly $340 million to more than $600 million in cash at the end of the quarter. Free cash flow improved by $43 million to last year despite the payout of an annual incentive comp this year which we did not have in the prior year.

Regarding credit financing, we continue to see consistent performance with little trend change to applications, approvals and total amount financed.

With the strength of the portfolio over the last few years, we see potential opportunity to improve the economics of our private credit programs over time as we evaluate current agreements with third-party providers.

Turning to guidance.

We are raising the midpoint for the year to reflect Q1 performance and Q2 momentum.

We are further increasing the adjusted EPS range for the year to reflect the additional share repurchases since March as well as the upcoming ASR.

For the full year, we now expect the same-store sales range to be down 0.75% to up 2.5%, with total revenue between $6.7 billion and $6.9 billion.

Also, we expect AUR growth across categories with modest unit declines, particularly at lower price points, largely due to higher gold costs.

As a reminder, beginning in the second quarter, Blue Nile and James Allen will not be included in same-store sales for the next year to reflect the transition of those brands, which will benefit same-store sales by 50 to 70 basis points going forward.

We continue to expect a low single-digit decline in square footage from the closure of approximately 100 doors.

We now expect adjusted operating income between $480 million and $560 million.

At the midpoint of our guidance, we expect leverage in SG&A and a flat to slightly down merchandise margin.

We expect adjusted EPS between $9.20 and $11 per share, a more than 3% increase at the midpoint of our previous guidance. This assumes a weighted average diluted share count of approximately 39.5 million shares for the full year.

We continue to expect a mid-teens effective tariff rate for the year, assuming new tariffs are similar or modestly higher to current rates.

If specific country rates become substantially higher, we would likely shift country of origin to minimize impact.

Additionally, this update only includes a minimal amount of tariff refunds and also reflects continued mitigation efforts.

Finally, for the year, we expect $150 million to $180 million in capital expenditures. This includes over 200 renovations, up to 20 repositions and up to 10 store openings.

For the second quarter, we expect a same-store sales range of up 0.5% to 2.5%, with adjusted operating income between $79 million and $93 million.

We expect merchandise margin rate to be somewhat lower in the quarter, reflecting higher gold costs.

At the midpoint of guide, we believe this will generally be offset by leverage in SG&A and occupancy.

Before we turn to Q&A, I'd like to thank the team for delivering a great start to the year, continuing to deliver on our short-term expectations while driving progress on our long-term strategy.

Operator, let's now go to questions.

Operator^ (Operator Instructions) Your first question comes from the line of Jeff Lick with Stephens.

Jeffrey Lick
Stephens Inc.; Analyst

Good morning and thanks for taking my questions. Congrats on a nice quarter.

J.K., you made reference to some unit acceleration. I was wondering if you can tie that into the work you were doing with the pricing architecture and the volatility in tariffs and commodities last year. That's -- at least the volatility elements died down. So, I was wondering if you can tie that in, just talk about same store unit and unit growth.

J.K. Symancyk
Signet Jewelers; Chief Executive Officer & Director

Sure, Jeff. Thanks for the question and the comment.

From a unit perspective, we feel good about the progress. I think what we talked about on the call was balance in terms of certainly driving AUR performance, but seeing unit trend improvement across all categories, both fashion, engagement.

I would say we see more opportunity on the high end. And for us, the high end is a little bit less of a driver of overall unit volume but is more important as it relates to revenue.

We would -- if you look at price points above $2,000 in our business, there, call it, mid-ish single digits in terms of unit penetration, but 40%-ish as it relates to revenue.

So, seeing unit growth on the high end, I think is an important driver of our business.

We've seen better performance in what I would call the mid-price point buckets of units. And not surprisingly, when you look at those lower-end price points sub-$150, that's where we're a little more challenged in terms of unit growth, and are doing, I think, great work to balance our sourcing plans, our supply chain capabilities and some assortment reconfiguration to make sure that we can still serve customers there. That's the business that's most exposed to gold and tends to also have a little bit more exposure when you look at a brand like Banter or online.

