SIGNET JEWELERS LTD
Form 10-Q
May 24, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended April 28, 2012 or**

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ______ to ______**

Commission File Number 1-32349

Signet Jewelers Limited

(Exact name of Registrant as specified in its charter)

Bermuda	**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 of principal executive offices)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes 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 such shorter period that the Registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

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 Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of Common Stock, as of the latest practicable date.

Common Stock, $0.18 par value, 85,103,743 shares as of May 17, 2012

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED INCOME STATEMENTS

(Unaudited)

	13 weeks ended April 28, 2012 $million	13 weeks ended April 30, 2011 $million	Notes
Sales	**900.0**	887.3	2
Cost of sales	**(546.3)**	(537.6)	
Gross margin	**353.7**	349.7	
Selling, general and administrative expenses	**(264.5)**	(263.8)	
Other operating income, net	**40.2**	32.8	
Operating income, net	**129.4**	118.7	2
Interest expense, net	**(0.9)**	(0.9)	
Income before income taxes	**128.5**	117.8	
Income taxes	**(46.0)**	(42.4)	
Net income	**82.5**	75.4	
Earnings per share: basic	**$ 0.96**	$ 0.87	5
diluted	**$ 0.96**	$ 0.87	5
Weighted average common shares outstanding (millions): basic	**85.5**	86.1	5
diluted	**86.3**	86.9	5
Dividends per share	**$ 0.12**	$	5

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

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SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	13 weeks ended	
	April 28, 2012 $million	**April 30, 2011 $million**
Net income	**82.5**	75.4
Other comprehensive income:		
Foreign currency translation adjustments	**9.6**	12.0
Changes in fair value of derivative instruments, net of tax of $7.6 million and $5.3 million, respectively	**13.9**	8.4
Pension plan adjustments, net of tax of $0.0 million and $0.1 million, respectively	**0.4**	0.3
Comprehensive income	**106.4**	96.1

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

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SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	April 28, 2012 $million	January 28, 2012 $million	April 30, 2011 $million	Notes
Assets				
Current assets:				
Cash and cash equivalents	**399.0**	486.8	394.1	
Accounts receivable, net	**1,025.1**	1,088.2	904.3	6
Other receivables	**43.9**	44.3	25.2	
Other current assets	**74.0**	92.0	84.6	7
Deferred tax assets	**2.0**	0.9	2.7	
Inventories	**1,335.0**	1,304.1	1,221.2	
Total current assets	**2,879.0**	3,016.3	2,632.1	
Non-current assets:				
Property and equipment, net of accumulated depreciation of $707.1 million, $681.0 million, and $673.0 million, respectively	**381.7**	383.4	373.3	
Other assets	**72.2**	71.7	60.9	7
Deferred tax assets	**116.5**	108.5	106.2	
Retirement benefit asset	**35.8**	31.5	27.1	
Total assets	**3,485.2**	3,611.4	3,199.6	2
Liabilities and Shareholders equity				
Current liabilities:				
Loans and overdrafts			28.0	
Accounts payable	**156.0**	182.6	144.9	
Accrued expenses and other current liabilities	**252.3**	308.4	239.3	7
Deferred revenue	**150.5**	154.1	142.5	7
Deferred tax liabilities	**133.8**	135.0	102.2	
Income taxes payable	**51.4**	77.9	43.4	
Total current liabilities	**744.0**	858.0	700.3	
Non-current liabilities:				
Other liabilities	**103.1**	100.3	94.3	
Deferred revenue	**380.4**	374.0	360.5	7
Total liabilities	**1,227.5**	1,332.3	1,155.1	
Commitments and contingencies				10
Shareholders equity:				
Common shares of $0.18 par value: authorized 500 million shares, 85.4 million shares issued and outstanding (January 28, 2012: 86.9 million shares issued and outstanding; April 30, 2011: 86.8 million shares issued and outstanding)	**15.7**	15.6	15.5	
Additional paid-in capital	**228.3**	230.9	206.2	
Other reserves	**235.2**	235.2	235.2	

Treasury shares at cost: 1.8 million shares (January 28, 2012: 0.3 million shares; April 30, 2011: 0.0 million shares)	**(88.6)**	(12.7)	
Retained earnings	**2,030.2**	1,969.3	1,737.7
Accumulated other comprehensive loss	**(163.1)**	(159.2)	(150.1)
Total shareholders equity	**2,257.7**	2,279.1	2,044.5
Total liabilities and shareholders equity	**3,485.2**	3,611.4	3,199.6

