

SIGNET JEWELERS LTD

Form 10-Q

December 07, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the quarterly period ended November 3, 2018 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 including area code of principal executive offices)

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

Indicate by check mark whether the Registrant has submitted electronically, every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

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

Common Shares, \$0.18 par value, 51,912,259 shares as of November 30, 2018

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SIGNET JEWELERS LIMITED

CONDENSED CONSOLIDATED INCOME STATEMENTS

(Unaudited)

(in millions, except per share amounts)	13 weeks ended		39 weeks ended		Notes
	November 2018	October 2017	November 2018	October 2017	
Sales	\$1,191.7	\$1,156.9	\$4,092.4	\$3,959.9	6
Cost of sales	(820.5)	(835.8)	(2,746.2)	(2,689.7)	
Restructuring charges - cost of sales	—	—	(63.2)	—	7
Gross margin	371.2	321.1	1,283.0	1,270.2	
Selling, general and administrative expenses	(410.3)	(375.9)	(1,337.9)	(1,237.7)	
Credit transaction, net	(0.4)	(12.2)	(167.4)	2.6	4
Restructuring charges	(9.5)	—	(35.6)	—	7
Goodwill and intangible impairments	—	—	(448.7)	—	15
Other operating income, net	0.2	72.5	25.5	221.3	
Operating income (loss)	(48.8)	5.5	(681.1)	256.4	6
Interest expense, net	(10.6)	(16.6)	(28.9)	(42.7)	
Other non-operating income	0.3	—	1.4	—	
Income (loss) before income taxes	(59.1)	(11.1)	(708.6)	213.7	
Income taxes	29.2	7.2	159.1	(45.7)	12
Net income (loss)	\$(29.9)	\$(3.9)	\$(549.5)	\$168.0	
Dividends on redeemable convertible preferred shares	(8.2)	(8.2)	(24.6)	(24.6)	9
Net income (loss) attributable to common shareholders	\$(38.1)	\$(12.1)	\$(574.1)	\$143.4	
Earnings (loss) per common share:					
Basic	\$(0.74)	\$(0.20)	\$(10.31)	\$2.24	10
Diluted	\$(0.74)	\$(0.20)	\$(10.31)	\$2.24	10
Weighted average common shares outstanding:					
Basic	51.5	60.1	55.7	64.0	10
Diluted	51.5	60.1	55.7	64.1	10
Dividends declared per common share	\$0.37	\$0.31	\$1.11	\$0.93	9

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

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

(in millions)	13 weeks ended November 3, 2018			October 28, 2017		
	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Net income (loss)			\$ (29.9)			\$ (3.9)
Other comprehensive income (loss):						
Foreign currency translation adjustments	\$(2.5)	\$ —	(2.5)	\$(6.5)	\$ —	(6.5)
Available-for-sale securities:						
Unrealized gain (loss) ⁽¹⁾	—	—	—	(0.2)	—	(0.2)
Cash flow hedges:						
Unrealized gain	3.1	(0.8)	2.3	1.3	(0.4)	0.9
Reclassification adjustment for gains to net income	(0.6)	0.1	(0.5)	(0.8)	0.2	(0.6)
Pension plan:						
Actuarial loss	—	—	—	(1.1)	0.2	(0.9)
Reclassification adjustment to net income for amortization of actuarial losses	0.3	(0.1)	0.2	0.7	(0.1)	0.6
Reclassification adjustment to net income for amortization of net prior service credits	—	—	—	(0.4)	—	(0.4)
Net curtailment gain and settlement loss	—	—	—	(3.7)	0.7	(3.0)
Total other comprehensive income (loss)	\$0.3	\$ (0.8)	\$ (0.5)	\$(10.7)	\$ 0.6	\$ (10.1)
Total comprehensive income (loss)			\$ (30.4)			\$ (14.0)