So it's important for us, I think a little less important as you look at a quarter like the first quarter.

But certainly, as you can see from the guide, we see the improvement, but we also have good plans in place. We feel like we can maximize that opportunity as we get into the holiday.

Jeffrey Lick
Stephens Inc.; Analyst

And just kind of to drill down a little further on the -- what you referenced in terms of strength in the higher end because we've been seeing things like, for example, in categories like luxury cars, higher end mattresses that it seemed like it had softened a little bit.

I'm just wondering what you're seeing, is that largely due to things you're doing internally in terms of assortment and focus where you're just picking up market share?

J.K. Symancyk
Signet Jewelers; Chief Executive Officer & Director

Yes. I'd say so. I mean, I think -- look, the important distinction I'd make as well is our higher-end price point is still catering to a customer in the middle tier, right?

So, when I talk about numbers like I just shared, we're disproportionately talking about Kay, Zales, Jared, just because they're the lion's share of driver. You heard Joan's comments on the strategy of Blue Nile. I assume we'll probably have some questions there, and so I won't go into detail, but we see an opportunity to get a bigger share as it relates to the upper middle.

And in the case of Blue Nile, we see an opportunity on the higher end where -- or maybe we're not taking our fair share today, to be completely honest, which I think is both an upside as it relates to our growth opportunities moving forward.

I also think it's reflective of the benefit of not just better assortment work, Jeff, and pricing architecture, but also a clear strategy in terms of our diamond strategy overall and the balance that we see in terms of the continued growth opportunity on the lower end price point in fashion with lab-grown diamond, but also the affinity for customers with natural diamond and the opportunity at higher price points for growth. That's certainly paying off when you look at this quarter, and we think we've got runway ahead of us.

Operator^ Your next question comes from the line of Randy Konik with Jefferies.

Randal Konik
Jefferies; Analyst

I guess first, J.K., just on the question of -- or the topic of AUR, you talked about the ability to continue to drive that up over time.

Can you just give me -- I guess give us some perspective on where you think headroom is on the bridal side and the fashion side, just to kind of think through how we should think about AUR trends long term?

And then just related to that, on the unit side, given the last question, do you think we can get to a place where units inflect perhaps early next year, just given the work you're doing on the low-end price points?

Like just give us some thoughts on the dynamics between AUR and unit velocity ahead?

J.K. Symancyk
Signet Jewelers; Chief Executive Officer & Director

Sure. I mean, let me start with the last one -- last part of your question first, Randy.

I think we go into this -- we're intentional around balancing AUR and unit performance. As I mentioned earlier, I think the greatest driver of unit volume is a lower ticket, call it, sub-$150.

And I think we have good plans in place in terms of what we do to maximize that. That's important for us because I think it is the opportunity for people even in the luxury tier. That opening price point ability for people to experience the brand and the opportunity that that creates to develop a relationship with the customer and grow your business is important for us.

And so, there's a lot of moving parts. And when you look at a short quarter where we've got a pretty tight window in terms of what we can do with pricing changes, et cetera, because of Valentine's Day falling in February and then Mother's Day coming on the heels a bit where we've taken a little longer view and are balancing pricing decisions and movements around assortment, where there's a lot of transition that happens over the summer months to position us for the Q4 holiday.

But we expect that trend to continue. We really believe that there's an opportunity to move unit volume positively. We're certainly seeing it in the high end and feel really good about the progress we made in the mid-tier and are really focused on what do we do to serve that customer who is shopping at a budget, whether it's a brand like Banter or online, where you got a little bit more exposure from a lower price point unit perspective.

But definitely, that's how we're building our plans. Pleased with the progress in Q1 and would expect that to continue and frankly, are making progress against it despite some of the other volatility that's coming with tariffs and commodities.

