SIGNET JEWELERS LTD
Form 10-K
March 30, 2011
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended January 29, 2011

Commission file number 1-32349

SIGNET JEWELERS LIMITED

(Exact name of Registrant as specified in its charter)

Bermuda	**Not Applicable**
(State or other jurisdiction of incorporation)	**(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)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Shares of $0.18 each	**The New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

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 x 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 shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of regulation S-K is not contained herein, and will not be contained to the best of Registrant s knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer x 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 x

The aggregate market value of voting common shares held by non-affiliates of the Registrant (based upon the closing sales price quoted on the New York Stock Exchange) as of July 31, 2010 was $2,547,892,005.

Number of common shares outstanding on March 18, 2011: 86,412,748

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant will incorporate by reference information required in response to Part III, Items 10-14, in its definitive proxy statement for its annual meeting of shareholders, to be filed with the Securities and Exchange Commission within 120 days of January 29, 2011.

Table of Contents

REFERENCES

Unless the context otherwise requires, references to Signet, refer to Signet Jewelers Limited (and before September 11, 2008 to Signet Group plc) and its consolidated subsidiaries. References to the Company are to Signet Jewelers Limited. References to Predecessor Company are to Signet Group plc prior to the reorganization that was effected on September 11, 2008, and financial and other results and statistics for Fiscal 2008 and prior periods relate to Signet prior to such reorganization.

PRESENTATION OF FINANCIAL INFORMATION

All references to dollars, US dollars, $, cents and c are to the lawful currency of the United States of America. Signet prepares its financial statements in US dollars. All references to pounds, pounds sterling, sterling, £, pence, and p are to the lawful currency of the United King

Percentages in tables have been rounded and accordingly may not add up to 100%. Certain financial data may have been rounded. As a result of such rounding, the totals of data presented in this document may vary slightly from the actual arithmetical totals of such data.

Throughout this Annual Report on Form 10-K, financial data has been prepared in accordance with accounting principles generally accepted in the United States (GAAP). However, Signet gives certain additional non-GAAP measures in order to provide increased insight into the underlying or relative performance of the business. An explanation of each non-GAAP measure used can be found in Item 6.

Fiscal Year

Signet s fiscal year ends on the Saturday nearest to January 31. As used herein, Fiscal 2013, Fiscal 2012, Fiscal 2011, Fiscal 2010 and Fiscal 2009 refer to the 53 week period ending February 2, 2013, and the 52 week periods ending January 28, 2012, January 29, 2011, January 30, 2010 and January 31, 2009 respectively. As used herein, Fiscal 2007 refers to the 53 week period ending February 3, 2007, Fiscal 2008, Fiscal 2006 and Fiscal 2005 refer to the 52 week periods ending February 2, 2008, January 28, 2006 and January 29, 2005 respectively.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements which are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, based upon management s beliefs and expectations as well as on assumptions made by and data currently available to management, appear in a number of places throughout this Annual Report on Form 10-K and include statements regarding, among other things, Signet s results of operation, financial condition, liquidity, prospects, growth, strategies and the industry in which Signet operates. The use of the words expects, intends, anticipates, estimates, predicts, believes , should, potential, may, forecas or target, and other similar expressions are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to a number of risks and uncertainties, including but not limited to general economic conditions, the merchandising, pricing and inventory policies followed by Signet, the reputation of Signet and its brands, the level of competition in the jewelry sector, the cost and availability of diamonds, gold and other precious metals, regulations relating to consumer credit, seasonality of Signet s business, financial market risks, deterioration in consumers financial condition, exchange rate fluctuations, changes in consumer attitudes regarding jewelry, management of social, ethical and environmental risks, inadequacy in and disruptions to internal controls and systems, changes in assumptions used in making accounting estimates relating to items such as extended service plans and pensions, and risks relating to Signet being a Bermuda corporation.

For a discussion of these risks and other risks and uncertainties which could cause actual results to differ materially from those expressed in any forward looking statement, see Item 1A and elsewhere in this Annual Report on Form 10-K. Signet undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances, except as required by law.

Table of Contents

SIGNET JEWELERS LIMITED

FISCAL 2011 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. BUSINESS

OVERVIEW

Signet is the world s largest specialty retail jeweler by sales, with stores in the US, UK, Republic of Ireland and Channel Islands. Signet is incorporated in Bermuda and its address and telephone number are shown on the cover of this document. Its corporate website is www.signetjewelers.com, from where documents that the Company is obliged to file or furnish with the US Securities and Exchange Commission (SEC) may be viewed or downloaded free of charge.