(in millions)	39 weeks ended November 3, 2018			October 28, 2017		
	Pre-tax amount	Tax (expense) benefit	After-tax amount	Pre-tax amount	Tax (expense) benefit	After-tax amount
Net income (loss)			\$(549.5)			\$ 168.0
Other comprehensive income (loss):						
Foreign currency translation adjustments	\$(39.5)	\$ —	(39.5)	\$18.6	\$ —	18.6
Available-for-sale securities:						
Unrealized gain (loss) ⁽¹⁾	0.4	(0.1)	0.3	0.6	(0.3)	0.3
Impact from adoption of new accounting pronouncements ⁽²⁾	(1.1)	0.3	(0.8)	—	—	—
Cash flow hedges:						
Unrealized gain	0.7	0.1	0.8	4.5	(1.8)	2.7
Reclassification adjustment for gains to net income	(1.5)	0.5	(1.0)	(4.1)	1.0	(3.1)
Pension plan:						
Actuarial loss	(8.0)	1.5	(6.5)	(1.1)	0.2	(0.9)
Reclassification adjustment to net income for amortization of actuarial losses	0.6	(0.1)	0.5	2.2	(0.4)	1.8
Reclassification adjustment to net income for amortization of net prior service credits	—	—	—	(1.3)	0.2	(1.1)
Net curtailment gain and settlement loss	—	—	—	(3.7)	0.7	(3.0)
Total other comprehensive income (loss)	\$(48.4)	\$ 2.2	\$(46.2)	\$15.7	\$(0.4)	\$ 15.3

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Total comprehensive income (loss) \$(595.7) \$ 183.3

During the 13 and 39 weeks ended November 3, 2018, amounts represent unrealized gains (losses) related to the
(1) Company's available-for-sale debt securities. During the 13 and 39 weeks ended October 28, 2017, amounts
represent unrealized gains and losses related to the Company's available-for-sale debt and equity securities.

(2) Adjustment reflects the reclassification of unrealized gains related to the Company's available-for-sale equity
securities as of February 3, 2018 from AOCI into retained earnings associated with the adoption of ASU 2016-1.

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

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CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(in millions, except par value per share amount)	November 3, 2018	February 3, 2018	October 28, 2017	Notes
Assets				
Current assets:				
Cash and cash equivalents	\$ 130.7	\$ 225.1	\$ 113.4	
Accounts receivable, held for sale	4.8	—	—	4
Accounts receivable, net	9.3	692.5	640.1	13
Other receivables	58.3	87.2	80.3	
Other current assets	159.9	158.2	145.0	
Income taxes	—	2.6	17.3	
Inventories	2,647.1	2,280.5	2,466.1	14
Total current assets	3,010.1	3,446.1	3,462.2	
Non-current assets:				
Property, plant and equipment, net of accumulated depreciation of \$1,283.4, \$1,197.6 and \$1,162.7, respectively	810.4	877.9	855.1	
Goodwill	509.0	821.7	867.1	15
Intangible assets, net	340.2	481.5	410.4	15
Other assets	168.6	171.2	169.1	
Deferred tax assets	36.2	1.4	1.3	
Retirement benefit asset	33.0	39.8	35.5	
Total assets	\$ 4,907.5	\$ 5,839.6	\$ 5,800.7	
Liabilities and Shareholders' equity				
Current liabilities:				
Loans and overdrafts	\$ 322.6	\$ 44.0	\$ 291.8	18
Accounts payable	339.6	237.0	324.9	
Accrued expenses and other current liabilities	431.3	448.0	430.5	
Deferred revenue	253.1	288.6	270.3	3
Income taxes	19.1	19.6	—	
Total current liabilities	1,365.7	1,037.2	1,317.5	
Non-current liabilities:				
Long-term debt	660.4	688.2	696.8	18
Other liabilities	233.2	239.6	244.4	
Deferred revenue	671.7	668.9	646.1	3
Deferred tax liabilities	12.7	92.3	143.8	
Total liabilities	2,943.7	2,726.2	3,048.6	
Commitments and contingencies				21
Series A redeemable convertible preferred shares of \$.01 par value: authorized 500 shares, 0.625 shares outstanding (February 3, 2018 and October 28, 2017: 0.625 shares outstanding)	614.8	613.6	613.1	8
Shareholders' equity:				
Common shares of \$0.18 par value: authorized 500 shares, 51.9 shares outstanding (February 3, 2018: 60.5 outstanding; October 28, 2017: 60.4 outstanding)	15.7	15.7	15.7	
Additional paid-in capital	294.2	290.2	285.6	
Other reserves	0.4	0.4	0.4	
	(2,418.0)	(1,942.1)	(1,945.2)	9

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Treasury shares at cost: 35.3 shares (February 3, 2018: 26.7 shares;
October 28, 2017: 26.8 shares)