In terms of AUR, this is an emotional category. And I would tell you, we see -- I get asked a lot how much of this AUR growth is being driven because of whatever may be happening in terms of commodity. But the truth is where we're really seeing the biggest AUR expansion is at higher price points, and it's because we're underdeveloped there.

I think the more we drive distinction with our brands, particularly seizing the opportunity on the higher side with brands like Blue Nile, Jared and Diamonds Direct, we certainly see headroom to move up there. But to be honest, we see it in Jared as well.

As an entry point, consumers are aspirational in nature and even in a category like engagement, our first ring is not always our last ring. That opportunity to trade up and develop a longer-term relationship with customers is something that we see headroom moving in those brands. And by really sharpening our focus, not only on brand strategy, but as well our diamond strategy.

We know there's market share gain opportunities that we can drive on both sides of the ledger.

Randal Konik
Jefferies; Analyst

Super helpful.

Then on the balance of margin, you had some nice SG&A leverage in the quarter, occupancy leverage as well. Merchandise margins down a little bit. Maybe kind of expand upon that philosophy of how you can see more visibility in the business to get a lot of levers you can work with to drive margin expansion further into the out years?

And just given the inventory turns don't turn a lot, can you kind of expand upon things you're working on to offset rising gold prices to perhaps improve those merchandise margins maybe not this year, I think you guided the flat to down slightly, but into 2027 and beyond. Just kind of thoughts there would be very helpful.

J.K. Symancyk
Signet Jewelers; Chief Executive Officer & Director

Sure. Let me start, and I'm sure Joan might want to add a little bit of color here, too, because this is something our teams are really, really working hard on.

I'm proud of what our team is -- and our partners are doing. When I look back at this last year, to manage the volatility on the commodity side as well as all of the volatility with tariffs and still deliver at the high side as well as deliver in line with where we said we were going to be in Q1. You're still dealing with the same set of variables. This is a short quarter. We don't really take any pricing or change the architecture before Valentine's Day. You've got a very short window before Mother's Day.

And then the lion's share of transition really happens over Q2 and Q3. So, our guide reflects that. We knew where we were going to be in Q1 and have shown up consistent with that guide.

In terms of how we manage margin, I think we feel really good about what's happening on the upper end and are better positioned there and are much more focused on how we protect the lower price point goods in our assortment to drive volume. That's going to be really critical, and we know we've got the right plan in place to be able to drive it for the holiday.

I think in terms of gold specifically, we talked about this a little bit before but we're -- we've reintroduced hedging that helps us balance our inventory being better control of inventory and actually taking advantage of some of the opportunities to melt product and have a healthier balance of inventory is something that positions us well as we go through the last part of the year and this quarter.

We did not slow down clearance, clearance contributed at a higher level because we believe having the right assortment is going to be critical for performance. And we knew we had the expense base to be able to continue to stay clean and didn't slow that down. So, team is pulling the right levers.

I think with gold, you're going to continue to see design that takes advantage of lower weight in brands like Banter. We've introduced platelet assortment that helps protect at lower price points, that's testing very well with customers, and we believe positions us to serve that base well from a design perspective, look for alternative metals to come back into play.

We're also taking advantage of a little bit of softness on the diamond cost side to really balance supply chain and input costs so that we can mix from a design perspective to deliver stronger margins within the business.

So, when you add all that up, both being more efficient on supply chain and sourcing strategies and then also getting the right assortment architecture in place, we feel good about margin, not only for the year, but also about the expansion opportunities, particularly as we pull it through the bottom line.

Joan Hilson
Signet Jewelers; Chief Financial & Operating Officer

The only thing I'd add on to that, J.K., is just the pricing and promo work that the teams have been engaged in since last fall, and we are wrapping around and won't cycle that until the back half of this year.

So, we still have room within the pricing and promotion work to number of days on sale, not going as deep and in the promotions and being more selective, and judicious about the categories or styles that are on promotion. So, that would be one addition.