On September 11, 2008, Signet Group plc became a wholly-owned subsidiary of Signet Jewelers Limited, a new company incorporated in Bermuda under the Companies Act 1981 of Bermuda, following the completion of a scheme of arrangement approved by the High Court of Justice in England and Wales under the UK Companies Act 2006. Shareholders of Signet Group plc became shareholders of Signet Jewelers Limited, owning 100% of that company. Signet Jewelers Limited is governed by the laws of Bermuda.

Effective January 31, 2010, Signet became a foreign issuer subject to the rules and regulations of the US Securities Exchange Act of 1934 (Exchange Act) applicable to domestic US issuers. Prior to this date, Signet was a foreign private issuer and filed with the SEC its annual report on Form 20-F.

Signet s US division operated 1,317 stores in all 50 states at January 29, 2011. Its stores trade nationally in malls and off-mall locations as Kay Jewelers (Kay), and regionally under a number of well-established mall-based brands. Destination superstores trade nationwide as Jared The Galleria Of Jewelry (Jared). Based on publicly available data, management believes Signet s US division was the largest specialty jeweler in the US in calendar 2010 with sales approximately twice those of the next biggest such retailer. See page 6 for a detailed description of Signet s US division and the US jewelry market.

The UK division s stores trade as H.Samuel, Ernest Jones, and Leslie Davis, and are situated in prime High Street locations (main shopping thoroughfares with high pedestrian traffic) or major shopping malls. The UK division operated 540 stores at January 29, 2011, including 14 stores in the Republic of Ireland and three in the Channel Islands. Based on publicly filed accounts, management believes Signet s UK division was the largest specialty retailer of fine jewelry in the UK with sales in calendar 2009 almost twice those of the next biggest such retailer. See page 19 for a detailed description of Signet s UK division and the UK jewelry market.

Operating principles

Management aims to build long term value by focusing on outstanding customer service and providing a superior merchandise selection in high quality real estate locations. An above-industry-average marketing expenditure to sales ratio and effective advertising is designed to assist in attracting consumers into Signet s stores. The operating principles that help management achieve these goals are:

- excellence in execution;
- test before investing;
- continuous improvement; and
- disciplined investment.

Operational execution

Management recognizes that while the level of expenditure on jewelry is discretionary and consumers may trade down in a more challenging economic environment, the expression of romance and appreciation, for example

Table of Contents

through bridal jewelry and gift giving, remain very important human needs, as is self reward. Therefore, helping to satisfy those needs is central to driving sales. As a result, the training of sales associates to better understand the shopper s requirements, communicate the value of the merchandise selected and close the sale, remains a high priority. Management also aims to increase the attraction of Signet s store brands to consumers through the use of branded differentiated and exclusive merchandise, while also offering a compelling value proposition in more basic ranges, by utilizing its supply chain and merchandising expertise, scale and balance sheet strength. In addition, management intends to leverage national television advertising and customer relationship marketing, which it believes are the most effective and cost efficient forms of marketing available, to grow its leading share of relevant marketing messages (share of voice).

STRATEGY & FINANCIAL OBJECTIVES

Fiscal 2011 was an outstanding year for Signet. In Fiscal 2012, profit growth and generation of strong cash flow remain priorities. Therefore the strategy in Fiscal 2012 is broadly similar to that of Fiscal 2011. Both the US and the UK divisions are specialty jewelry industry leaders and continue to endeavor to meet customer expectations by further enhancing our competitive advantages. This is expected to increase the performance gap between Signet and others in the sector in the basic retail disciplines of store operations, supply chain management, merchandising, marketing and quality retail estate.

Signet s strategy in Fiscal 2012 is to:

- further enhance Signet s position as the world s largest specialty retail jeweler through superior execution;
- improve store productivity;
- increase investment to strengthen the competitive position of the business; and
- maintain a strong balance sheet and financial flexibility.

Accordingly, we plan to invest in our sales associates to drive improvements in customer service; continue to develop and expand distribution of branded differentiated and exclusive merchandise; increase advertising expenditure; invest in information systems, including internet technology that will assist the business to execute more efficiently and effectively; seek ways to improve the supply chain; and increase the number of store refurbishments and openings. The goal is to deliver a superior customer experience by being best in class in all areas of the business, as is appropriate for the industry leader.

In setting the financial objectives for Fiscal 2012, consideration was given to the current operating environment which remains challenging with the developments in the US and UK economies becoming increasingly divergent. There is stabilization in the US economy and growth in the US jewelry market. The UK economy is being impacted by pressure on discretionary spending due to the government s austerity program, which includes an increase in the value added tax rate implemented on January 4, 2011, and higher consumer inflation at a time of limited growth in personal disposable income.

In Fiscal 2012, management s financial objectives for the business are the following:

- gain profitable market share;
- improve gross margin ratio;
- maintain selling, general and administrative expenses to sales ratio broadly similar to the level of Fiscal 2011, flexing primarily with expenses which vary with sales;

capital expenditure of $110 million to $130 million; and

positive free cash flow of between $150 million and $200 million; non-GAAP measure, see Item 6.