Retained earnings	3,763.5	4,396.2	4,074.9
Accumulated other comprehensive loss	(306.8)	(260.6)	(292.4)
Total shareholders' equity	1,349.0	2,499.8	2,139.0
Total liabilities, redeemable convertible preferred shares and shareholders' equity	\$ 4,907.5	\$ 5,839.6	\$ 5,800.7

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

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

(in millions)	39 weeks ended	
	November 2018	October 28, 2017
Cash flows from operating activities		
Net income (loss)	\$(549.5)	\$ 168.0
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	138.4	147.1
Amortization of unfavorable leases and contracts	(5.9)	(10.8)
Pension benefit	(0.7)	(3.6)
Share-based compensation	15.5	11.0
Deferred taxation	(113.2)	41.7
Credit transaction, net	160.4	(30.9)
Goodwill and intangible impairments	448.7	—
Restructuring charges	80.2	—
Amortization of debt discount and issuance costs	1.5	3.2
Other non-cash movements	(4.1)	1.5
Changes in operating assets and liabilities:		
Decrease in accounts receivable held for investment	37.6	286.1
Decrease in accounts receivable held for sale	17.5	—
Proceeds from sale of in-house finance receivables	445.5	960.2
Decrease in other assets and other receivables	31.9	17.1
(Increase) decrease in inventories	(456.6)	4.6
Increase in accounts payable	106.5	39.7
Decrease in accrued expenses and other liabilities	(7.3)	(5.4)
Decrease in deferred revenue	(31.8)	(29.5)
Increase (decrease) in income taxes payable	2.0	(115.3)
Pension plan contributions	(3.1)	(2.4)
Net cash provided by operating activities	313.5	1,482.3
Investing activities		
Purchase of property, plant and equipment	(93.4)	(166.1)
Proceeds from sale of assets	5.5	—
Purchase of available-for-sale securities	(0.6)	(1.7)
Proceeds from sale of available-for-sale securities	9.0	0.9
Acquisition of R2Net Inc., net of cash acquired	—	(332.4)
Net cash used in investing activities	(79.5)	(499.3)
Financing activities		
Dividends paid on common shares	(59.8)	(57.7)
Dividends paid on redeemable convertible preferred shares	(23.4)	(26.9)
Repurchase of common shares	(485.0)	(460.0)
Proceeds from term loans	—	350.0
Repayments of term loans	(22.3)	(365.7)
Proceeds from securitization facility	—	1,745.9
Repayments of securitization facility	—	(2,345.9)
Proceeds from revolving credit facility	698.0	605.0
Repayments of revolving credit facility	(416.0)	(405.0)
Repayments of bank overdrafts	(10.1)	(5.9)

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Other financing activities	(2.1)	(4.5)
Net cash used in financing activities	(320.7)	(970.7)
Cash and cash equivalents at beginning of period	225.1	98.7
(Decrease) increase in cash and cash equivalents	(86.7)	12.3
Effect of exchange rate changes on cash and cash equivalents	(7.7)	2.4
Cash and cash equivalents at end of period	\$130.7	\$ 113.4

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

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

(in millions)	Common shares at par value	Additional paid-in capital	Other reserves	Treasury shares	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance at February 3, 2018	\$ 15.7	\$ 290.2	\$ 0.4	\$(1,942.1)	\$4,396.2	\$ (260.6)	\$ 2,499.8
Impact from adoption of new accounting pronouncements ⁽¹⁾	—	—	—	—	0.8	(0.8)	—
Net loss	—	—	—	—	(549.5)	—	(549.5)
Other comprehensive income	—	—	—	—	—	(45.4)	(45.4)
Dividends on common shares	—	—	—	—	(60.2)	—	(60.2)
Dividends on redeemable convertible preferred shares	—	—	—	—	(24.6)	—	(24.6)
Repurchase of common shares	—	—	—	(485.0)	—	—	(485.0)
Net settlement of equity based awards	—	(11.5)	—	9.1	0.8	—	(1.6)
Share-based compensation expense	—	15.5	—	—	—	—	15.5
Balance at November 3, 2018	\$ 15.7	\$ 294.2	\$ 0.4	\$(2,418.0)	\$3,763.5	\$ (306.8)	\$ 1,349.0

⁽¹⁾ Adjustment reflects the reclassification of unrealized gains related to the Company's equity security investments as of February 3, 2018 from AOCI into beginning retained earnings associated with the adoption of ASU 2016-1.