I think the other work that we're doing, is, and J.K. alluded to it, is in the diamond category with the integration of Diamonds Direct and Jared, we are now able to centralize all of our diamond sourcing under our Signet diamond sourcing team which enables us to utilize our diamonds across our entire portfolio. So that Randy to the question on inventory turn. That will also help us with better pricing across the business but also turning the diamonds that we own within our own portfolio. So, feel that that was a nice add and one that can serve us well into the future.

And I would just say the branding work that the teams are doing in terms of very distinctive brands, elevating collections and designs which served us well.

We met -- J.K. mentioned Monique Lhuillier. So those are the branding work and the designer collections will also help us to drive some gross margin expansion.

Operator^ Our next question comes from the line of Paul Lejuez with Citigroup.

Brandon Cheatham
Citigroup, Inc.; Analyst

This is Brandon Cheatham on for Paul.

I wanted to circle back on the 50 to 70 basis point comp lift that you're seeing from that including Canon Blue Nile, is that benefit built into second quarter guidance in the full year?

And just any more details you could share on that?

Joan Hilson
Signet Jewelers; Chief Financial & Operating Officer

Sure. Thanks, Paul.

It is baked into the guidance that we've given for the second quarter. We see in the second quarter, it's roughly 70 basis points. So, if you think of where we're moving from Q1 to Q2, with the high end of the guide at 2.5% comp growth.

And then we would see that begin to move down a bit in Q3 and Q4. Think of it as 60 basis points, 50 basis points in the fourth quarter, bringing the year in that guidance range that I gave of 50 to 70 basis points down. So really reflected in the high end of our guide.

And we also saw, as we noted, that we've raised the low end of our guide. And as a result, the midpoint came up. So, we've reflected that within the guide itself across the year.

Brandon Cheatham
Citigroup, Inc.; Analyst

Got it. And just a follow-up. You all mentioned you're seeing the strongest two-year stack since the COVID era. What is that stack? We, obviously, don't know May last year.

And then I wanted to make sure, it sounds like Mother's Day was strong, but also sounds like these last couple of weeks of the second quarter is an acceleration of how you exited the first quarter. If you could just kind of expand on that.

J.K. Symancyk
Signet Jewelers; Chief Executive Officer & Director

Yes. Sure. Yes. I would say if you look at last year, we were up low single digits, this year, up low single digits.

So you're talking about -- yes, you're talking about mid-single digit two-year stacks which is stronger than where we've been.

In terms of overall performance, yes, I mean, we had a good Mother's Day. We've seen that momentum hold similar performance where we're seeing strength across all brands, categories and have seen that momentum continue to build. So, no other real color there from a consumer perspective.

The only thing I would say to, we commented on a little bit of that momentum return. It also coincides with getting through the round of pricing architecture work that happens in between Valentine's Day and Mother's Day.

So as we do that work, as a reminder, then we've got to -- we turn off promotion, rely a little more on clearance during that time period and the baseline run rate of the business are less -- spend a little bit less in marketing as we work that transition. We saw the business pull back a bit during that time period, remain positive.

And then as we put our signs back up and communicate with customers and really turn marketing on, then we saw the business return.

And I know Joan mentioned it earlier, we're -- that's all happening against the backdrop of continued discipline around promo effectiveness. We're not -- we're consistent with the run rate we were running this last year. So, there's no there's not more promo in the business. We're just seeing better health across the base.

Operator^ Your next question comes from the line of Lorraine Hutchison with BofA.

Lorraine Hutchinson
BofA Securities; Analyst

Good Morning. Did you think you saw any benefit from higher tax refunds?

And is there any change in customer behavior that you're noting with fluctuation in gas prices and inflation?

Signet Jewelers (FY27 Q1 Earnings)

J.K. Symancyk
Signet Jewelers; Chief Executive Officer & Director

Short answer is no.

I mean, I think, we can't really call out a notable change in behavior tied to either of those things, frankly, from a higher tax refund point of view as well as from a higher gas price. The truth is, we're not only an emotional purchase, but a considered purchase, right?