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

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SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	13 weeks ended	
	April 28, 2012 $million	**April 30, 2011 $million**
Cash flows from operating activities		
Net income	**82.5**	75.4
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization of property and equipment	**23.1**	22.5
Pension	**(2.6)**	(2.7)
Share-based compensation	**4.1**	2.7
Deferred taxation	**(3.5)**	(0.5)
Facility amendment fee amortization and charges	**0.1**	0.2
Other non-cash movements		(0.1)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	**63.5**	32.0
(Increase)/decrease in other receivables and other assets	**(0.1)**	11.9
Decrease in other current assets	**4.3**	8.1
Increase in inventories	**(25.6)**	(24.3)
(Decrease)/increase in accounts payable	**(27.7)**	17.9
Decrease in accrued expenses and other liabilities	**(62.0)**	(47.3)
Increase in deferred revenue	**2.7**	3.5
(Decrease)/increase in income taxes payable	**(25.6)**	4.7
Effect of exchange rate changes on currency swaps	**0.8**	1.3
Net cash provided by operating activities	**34.0**	105.3
Investing activities		
Purchase of property and equipment	**(18.6)**	(12.9)
Net cash used in investing activities	**(18.6)**	(12.9)
Financing activities		
Dividends	**(8.7)**	
Proceeds from exercise of share options	**5.1**	4.0
Repurchase of common shares	**(90.7)**	
Net settlement of equity based awards	**(8.3)**	
Credit facility fees paid		(0.2)
Repayment of short-term borrowings		(4.0)
Net cash used in financing activities	**(102.6)**	(0.2)
Effect of exchange rate changes on cash and cash equivalents	**(0.6)**	(0.2)
Cash and cash equivalents at beginning of period	**486.8**	302.1
(Decrease)/increase in cash and cash equivalents	**(87.2)**	92.2
Cash and cash equivalents at end of period	**399.0**	394.1

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

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SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(Unaudited)

	Common shares at par value $million	Additional paid-in capital $million	Other reserves $million	Treasury shares $million	Retained earnings $million	Accumulated other comprehensive loss $million	Total shareholders equity $million
Balance at January 28, 2012	**15.6**	**230.9**	**235.2**	**(12.7)**	**1,969.3**	**(159.2)**	**2,279.1**
Net income					82.5		82.5
Foreign currency translation						9.6	9.6
Changes in fair value of derivative instruments, net						(13.9)	(13.9)
Pension plan, net						0.4	0.4
Dividend					(10.2)		(10.2)
Repurchase of common shares				(90.7)			(90.7)
Net settlement of equity based awards		(7.0)		10.1	(11.4)		(8.3)
Share options exercised	0.1	0.3		4.7			5.1
Share-based compensation expense		4.1					4.1
Balance at April 28, 2012	**15.7**	**228.3**	**235.2**	**(88.6)**	**2,030.2**	**(163.1)**	**2,257.7**

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

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SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Principal accounting policies and basis of preparation

Basis of preparation

Signet Jewelers Limited (Signet or the Company), including its subsidiaries, is a leading retailer of jewelry, watches and associated services. Signet manages its business as two geographical segments, the United States of America (the US) and the United Kingdom (the UK). The US division operates retail stores under brands including Kay Jewelers, Jared The Galleria Of Jewelry and various regional brands, while the UK division s retail stores operate under brands including H.Samuel and Ernest Jones.

These condensed consolidated financial statements included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) have been condensed or omitted from this report, as is permitted by such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes included in Signet s Annual Report on Form 10-K for the year ended January 28, 2012.

Use of estimates

The preparation of these condensed consolidated financial statements, in conformity with US GAAP and SEC regulations for interim reporting, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are primarily made in relation to the valuation of receivables, inventory and deferred revenue, fair value of derivatives, depreciation and asset impairment, the valuation of employee benefits, income taxes and contingencies.

Fiscal year

The Company s fiscal year ends on the Saturday nearest to January 31st. Fiscal 2012 is the year ended January 28, 2012 and Fiscal 2013 is the year ending February 2, 2013. Within these financial statements, the first quarter of the fiscal years 2013 and 2012 refers to the 13 weeks ended April 28, 2012 and April 30, 2011, respectively.

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 40% to 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.