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

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SIGNET JEWELERS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and principal accounting policies

Signet Jewelers Limited (“Signet” or the “Company”), a holding company incorporated in Bermuda, is the world’s largest retailer of diamond jewelry. The Company operates through its 100% owned subsidiaries with sales primarily in the United States (“US”), United Kingdom (“UK”) and Canada. During the first quarter of Fiscal 2019, the Company realigned its organizational structure. The new structure will allow for further integration of operational and product development processes and support growth strategies. In accordance with this organizational change, beginning with quarterly reporting for the 13 weeks ended May 5, 2018, the Company identified three reportable segments as follows: North America, which consists of the legacy Sterling Jewelers and Zale division; International, which consists of the legacy UK Jewelry division; and Other. The “Other” reportable segment consists of all non-reportable segments, including subsidiaries involved in the purchasing and conversion of rough diamonds to polished stones and unallocated corporate administrative functions. See Note 6 for additional discussion of the Company’s segments. On September 12, 2017, the Company completed the acquisition of R2Net Inc., a Delaware corporation (“R2Net”). See Note 5 for additional information regarding the acquisition.

In October 2017, the Company, through its subsidiary Sterling Jewelers Inc. (“Sterling”), completed the sale of the prime-only quality portion of Sterling’s in-house finance receivable portfolio to Comenity Bank (“Comenity”). In June 2018, the Company, through its subsidiary Sterling, completed the sale of all eligible non-prime in-house accounts receivable to CarVal Investors (“CarVal”) and Castllake, L.P. (“Castllake”). See Note 4 for additional information regarding these transactions.

Signet’s sales are seasonal, with the fourth quarter accounting for approximately 35-40% of annual sales, with December being by far the highest volume month of the year. The “Holiday Season” consists of results for the months of November and December. As a result of our strategic credit outsourcing and transformation initiatives, we anticipate our operating profit will be almost entirely generated in the fourth quarter. In Fiscal 2019, the Company expects to recognize an annual operating loss as a result of goodwill and intangible asset impairments recognized during the first quarter, as well as the impacts of the Company’s strategic credit outsourcing and transformation initiatives.

Basis of preparation

The condensed consolidated financial statements of Signet are prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with US generally accepted accounting principles (“US GAAP”) have been condensed or omitted from this report, as is permitted by such rules and regulations. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results for the interim periods. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes included in Signet’s Annual Report on Form 10-K for the fiscal year ended February 3, 2018 filed with the SEC on April 2, 2018. Related to the new accounting pronouncement adoptions discussed in Note 2 and the change in segments disclosed in Note 6, Signet has reclassified certain prior year amounts in its consolidated financial statements and notes to the consolidated financial statements to conform to the current year presentation.

Use of estimates

The preparation of these condensed consolidated financial statements, in conformity with US GAAP and SEC regulations for interim reporting, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are primarily made in relation to the valuation of accounts receivable, inventories, deferred revenue, derivatives, employee benefits, income taxes, contingencies, asset impairments, indefinite-lived intangible assets, depreciation and amortization of long-lived assets, as well as accounting for business combinations.

Fiscal year

The Company's fiscal year ends on the Saturday nearest to January 3rd. Fiscal 2019 and Fiscal 2018 refer to the 52 week period ending February 2, 2019 and the 53 week period ending February 3, 2018, respectively. Within these condensed consolidated financial statements, the third quarter of the relevant fiscal years 2019 and 2018 refer to the 13 weeks ended November 3, 2018 and October 28, 2017, respectively.

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Foreign currency translation

The financial position and operating results of certain foreign operations, including certain subsidiaries operating in the UK as part of the International segment and Canada as part of the North America segment, are consolidated using the local currency as the functional currency. Assets and liabilities are translated at the rates of exchange on the balance sheet date, and revenues and expenses are translated at the monthly average rates of exchange during the period. Resulting translation gains or losses are included in the accompanying condensed consolidated statements of equity as a component of accumulated other comprehensive income (loss) ("AOCI"). Gains or losses resulting from foreign currency transactions are included within the condensed consolidated income statements.

See Note 11 for additional information regarding the Company's foreign currency translation.