Management anticipates that the gross margin ratio will benefit from improved store productivity, which is expected to offset the impact of changes in the costs of commodities, in particular the cost of diamonds and gold, and provide leverage of occupancy costs and net bad debt expense.

Table of Contents

Investment will be directed, where prudent, to both inventory and capital projects, which are intended to build competitive advantage and support sales growth. It is planned to carry out 105 major store refurbishments and relocations (Fiscal 2011: 64 stores), and increase the number of store openings in the US to 25 (Fiscal 2011: 6), see Table 1 below. The UK division plans to open two stores and close 22 stores in Fiscal 2012 (Fiscal 2011: opened 0 and closed 12). It is therefore expected that net square footage in the US division will be unchanged and that in the UK division it will decrease by approximately 3%.

Table 1

Change in US Stores	Kay Mall(1)	Kay Off-mall	Regionals	Jared(2)	Total	Net space change
January 29, 2011	780	128	229	180	1,317	(2)%
Openings (planned)	8	13		4	25	
Closures (forecast)	(7)	(8)	(21)		(36)	
January 28, 2012	781	133	208	184	1,306	0%

(1) Includes stores in downtown locations.
(2) A Jared store is equivalent in size to about four mall stores.

MEDIUM TERM OUTLOOK

The strategy continues to be to build profitable market share for each of Signet s leading store brands by focusing on best in class customer service, great marketing campaigns that build on the store brands leading share of voice, further development of branded products that differentiate our store brands from our competitors, and, in the US, the provision of proprietary customer finance programs particularly tailored to the needs of a jewelry customer.

Management believes that Signet s operating divisions have the opportunity to take advantage of their enhanced competitive positions to grow sales and increase store productivity. Sales growth allows the business to strengthen relationships with suppliers, facilitates the ability to develop further branded differentiated and exclusive merchandise, improves the efficiency of its supply chain, lifts marketing expenditure and improves operating margins. Management also believes that Signet s strong balance sheet, financial flexibility and superior operating margins allow us to take advantage of investment opportunities, including space growth and strategic developments, that meet management s demanding return criteria.

BACKGROUND

Business segment

Signet s results derive from one business segment the retailing of jewelry, watches and associated services. The business is managed as two geographical operating divisions: the US division (approximately 80% of sales) and the UK division (approximately 20% of sales). Both divisions are managed by executive committees, which report through divisional Chief Executives to Signet s Chief Executive, who reports to the Board of Directors of Signet (the Board). Each divisional executive committee is responsible for operating decisions within parameters established by the Board.

Detailed financial information about both divisions is found in Note 2 of Item 8.

Trademarks and trade names

Signet is not dependent on any material patents or licenses in either the US or the UK. However, it does have several well-established trademarks and trade names which are significant in maintaining its reputation and competitive position in the jewelry retailing industry. These registered trademarks and trade names include the

Table of Contents

following in Signet s US operations: Kay Jewelers; Jared The Galleria Of Jewelry; JB Robinson Jewelers; Marks & Morgan Jewelers; Belden Jewelers; Weisfield Jewelers; Osterman Jewelers; Shaw s Jewelers; Rogers Jewelers; LeRoy s Jewelers; Goodman Jewelers; Friedlander s Jewelers; Every kiss begins with Kay; the Leo Diamond; Peerless Diamond; Hearts Desire; Perfect Partner; and Charmed Memories. Trademarks and trade names include the following in Signet s UK operations: H.Samuel; Ernest Jones; Leslie Davis; Forever Diamonds; and Perfect Partner.

The value of Signet s trademarks and trade names are material, but in accordance with US GAAP, are not reflected on its balance sheet. Their value is maintained and increased by Signet s expenditure on training of its sales associates, marketing and store investment.

Seasonality

Signet s sales are seasonal, with the first and second quarters each normally accounting for slightly more than 20% of annual sales, the third quarter a little under 20% and the fourth quarter for about 40% of sales, with December being by far the most important month of the year. Sales made in November and December are known as the Holiday Season. Due to sales leverage, Signet s operating income is even more seasonal, with nearly all of the UK division s, and about 50% of the US division s operating income normally occurring in the fourth quarter. Selling, general and administrative costs are spread more evenly over the fiscal year.

Employees

In Fiscal 2011, the average number of full-time equivalent persons employed was 16,229 (US: 12,803; UK: 3,426). Signet usually employs a limited number of temporary employees during its fourth quarter. None of Signet s employees in the UK and less than 1% of Signet s employees in the US are covered by collective bargaining agreements. Signet considers its relationship with its employees to be excellent.