And my wife and I were joking about this the other day, when I was getting ready to ask her, I don't know that she would have taken a pause because of the price per gallon of gas, I think this is -- we tend to sit in a category where there's a little more thought that's gone into it. We're much more tied to milestone, whether that's engagement, gift, holiday, et cetera. Also tied to a big chunk of our business to a purchase that relies on credit or some form of financing for our customer.

And so, bottom line is, those kind of short-term moves don't have as big of an impact in our business. I would say we're more resilient in that regard. And we tend to focus on those things that are a little more longer-term structural as it relates to the consumer to make sure that we're positioning our business well.

But can't really call out either a headwind or a tailwind necessarily in this quarter that would be noteworthy. And I do think we look at that and pay attention to it a little bit more.

So in a business like Banter, where we're a little more exposed to both a lower income customer, it's just -- it's not as big of a driver of revenue for our business.

So it's not --

Joan Hilson
Signet Jewelers; Chief Financial & Operating Officer

It's a year-over-year as well

J.K. Symancyk
Signet Jewelers; Chief Executive Officer & Director

Yes. I was going to say it's not a headline. And year-over-year, there's not as much noise there.

Lorraine Hutchinson
BofA Securities; Analyst

And then, Joan, you talked about an opportunity to improve the economics of private credit. Can you talk about what that might look like?

And is this just a cost opportunity? Or is there an opportunity to potentially drive sales as well?

Joan Hilson
Signet Jewelers; Chief Financial & Operating Officer

Well, what we're seeing is the health of our portfolio, and I commented on the consistency of the performance in terms of the metrics, the amount financed is holding up nicely, application rates, approval rates, are very, very little in terms of ups and downs. So very consistent.

So, we feel that that bodes well, given we've seen it over the last several quarters and last couple of years that as we come to renegotiating our vendor agreements that that will serve us well as we come into that period of time.

And so, that's what we're really talking about there Lorraine is consistency, good performance of the portfolio should bode well for cost of those programs to us.

Operator^ Your next question comes from the line of Ike Boruchow with Wells Fargo.

Juliana Duque
Wells Fargo Securities; Analyst

This is Juliana on for Ike.

I was wondering if you could comment more on the pricing in both lab and natural and how lab continues to trend within both bridal and fashion.

I know that you've previously mentioned lab-grown diamonds within fashion has gone at a higher rate. Have you continued to see that?

J.K. Symancyk
Signet Jewelers; Chief Executive Officer & Director

Yes. Thanks for the question, Juliana. No real change in trend.

I mean, I would say we continue to see AUR growth and trade up on both sides of that. I think one of the things we called out in the script is we believe there's even more opportunity on the natural side as we look at higher price point, and as we clarify our strategy by brand.

So, we see that both as an AUR and sales opportunity, ultimately, one that's tied to some opportunity to gain share as well.

So, no new news there other than continued progress against that trend, and we're doing our part to take advantage of it.

Operator^ Your next question comes from the line of Jon Keypour with Goldman Sachs.

Jonathan Keypour
Goldman Sachs Group, Inc.; Analyst

Just wanted to ask about the Blue Nile, I guess premiumization strategy moving up that ladder. Does that signal an intent to graduate other banners in the portfolio up that ladder as well? I understand you want to keep a balance with your core customer, but it sounds like the general direction is to premiumize where you can.

So, I guess if that's true also, what are the priorities by banner about who would move up that ladder next?

J.K. Symancyk
Signet Jewelers; Chief Executive Officer & Director

Yes. Maybe let me talk at the macro level and then I'd love to Joan to lean in a little more on specifically what we see with Blue Nile.

But I would say at a high level, it really is about leaning into the opportunity to differentiate and drive distinction by brand. We see Blue Nile at the highest end of that.

I mean, that really is what the legacy positioning of that brand is. And in some ways, not to deprioritize this at all, but it is about returning to a spot that I think is really the equity and rightful spot for that brand to be.