New accounting pronouncements adopted during the period

Presentation of comprehensive income

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income (ASU 2011-05). ASU 2011-05 eliminates the option to present components of other comprehensive income (OCI) as part of the statement of changes in stockholders equity. The amendments in this standard require that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under either method, adjustments must be displayed for items that are reclassified from OCI to net income, in either the other comprehensive income section of the comprehensive income statement or in the notes as US GAAP currently requires for annual reporting. The standard does not change the current option for presenting components of OCI gross or net of the effect of income taxes, provided that such tax effects are presented in the statement in which OCI is presented or disclosed in the notes to the financial statements. Additionally, the standard does not affect the calculation or reporting of earnings per share. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and is to be applied retrospectively, with early adoption permitted. Signet adopted this guidance effective for the first quarter ended April 28, 2012 and the implementation of this accounting pronouncement did not have a material impact on Signet s financial statements.

SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Fair value measurements and disclosures

In May 2011, the FASB issued ASU 2011-04, Fair Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). FASB intends the new guidance to achieve common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. The amended guidance changes certain fair value measurement principles and enhances the disclosure requirements, particularly for Level 3 assets and liabilities for which Signet will be required to disclose quantitative information about the unobservable inputs used in fair value measurements. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. Signet adopted this guidance effective for the first quarter ended April 28, 2012 and the adoption of this amendment did not have a material impact on Signet s financial statements.

Reclassification

Signet has reclassified the presentation of certain prior year information to conform to the current year presentation.

2. Segment information

Signet s sales are derived from the retailing of jewelry, watches, other products and services. Signet is managed as two geographical operating segments, being the US and UK divisions. These segments represent channels of distribution that offer similar merchandise and services and have similar marketing and distribution strategies. Both divisions are managed by executive committees, which report through a divisional Chief Executive to Signet s Chief Executive Officer, who in turn reports to the Board. Each divisional executive committee is responsible for operating decisions within parameters set by the Board. The performance of each segment is regularly evaluated based on sales and operating income. The operating segments do not include certain central costs. There are no material transactions between the operating segments.

	13 weeks ended	
	April 28, 2012 $million	**April 30, 2011 $million**
Sales:		
US	**751.5**	738.0
UK	**148.5**	149.3
Total sales	**900.0**	887.3
Operating income/(loss), net:		
US	**137.7**	126.2
UK	**(3.0)**	(0.2)
Unallocated [(1)]	**(5.3)**	(7.3)
Total operating income, net	**129.4**	118.7

	April 28, 2012 $million	January 28, 2012 $million	April 30, 2011 $million
Total assets:			
US	**2,684.1**	2,747.5	2,495.5
UK	**458.0**	427.3	428.9
Unallocated [1]	**343.1**	436.6	275.2
Total assets	**3,485.2**	3,611.4	3,199.6

(1) Unallocated principally relates to central costs and assets, which include corporate and general administrative functions.

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SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Foreign currency translation

The exchange rates used in these financial statements for the translation of UK pound sterling transactions and balances into US dollars are as follows:

	13 weeks ended April 28, 2012	52 weeks ended January 28, 2012	13 weeks ended April 30, 2011
Income statement (average rate)	**1.59**	1.60	1.62
Balance sheet (period end rate)	**1.63**	1.57	1.67

The average exchange rate is used to prepare the income statement for the 13 weeks ended April 28, 2012 and April 30, 2011, and is calculated from the weekly average exchange rates weighted by sales of the UK division.

4. Income taxes

Signet has business activity in all states within the US and files income tax returns for the US federal jurisdiction and all applicable states. Signet also files income tax returns in the UK and certain other foreign jurisdictions. Signet is subject to US federal and state examinations by tax authorities for tax years ending after November 1, 2008 and is subject to examination by the UK tax authority for tax years ending after January 31, 2010.

As of January 28, 2012, Signet had approximately $4.8 million of unrecognized tax benefits in respect of uncertain tax positions, all of which would favorably affect the effective income tax rate if resolved in Signet s favor. These unrecognized tax benefits relate to financing arrangements and intra-group charges which are subject to different and changing interpretations of tax law.

There has been no material change in the amount of unrecognized tax benefits in respect of uncertain tax positions during the 13 weeks ended April 28, 2012.

Signet recognizes accrued interest and, where appropriate, penalties related to unrecognized tax benefits within income tax expense. As of January 28, 2012, Signet had accrued interest of $0.4 million and there has been no material change in the amount of accrued interest as of April 28, 2012.