2. New accounting pronouncements

The following section provides a description of new accounting pronouncements ("Accounting Standard Update" or "ASU") issued by the Financial Accounting Standards Board ("FASB") that are applicable to the Company.

New accounting pronouncements adopted during the period

Revenue recognition

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB has issued several updates to the standard that i) defer the original effective date; ii) clarify the application of principal versus agent guidance; iii) clarify the guidance on inconsequential and perfunctory promises and licensing; and iv) clarify the guidance on the de-recognition of non-financial assets. Signet adopted ASU No. 2014-09 and related updates effective February 4, 2018 using the modified retrospective approach applied only to contracts not completed as of the date of adoption with no restatement of prior periods and by recognizing the cumulative effect of initially applying the new standard as an adjustment to the opening balance of equity.

As a result of the adoption, the Company identified that the new standard required the Company to adjust its presentation related to customer trade-ins, accounting for returns reserves and treatment of the amortization of certain bonus and profit-sharing arrangements related to third-party credit card programs. Since the adoption of ASU No. 2014-09, the fair value of customer trade-ins is considered non-cash consideration when determining the transaction price, and therefore classified as revenue rather than its previous classification as a reduction to cost of goods sold. Also, the Company records its sales return reserve within separate refund liability and asset for recovery accounts within other current asset and liabilities, respectively. Further, subsequent amortization of certain signing bonuses and receipt of funds in connection with economic profit sharing arrangements will be recognized as a component of sales rather than as an offset to selling, general and administrative expense. The change in balance classification and change in amortization treatment were immaterial to the Company's consolidated financial statements. See additional required disclosures within Note 3. During the 13 and 39 weeks ended November 3, 2018, an additional \$27.6 million and \$76.0 million, respectively, of revenue was recognized primarily for non-cash consideration from customer trade-ins due to the adoption of ASU No. 2014-09.

New accounting pronouncements to be adopted in future periods

Leases

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

Signet will adopt this guidance in the first quarter of our fiscal year ending February 1, 2020. Signet has established a cross-functional implementation team to evaluate and identify the impact of ASU No. 2016-02 on the Company's

consolidated financial position and results of operations. The Company currently anticipates using the additional transition method provided for in ASU No. 2018-11, "Leases (Topic 842): Targeted Improvements" which permits the Company as of the effective date of ASU No. 2016-02 to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Additionally, the Company intends to utilize the practical expedient relief package, as well as the short-term leases and portfolio approach practical expedients. The Company is currently working on implementing software to meet the new reporting requirements, as well as identifying potential changes to its business processes and controls to support adoption of the new guidance. While the Company is unable to quantify the impact of adoption at this time, the Company anticipates adoption of ASU No. 2016-02 to result in a significant increase in lease-related assets and liabilities on the Company's consolidated balance sheet. As of February 3, 2018, the aggregate undiscounted value of the Company's operating lease commitments was approximately \$2.8 billion, which were primarily related to properties, machinery and vehicles.

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The Company is also currently evaluating the impact on its financial statements of the following ASUs:

Standard	Description
ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, issued August 2017.	Expands the types of risk management strategies eligible for hedge accounting, refines the documentation and effectiveness assessment requirements and modifies the presentation and disclosure requirements for hedge accounting activities. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, with early adoption permitted.
ASU No. 2018-13, Fair Value Measurements (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, issued August 2018.	Modifies the disclosure requirements on fair value measurements in Topic 820 and eliminates 'at a minimum' from the phrase 'an entity shall disclose at a minimum' to promote the appropriate exercise of discretion by entities when considering fair value disclosures and to clarify that materiality is an appropriate consideration. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted.
ASU No. 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (Topic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans, issued August 2018.	Modifies the disclosure requirements for employers that sponsor defined benefit pension or other post-retirement plans and clarifies the disclosure requirements regarding projected benefit obligations and accumulated benefit obligations. The ASU is effective for fiscal years ending after December 15, 2020, with early adoption permitted.