It also, I think, every healthy portfolio has a north star, if you will, that really is the anchor point of aspiration and that really allows you to build a life cycle approach to a customer and really does allow you to play across a full landscape.

We've talked about it before but Jared and Diamonds Direct, I think we describe it as accessible luxury or affordable luxury, but that opportunity in the upper middle and lower high end, where you're really playing on the shoulders of kind of that smart value of high quality at the right price.

It really does appeal to an upper middle income customer as well as to a more affluent customer is a wide open space right now.

As a lot of brands have looked to move up and chase luxury, we really feel like that space has opened up, and it represents an opportunity for growth for us.

Kay is smack in the middle, serving the largest cross-section of customers as the largest brand in not only our portfolio, but really in the jewelry space. And we love that.

It really does allow us to play across the full spectrum of customers. And even there, we do see an opportunity. And maybe it's not about premiumization of the brand, but it's about recognition of how customers in that segment routinely trade up and trade down. So, there's a wider cross-section of opportunity there.

Zales is similarly placed, but also probably a little bit more of an entry point into the category, driving fashion and jewelry basics as an opportunity which will mean you've got a little bit more affordable price points, although similar cross-section when you think about AUR across the business.

But I do think paramount to this is our strategy to really drive premium at Blue Nile, not only because of the opportunity it represents for the company, but also because it's a point of destination for people that are researching across the category and is such a shaper of perspective and trend for so many consumers that really do shop all of our brands.

So maybe, Joan, if you want, kind of dive into some of the high points of where we see this opportunity for Blue Nile?

Joan Hilson
Signet Jewelers; Chief Financial & Operating Officer

Yes. I mean I just would come in over the top on the natural diamond strategy first is that the business -- our business has the unique scale and opportunity to present to our customers high-quality natural diamonds across all of our brands.

And as we mentioned in our prepared remarks, natural diamonds represent 70% of the engagement revenue in the market and 90% of those -- 90% are natural diamonds with above $5,000.

So there's an opportunity, while it doesn't appear to be necessarily premium pricing, but above $5,000 is a considered purchase price, and we can serve that customer across all our brands with the right offering of natural diamonds.

Blue Nile is the -- is an elevated luxury positioning for us. And to J.K.'s point, it is an education and storytelling entrance point for many of our customers. It appeals to a more affluent and diverse, younger customer for our business.

And we believe that serving that customer with the concierge service, as well as really assisting them through their journey in a more personalized emotional way, we will bring more customers into the natural diamond engagement market as well as really elevate the perception of that for the rest of our business.

And so, really the most recent acquisition that we accomplished with The Clear Cut is another -- is a pillar within our initiative within that opportunity of concierge service and really creating a journey that the customer can gain confidence, find a better way we can curate better stones for that customer, unique to their desires and really believe that with that acquisition, the digital and technology innovation helps us get that curation right the first time.

So, building on that technology for the balance of our brands will be what we would look to do in the future.

So really elevating Blue Nile, bringing consumer confidence, curation and transparency to the process while educating the customer is really the start of that premiumization for us.

Operator^ Your next question comes from the line of Mauricio Serna with UBS.

Your next question comes from the line of Dana Telsey with Telsey Advisory Group.

Dana Telsey
Telsey Advisory Group; Analyst

As you think about, and you mentioned that the AUR at the higher end is selling through well. How do you think of that higher-end AUR? Where do you expect it to go?

What is the customer giving you the opportunity to go to?

And then as you think about self-purchase, in terms of fashion, how is that performing versus bridal and expectations going forward?

J.K. Symancyk
Signet Jewelers; Chief Executive Officer & Director

Sure. Sure, Dana. Thanks for the question.

We've not given a target AUR number, but certainly, we see an opportunity to expand, particularly as we look at natural diamond above $2,500 or so.

