

Signet Jewelers

Trends are improving but remain cautious on recovery

Reiterate Rating: NEUTRAL | PO: 110.00 USD | Price: 99.86 USD

Industry-wide inventory levels improving

We met with IR Rob Ballew and Clayton Ward at the ICR Conference in Orlando, FL on Tuesday, Jan 9th. While no holiday commentary was given, our impression is that industry conditions are improving. Lower-price point jewelry has rebounded slightly, which could indicate sentiment among lower-income consumer is improving. Inventory levels at independent jewelers are almost back to flat after being over-stocked all year (entered 2023 with inventories +20%). SIG has had to compete on promos as a result of the over-stock, but this inventory correction should improve the promotional landscape going forward. We are encouraged by these improving trends, but remain cautious on the sales and margin recovery in F25 and retain our Neutral rating. We are raising our PO from \$95 to \$110, 6x EV/EBITDA (5x prior) to reflect peer multiple expansion.

ATV stable despite elevated promotional environment

Despite an elevated promotional environment in 2023 from independents, SIG has protected average transaction value (ATV) through merchandise assortment optimization (ie. tiering up its assortment) and some price. Jared ATV is up 60%, and less than 10% of that is from price. On the cost side, diamond prices are back to pre-pandemic levels due to the higher promos industry-wide, which should help gross margin through 1H.

Warranty attachment is increasing

The warranty attachment rate continues to grow through better employee training and more upfront offerings; it is also offered at checkout on the website. Attachment rates are higher for bridal purchases (80%) given the nature/price point of the item, but attachment is increasing for higher price point fashion (currently 40-50%). SIG has also added post-purchase warranty offerings.

Penetration in lab-grown diamonds is slowing

Lab-grown diamonds comprise a low-mid teens percentage of SIG's diamond business, or 10-11% of total sales. Margins are naturally higher and have expanded as costs have retrenched by more than diamond prices. The ATV for a lab-grown diamond is 15% higher than a natural diamond, as customers are more willing to trade up to a bigger stone for an engagement purchase. Penetration of lab-grown is slowing and ATV was flat in F24. SIG does not expect much movement on the cost side (manufacturers already making little to no margin).

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	12.26	12.23	9.88	10.03	10.43
EPS Change (YoY)	470.2%	-0.2%	-19.2%	1.5%	4.0%
Consensus EPS (Bloomberg)			9.96	10.65	11.80
DPS	0.36	0.81	0.91	1.01	1.09
Valuation (Jan)					
P/E	8.3x	8.3x	10.2x	10.1x	9.7x
Dividend Yield	0.4%	0.8%	0.9%	1.0%	1.1%
EV / EBITDA*	4.7x	4.9x	6.1x	6.2x	6.3x
Free Cash Flow Yield*	22.8%	13.3%	2.6%	10.7%	12.0%

* For full definitions of *IQmethod*SM measures, see page 4.

10 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	95.00	110.00

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Stock Data

Price	99.86 USD
Price Objective	110.00 USD
Date Established	10-Jan-2024
Investment Opinion	C-2-7
52-Week Range	57.10 USD - 108.73 USD
Mrkt Val (mn) / Shares Out (mn)	4,873 USD / 48.8
Free Float	95.0%
Average Daily Value (mn)	84.87 USD
BofA Ticker / Exchange	SIG / NYS
Bloomberg / Reuters	SIG US / SIG.N
ROE (2024E)	25.4%
Net Dbt to Eqty (Jan-2023A)	-64.6%
ESGMeter™	High

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Timestamp: 10 January 2024 12:01AM EST

iQprofileSM Signet Jewelers

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	18.6%	15.8%	11.7%	11.2%	10.3%
Return on Equity	47.1%	35.3%	25.4%	20.6%	17.5%
Operating Margin	11.6%	10.8%	9.1%	9.4%	9.2%
Free Cash Flow	1,128	659	127	528	590

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.9x	1.4x	0.6x	1.6x	1.9x
Asset Replacement Ratio	0.8x	0.9x	0.9x	1.0x	1.0x
Tax Rate	12.6%	18.8%	19.2%	19.6%	21.9%
Net Debt-to-Equity Ratio	-81.3%	-64.6%	-46.8%	-54.1%	-62.8%
Interest Cover	NA	NA	NM	NA	NA

Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	7,826	7,842	7,199	6,912	7,023
% Change	49.7%	0.2%	-8.2%	-4.0%	1.6%
Gross Profit	3,129	3,066	2,846	2,767	2,826
% Change	80.4%	-2.0%	-7.2%	-2.8%	2.1%
EBITDA	1,068	1,013	815	801	795
% Change	226.8%	-5.2%	-19.5%	-1.8%	-0.7%
Net Interest & Other Income	15	7	(10)	6	2
Net Income (Adjusted)	649	554	436	411	394
% Change	479.0%	-14.6%	-21.3%	-5.8%	-4.1%

Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	649	554	436	411	394
Depreciation & Amortization	160	163	163	152	150
Change in Working Capital	275	152	(503)	(19)	58
Deferred Taxation Charge	0	(99)	40	0	0
Other Adjustments, Net	173	28	139	133	138
Capital Expenditure	(130)	(139)	(149)	(149)	(149)
Free Cash Flow	1,128	659	127	528	590
% Change	-12.5%	-41.6%	-80.8%	316.4%	11.8%
Share / Issue Repurchase	(312)	(376)	(153)	(200)	(200)
Cost of Dividends Paid	(19)	(37)	(40)	(41)	(41)
Change in Debt	0	0	0	(148)	0

Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,418	1,167	1,018	1,151	1,494
Trade Receivables	20	15	11	11	11
Other Current Assets	2,292	2,326	2,483	2,483	2,483
Property, Plant & Equipment	576	587	534	529	526
Other Non-Current Assets	2,269	2,527	2,537	2,537	2,537
Total Assets	6,575	6,620	6,582	6,711	7,050
Short-Term Debt	0	0	148	0	0
Other Current Liabilities	2,071	2,248	1,944	1,925	1,983
Long-Term Debt	147	147	0	0	0
Other Non-Current Liabilities	1,788	1,752	1,776	1,804	1,832
Total Liabilities	5,011	5,042	4,722	4,584	4,670
Total Equity	1,564	1,579	1,860	2,127	2,381
Total Equity & Liabilities	6,575	6,620	6,582	6,711	7,050

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Retailing-Softline

Company Description

Signet Jewelers is the largest specialty jeweler in the world, with the #1 market share position by sales and about 3,600 stores globally. In the US, Signet operates 2,800 stores, in both mall and off-mall locations, primarily under the Kay, Zales and Jared brand names. In the UK, Signet has roughly 500 stores under the H.Samuel and Ernest Jones banners, and the company operates nearly 200 stores within Canada under the Peoples/Mappins brand names.

Investment Rationale

We rate Signet as Neutral as our optimism about the management team's strategy is balanced by the risk that consumers shift spending to other categories. It trades in line with a group of peers on an EV/EBITDA basis, which we view as appropriate.

Stock Data

Average Daily Volume

849,852

Quarterly Earnings Estimates

	2023	2024
Q1	2.85A	1.78A
Q2	2.69A	1.55A
Q3	0.74A	0.23A
Q4	5.51A	6.29E

Price objective basis & risk

Signet Jewelers (SIG)

Our price objective of \$110 is based on 6x EV/EBITDA our F2025 (C2024) estimate. This multiple is in line with the average multiple of accessories/mall based retail peers. We think SIG deserves this multiple due to strong post-pandemic performance, tempered by uncertain consumer trends, particularly within engagement.

Downside risks to our PO are a slowdown of industry sales, a pullback in consumer demand, issues with the credit portfolio outsourcing, sharp increases in diamond costs, new products not gaining traction, competitors becoming stronger and taking market share.

Upside risks to our PO are a more rapid recovery in engagement than contemplated or more robust growth within the jewelry category.

Analyst Certification

I, Lorraine Hutchinson, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EW CZ	EW CZ US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
NEUTRAL				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
UNDERPERFORM				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA



US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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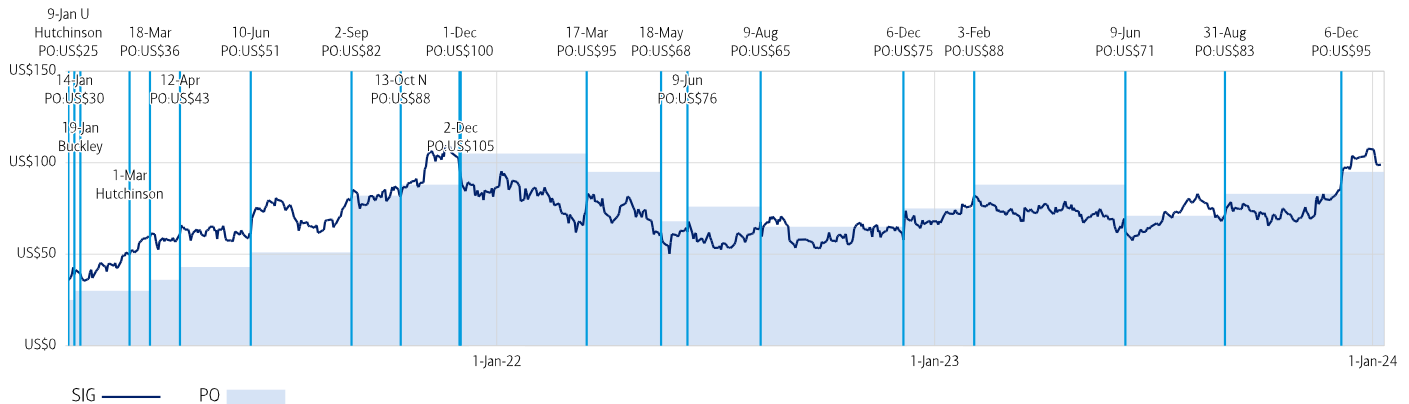
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Signet Jewelers (SIG) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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