3. Revenue recognition

The following tables provide the Company's revenue, disaggregated by major product and channel, for the 13 and 39 weeks ended November 3, 2018 and October 28, 2017:

(in millions)	13 weeks ended November 3, 2018				13 weeks ended October 28, 2017			
	North America	International	Other	Consolidated	North America	International	Other	Consolidated
Sales by product:								
Bridal	\$514.6	\$ 51.9	\$—	\$ 566.5	\$497.3	\$ 59.4	\$—	\$ 556.7
Fashion	332.5	23.6	—	356.1	319.1	19.8	—	338.9
Watches	45.7	41.2	—	86.9	44.9	41.2	—	86.1
Other ⁽¹⁾	171.5	4.6	6.1	182.2	161.0	8.0	6.2	175.2
Total sales	\$1,064.3	\$ 121.3	\$6.1	\$ 1,191.7	\$1,022.3	\$ 128.4	\$6.2	\$ 1,156.9

(in millions)	39 weeks ended November 3, 2018				39 weeks ended October 28, 2017			
	North America	International	Other	Consolidated	North America	International	Other	Consolidated
Sales by product:								
Bridal	\$1,730.2	\$ 159.3	\$—	\$ 1,889.5	\$1,614.6	\$ 165.1	\$—	\$ 1,779.7
Fashion	1,223.4	76.7	—	1,300.1	1,209.9	74.8	—	1,284.7
Watches	156.7	127.1	—	283.8	155.1	121.7	—	276.8
Other ⁽¹⁾	588.5	18.4	12.1	619.0	579.3	21.2	18.2	618.7
Total sales	\$3,698.8	\$ 381.5	\$12.1	\$ 4,092.4	\$3,558.9	\$ 382.8	\$18.2	\$ 3,959.9

(1) Other revenue primarily includes gift, beads and other miscellaneous jewelry sales, repairs, warranty and other miscellaneous non-jewelry sales.

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(in millions)	13 weeks ended November 3, 2018				13 weeks ended October 28, 2017			
	North America	International	Other	Consolidated	North America	International	Other	Consolidated
Sales by channel:								
Store	\$952.1	\$ 108.5	\$—	\$ 1,060.6	\$952.7	\$ 117.3	\$—	\$ 1,070.0
E-commerce ⁽¹⁾	112.2	12.8	—	125.0	69.6	11.1	—	80.7
Other	—	—	6.1	6.1	—	—	6.2	6.2
Total sales	\$1,064.3	\$ 121.3	\$6.1	\$ 1,191.7	\$1,022.3	\$ 128.4	\$6.2	\$ 1,156.9

(in millions)	39 weeks ended November 3, 2018				39 weeks ended October 28, 2017			
	North America	International	Other	Consolidated	North America	International	Other	Consolidated
Sales by channel:								
Store	\$3,316.0	\$ 342.5	\$—	\$ 3,658.5	\$3,347.5	\$ 350.3	\$—	\$ 3,697.8
E-commerce ⁽¹⁾	382.8	39.0	—	421.8	211.4	32.5	—	243.9
Other	—	—	12.1	12.1	—	—	18.2	18.2
Total sales	\$3,698.8	\$ 381.5	\$12.1	\$ 4,092.4	\$3,558.9	\$ 382.8	\$18.2	\$ 3,959.9

North America includes \$52.5 million and \$160.2 million in the 13 and 39 weeks ended November 3, 2018, respectively, from James Allen which was acquired during the third quarter of Fiscal 2018. In the 13 and 39 weeks ended October 28, 2017, North America includes James Allen sales of \$23.7 million for the 47 day period since the date of acquisition. See Note 5 for additional information regarding the acquisition.

For the majority of the Company's transactions, revenue is recognized when there is persuasive evidence of an arrangement, products have been delivered or services have been rendered, the sale price is fixed and determinable, and collectability is reasonably assured. The Company's revenue streams and their respective accounting treatments are discussed below.

Merchandise sales and repairs

Store sales are recognized when the customer receives and pays for the merchandise at the store with cash, in-house customer finance, private label credit card programs, a third-party credit card or a lease purchase option. For online sales shipped to customers, sales are recognized at the estimated time the customer has received the merchandise. Amounts related to shipping and handling that are billed to customers are reflected in sales and the related costs are reflected in cost of sales. Revenues on the sale of merchandise are reported net of anticipated returns and sales tax collected. Returns are estimated based on previous return rates experienced. Any deposits received from a customer for merchandise are deferred and recognized as revenue when the customer receives the merchandise. Revenues derived from providing replacement merchandise on behalf of insurance organizations are recognized upon receipt of the merchandise by the customer. Revenues on repair of merchandise are recognized when the service is complete and the customer collects the merchandise at the store.