As we pointed out on the call, we're seeing trend improvement across all categories. We don't talk about a lot time pieces, actually, even as maybe among the strongest of the group. So that very much is a testament to the work that we're doing with fashion.

So, I think self-purchase, early days, we talked about the including -- or inclusion of Rocksbox as a driver with Kay. We're seeing the customer really respond well there as we introduce plated and Vermeil options in Banter, we're seeing the self-purchase customer respond, seeing continued growth in Zales as well.

So, across the board, right momentum in place, and we're looking to continue to build on that.

Operator^ Your next question comes from the line of Jim Sanderson with Northcoast Research.

James Sanderson
Northcoast Research Partners; Analyst

I wanted to go back to same-store sales trend. I think you mentioned each month, they were up. But was that the case for all Banners? I think there was a problem with Zale's last quarter, wondering if that's improved?

J.K. Symancyk
Signet Jewelers; Chief Executive Officer & Director

Yes. We've seen improvement across the business.

We talked about positive comps across most brands, really, there were only two in the quarter that were not positive. Diamonds Direct was one but was improved sequentially from where they have been performing and was closed, and then James Allen, obviously, is the other.

But across that -- across the rest of the brands, we saw health and actually saw improvement in Diamonds Direct from a sequential standpoint.

James Sanderson
Northcoast Research Partners; Analyst

Okay. So you did see positive comps for Zales for the quarter?

J.K. Symancyk
Signet Jewelers; Chief Executive Officer & Director

Yes.

James Sanderson
Northcoast Research Partners; Analyst

Very good.

I wanted to talk a little bit more about The Clear Cut acquisition. Any feedback you can provide on more or less what you purchased, the purchase price, the impact on cash.

And then the idea of how you're going to leverage this technology, that's going to be across Banners, related to the units -- the technology that you've purchased?

Joan Hilson
Signet Jewelers; Chief Financial & Operating Officer

Yes. I'll take that one. The Clear Cut acquisition, we actually closed yesterday, which we're very pleased with. And it's really a small tuck-in capability-led investment for us, Jim, and it really brings a few things to the business that we believe are critical.

It will help us bring exceptional natural diamond expertise. Kyle Simon and Olivia Landau are standouts in the industry. They have generational experience and diamonds. And they have a distinctive way with their technology of connecting with luxury consumers through social commerce as well as technology. They've developed a GEM technology, which is proprietary platform, which is designed to deliver a personalized jewelry experience at scale.

It essentially equips the expert gemologists with tools, insights and customer context to curate with greater precision to serve diamonds to them -- to the customers and get it right the first time.

And it also preserves a bespoke white-glove digital experience. There's also an AI engine on top of that that really predicts demand and optimizes pricing while analyzing client conversations so that we can steer the client to the diamonds that we believe better serve what they're looking for. And so, we can continue to refine recommendations with that technology.

What's interesting is that The Clear Cut clients who purchased more than 55% of them select a diamond from their first curated set of recommendations, and across purchases, they average nearly $30,000 per transaction.

So really another way for us to continue to drive the natural diamond opportunity within our business, but as Olivia and Kyle are very much passionate about the natural diamond industry.

In the beginning, we will be leveraging the technology for Blue Nile, and then our hope over the next couple of years is to further integrate that opportunity within our other brands where it fits their selling process.

James Sanderson
Northcoast Research Partners; Analyst

All right. That was very helpful. And just last question for me.

Looking at your gross profit margin, I think you called out a 70-basis-point headwind in the quarter. Is the expectation that that will continue going forward? And with any benefit from sales leverage offsetting that as the year progresses for that gross profit margin rate?

Joan Hilson
Signet Jewelers; Chief Financial & Operating Officer

Yes. We expect to see continued pressure on gross margin. For the full year, we said flat to slightly down. So, really down in the first half of the year and flat to slightly up in the back half of the year, which is what give to that full year guide.

So, as we anniversary the fall season, we see a better opportunity there in merchandise margin.