		Year ended	
	Fiscal 2011	**Fiscal 2010**	**Fiscal 2009**
Average number of employees[1]			
US	**12,803**	12,596	13,218
UK	**3,426**	3,724	3,697
Total	**16,229**	16,320	16,915

(1) Full-time equivalent.

US DIVISION

US market

Total US jewelry sales, including watches and fashion jewelry, are provisionally estimated by the US Bureau of Economic Analysis (BEA) to have been $63.2 billion in calendar 2010. The BEA figures are subject to frequent and sometimes large revisions.

The US jewelry market has grown at a compound annual growth rate of 4.5% over the last 25 years. While Signet s major competitors are other specialty jewelers, Signet also faces competition from other retailers that sell jewelry including department stores, discount stores, apparel outlets and internet retailers. Management believes that the jewelry category competes with other sectors, such as electronics, clothing and furniture, as well as travel and restaurants for consumers discretionary spending, particularly with regard to gift giving, but less so with regard to bridal (engagement, wedding and anniversary) jewelry.

In calendar 2010, the US jewelry market grew by a provisional estimated 7.4% (source: BEA). Based on provisional estimates, the specialty jewelry sector grew by 4.9% to $29.6 billion in calendar 2010 (source: US Census Bureau). The specialty sector saw a provisional decrease in market share to 46.9% in calendar 2010 from

6

Table of Contents

48.0% in calendar 2009. Provisional estimates have historically been subject to significant revisions by the BEA and the US Census Bureau. For example, the provisional share of the specialty market in calendar 2009 was 46.2% but was revised up to 48.0% as a result of a change in the US Census Bureau estimate.

The US division s share of the specialty jewelry market increased to 9.3% in calendar 2010 from 9.0% in calendar 2009, based on initial estimates by the US Census Bureau.

US Competitive Strengths

Store operations and human resources

The ability of the sales associate to explain the merchandise and its value is essential to most jewelry purchases

Centrally prepared training schedules and materials are used by all stores and help ensure a consistently high level of customer service.

All 1,317 store managers are required to be certified diamontologists, so as to provide expert knowledge to customers.

The US division employs almost 5,000 certified diamontologists.

Measurable daily store standards provide sales associates with clear performance targets.

Each store receives a monthly customer experience report helping to identify opportunities to improve customer service.

Merchandising

Offering the consumer greater value and selection

Leading supply chain capability among middle market specialty jewelers provides better value to the customer.

Assists in the creation of branded differentiated and exclusive merchandise.

Each store is merchandised on an individual basis so as to provide appropriate selection.

Highly responsive demand-driven merchandise systems enable swifter response to changes in customer behavior.

24 hour re-supply capability means items wanted by customers are more likely to be available in inventory.

In Fiscal 2011, about 22% of merchandise sales were accounted for by branded differentiated and exclusive ranges.

Marketing

Leading brands in middle market sector

Largest marketing budget in specialty jewelry sector, based on publicly available data, allowing more television advertising impressions than competitors, driving brand awareness and purchase intent.

Kay and Jared are able to achieve marketing leverage through national television advertising.

Ability to drive customer awareness of branded merchandise by advertising on national television as part of the Kay and Jared marketing programs.

A proprietary marketing database of nearly 27 million names provides significant opportunities for customer relationship marketing.

Table of Contents

Real estate

Well designed stores in primary locations with high visibility and traffic flows

Strict real estate criteria consistently applied over time has resulted in a high-quality store base.

Well tested formats and locations reduce the risk of investing in new stores.

The division s high store productivity and financial strength make Signet an attractive tenant for landlords.

Customer finance

Ability to facilitate customer transactions

About 54% of sales utilize financing provided by Signet.

Dedicated, proprietary credit underwriting standards more accurately reflect Signet s customer than those used by a typical third party scorecard.

Focus on facilitating the sale of jewelry reflected in low average outstanding balance and fast collection rates.

US Brand Reviews

Location of Kay, Jared and Regional stores by state January 29, 2011:

Table of Contents

	Fiscal 2011	Fiscal 2010	Fiscal 2009
Total opened during the year	**6**	16	77
Kay	**4**	8[1]	57[1]
Jared	**2**	7	17
Regional brands		1	3
Total closed during the year	**(50)**	(56)	(75)
Kay	**(19)**	(11)	(25)
Jared			
Regional brands	**(31)**	(45)[1]	(50)[1]
Total open at the end of the year	**1,317**	1,361	1,401
Kay	**908**	923	926
Jared	**180**	178	171
Regional brands	**229**	260	304
Average sales per store in thousands[2]	**$ 2,028**	$ 1,802	$ 1,776
Kay	**$ 1,713**	$ 1,570	$ 1,525
Jared	**$ 4,638**	$ 4,029	$ 4,473
Regional brands	**$ 1,238**	$ 1,155	$ 1,151