Over the next twelve months management believes that it is reasonably possible that there could be a reduction of substantially all of the unrecognized tax benefits as of January 28, 2012, due to settlement of the uncertain tax positions with the tax authorities.

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SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. Shareholders equity and earnings per share

Share repurchase

On October 26, 2011, the Board of Directors announced that it had authorized a program to repurchase up to $300 million of Signet s common shares (the Repurchase Program). The Repurchase Program will be funded through Signet s existing cash reserves and liquidity sources. Repurchased shares may be used by Signet for general corporate purposes. Repurchases may be made from time to time in the open market, through block trades or otherwise. The timing, manner, price and amount of any repurchases will be determined by Signet in its discretion, and will be subject to economic and market conditions, stock prices, applicable legal requirements and other factors. The Repurchase Program may be suspended or discontinued at any time, or from time to time, without notice. The Repurchase Program became effective on January 16, 2012, and will last 24 months.

The Company repurchased 1,936,247 shares at an average price of $46.73 in the 13 weeks ended April 28, 2012 under the authorized Repurchase Program, which are being held as treasury shares. The Company did not repurchase any treasury shares in the 13 weeks ended April 30, 2011.

Earnings per share

	13 weeks ended	
	April 28, 2012	**April 30, 2011**
Net income ($million)	**82.5**	75.4
Basic weighted average number of shares in issue (million)	**85.5**	86.1
Dilutive effect of share options (million)	**0.8**	0.8
Diluted weighted average number of shares in issue (million)	**86.3**	86.9
Earnings per share basic	**$ 0.96**	$ 0.87
Earnings per share diluted	**$ 0.96**	$ 0.87

The basic weighted average number of shares excludes non-vested time-based restricted shares, shares held by the Employee Stock Ownership Trust and Treasury Shares. Such shares are not considered outstanding and do not qualify for dividends, except for time-based restricted shares for which dividends are earned and payable by the Company subject to full vesting. The effect of excluding these shares is to reduce the average number of shares in the 13 week period ended April 28, 2012 by 1,686,503 shares (13 week period ended April 30, 2011: 532,187 shares). The calculation of fully diluted earnings per share for the 13 week period ended April 28, 2012 excludes options to purchase 160,135 shares (13 week period ended April 30, 2011: 335,117 shares) on the basis that their effect on earnings per share was anti-dilutive.

Dividend

For the first quarter of Fiscal 2013, a cash dividend of $0.12 per share on Signet s Common Shares was approved on March 21, 2012 for payment on May 29, 2012 to shareholders of record on April 27, 2012. As a result, $10.2 million has been recorded in accrued expenses and other current liabilities reflecting this dividend, which is not presented in the condensed consolidated statement of cash flows as it is a non-cash transaction as of April 28, 2012.

6. Accounts receivable, net

Signet s accounts receivable primarily consist of US customer in-house financing receivables in which the population is of similar characteristics that are evaluated collectively for impairment. The allowance is an estimate of the losses as of the balance sheet date, and is calculated using a proprietary model that analyzes factors such as delinquency rates and recovery rates. A 100% allowance is made for any amount that is more than 90 days aged on a recency basis, as well as an allowance for those amounts 90 days aged and under based on historical loss information and payment performance. The calculation is reviewed by management to assess whether, based on economic events, additional analyses are required to appropriately estimate losses inherent in the portfolio.

SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	April 28, 2012 $million	January 28, 2012 $million	April 30, 2011 $million
Accounts receivable by portfolio segment, net:			
US customer in-house finance receivables	**1,016.3**	1,077.4	897.3
Other accounts receivable	**8.8**	10.8	7.0
Total accounts receivable, net	**1,025.1**	1,088.2	904.3

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

Other accounts receivable is comprised of gross accounts receivable relating to the insurance loss replacement business in the UK division of $9.5 million (January 28, 2012 and April 30, 2011: $11.3 million and $7.5 million, respectively) with a corresponding valuation allowance of $0.7 million (January 28, 2012 and April 30, 2011: $0.5 million and $0.5 million, respectively).

Allowance for Credit Losses on US Customer In-House Finance Receivables:

	13 weeks ended April 28, 2012 $million	52 weeks ended January 28, 2012 $million	13 weeks ended April 30, 2011 $million
Beginning balance	**(78.1)**	(67.8)	(67.8)
Charge-offs	**25.7**	92.8	18.9
Recoveries	**6.0**	19.3	5.5
Provision	**(24.4)**	(122.4)	(17.6)