James Sanderson
Northcoast Research Partners; Analyst

All right. And last question for me, if you would.

I think you called out that you may not be taking your fair share in certain segments. With 1% growth for the quarter, is the industry growing in line with Signet or are you lagging the industry?

J.K. Symancyk
Signet Jewelers; Chief Executive Officer & Director

We're growing in line. I think what we do is -- what we recognize is we've seen strength in independence at higher price points, nowhere near the unit performance that we have, but certainly taking advantage of trade-up and higher-end customers.

We tend to be leading mass and big box and are kind of on the pulse of where the industry is which is good.

But we recognize within our base, there's a share opportunity on the higher end, and that's where I don't know Joan and I both talked about it, our balance in terms of diamond strategy and really leaning into the growth proposition on both ends is really important for us.

Operator^ Your next question comes from the line of Mauricio Serna with UBS.

Mauricio Serna Vega
UBS Investment Bank; Analyst

Apologies for what happened a few minutes ago. Just on the gross margin, I know you mentioned the merchandise margin contracting 70 basis points on higher gold. Was there anything related to promotions to call out?

And then how are you thinking about the second quarter gross margin expectations?

And then a quick follow-up, just excluding just the benefit or excluding now that you're taking out James Allen and Blue Nile from the comps, is the comp essentially the same as prior, or like was that is somewhat like excluding that should be actually a little bit below where you were last quarter?

J.K. Symancyk
Signet Jewelers; Chief Executive Officer & Director

No, go ahead.

Well, I was just going to say on the margin front, look, we're -- promotionally, there's nothing extra there, right? We're very consistent with where we have been running last year, so this is not an effect of promo. And really, the exposure is primarily commodity related.

We've talked about it. I think it's important for us to balance AUR and unit performance.

And while we still believe strongly that there's margin expansion opportunity for the business, we're also being thoughtful around how we approach this commodity environment, and in particular, how we think about exposure on lower end price points, which is really where this pressure gets managed and why it's important as we think about balancing AUR and units overall.

So, expect that to continue and to improve, in Q2, we'd see it moderate and then we see opportunity in the back half of the year for improvement. So, you'll see that line continue to build.

I would -- and I think we're in line with where we thought we'd be in Q1, are thoughtful around how we're managing against a volatile environment and actually really happy with performance because of the balance we see across the business. I think it points to the health of the portfolio.

Maybe I'll let Joan jump in and talk about comp impact, but overall, no, we're not hiding the ball there. I think we see strength on the balance of the business.

Joan Hilson
Signet Jewelers; Chief Financial & Operating Officer

Mauricio, the James Allen impact that we called out, it was a one-point drag in the first quarter, and we posted a 1.8% comp.

We're -- our guidance for the year is 2.5% and at the high end for comp in Q2 is the same 2.5%. So, we're reflecting the impact within our comp guidance. We're also raising the low end of the guide.

So, what we did say earlier is that we moved from one point to 70 basis points impact approximately in Q2, and the impact continues to lessen to 60 to 50 basis points in third and fourth quarter.

And Blue Nile, just for everyone to recall, Blue Nile is also excluded from the comp calculation.

We feel that as we've transitioned a significant portion of James Allen SKUs over to the Blue Nile brand that it's most appropriate that we keep both of those brands out of comp until we -- for the next four quarters essentially.

Operator^ We have reached the end of the Q&A session. I will now turn the call back to J.K. for closing remarks.

J.K. Symancyk
Signet Jewelers; Chief Executive Officer & Director

All right. As we end the call I want to thank everybody for their time and also really like to thank our team and partners.

Signet Jewelers (FY27 Q1 Earnings)

Signet Jewelers FY27 Q1 Earnings

We've got a great start to the year. We're staying focused on performing while we transform our business and look forward to sharing more updates on our Grow Brand Love progress in September. Thanks for joining. Good-bye for now.

Operator^ This concludes today's call. Thank you for attending.

You may now disconnect.