Extended service plans and lifetime warranty agreements ("ESP")

The Company recognizes revenue related to ESP sales in proportion to when the expected costs will be incurred. The deferral period for ESP sales is determined from patterns of claims costs, including estimates of future claims costs expected to be incurred. Management reviews the trends in claims to assess whether changes are required to the revenue and cost recognition rates utilized. A significant change in estimates related to the time period or pattern in which warranty-related costs are expected to be incurred could materially impact revenues. All direct costs associated with the sale of these plans are deferred and amortized in proportion to the revenue recognized and disclosed as either other current assets or other assets in the consolidated balance sheets. Unamortized deferred selling costs as of November 3, 2018, February 3, 2018 and October 28, 2017 were as follows:

(in millions)	November 3, 2018	February 3, 2018	October 28, 2017
Deferred ESP selling costs	\$ 30.0	\$ 30.9	\$ 29.3
Other current assets			

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Other assets	87.1	89.5	86.0
Total deferred ESP selling costs	\$ 117.1	\$ 120.4	\$ 115.3

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The North America segment sells ESP, subject to certain conditions, to perform repair work over the life of the product. Revenue from the sale of the lifetime ESP is recognized consistent with the estimated pattern of claim costs expected to be incurred by the Company in connection with performing under the ESP obligations. Lifetime ESP revenue is deferred and recognized over a maximum of 17 years of the sale of the warranty contract. During the third quarter of Fiscal 2019 review of actual claims experience associated with lifetime ESP sold, a shift in claims trends was identified away from the earlier years of the plans. Although claims experience varies between our national banners, thereby resulting in different recognition rates, approximately 55% of revenue is recognized within the first two years on a weighted average basis (February 3, 2018: 58%).

The North America segment sells a Jewelry Replacement Plan (“JRP”). The JRP is designed to protect customers from damage or defects of purchased merchandise for a period of three years. If the purchased merchandise is defective or becomes damaged under normal use in that time period, the item will be replaced. JRP revenue is deferred and recognized on a straight-line basis over the period of expected claims costs.

Signet also sells warranty agreements in the capacity of an agent on behalf of a third-party. The commission that Signet receives from the third-party is recognized at the time of sale less an estimate of cancellations based on historical experience.

Sale vouchers

Certain promotional offers award sale vouchers to customers who make purchases above a certain value, which grant a fixed discount on a future purchase within a stated time frame. The Company accounts for such vouchers by allocating the fair value of the voucher between the initial purchase and the future purchase using the relative-selling-price method. Sale vouchers are not sold on a stand-alone basis. The fair value of the voucher is determined based on the average sales transactions in which the vouchers were issued, when the vouchers are expected to be redeemed and the estimated voucher redemption rate. The fair value allocated to the future purchase is recorded as deferred revenue.

Consignment inventory sales

Sales of consignment inventory are accounted for on a gross sales basis as the Company is the primary obligor providing independent advice, guidance and after-sales service to customers. The products sold from consignment inventory are indistinguishable from other products that are sold to customers and are sold on the same terms. Supplier products are selected at the discretion of the Company. The Company is responsible for determining the selling price, physical security of the products and collections of accounts receivable.

Deferred revenue

Deferred revenue is comprised primarily of ESP and sale voucher promotions and other as follows:

(in millions)	November 3, 2018	February 3, 2018	October 28, 2017
ESP deferred revenue	\$ 892.8	\$ 916.1	\$ 882.8
Voucher promotions and other	32.0	41.4	33.6
Total deferred revenue	\$ 924.8	\$ 957.5	\$ 916.4

Disclosed as:

Current liabilities	\$ 253.1	\$ 288.6	\$ 270.3
Non-current liabilities	671.7	668.9	646.1
Total deferred revenue	\$ 924.8	\$ 957.5	\$ 916.4

(in millions)	13 weeks ended		39 weeks ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
ESP deferred revenue, beginning of period	\$906.6	\$ 902.2	\$916.1	\$ 905.6
Plans sold ⁽¹⁾	72.3	72.9	259.2	266.3
Revenue recognized	(86.1)	(92.3)	(282.5)	(289.1)
ESP deferred revenue, end of period	\$892.8	\$ 882.8	\$892.8	\$ 882.8

⁽¹⁾ Includes impact of foreign exchange translation.

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4. Credit transaction, net

During Fiscal 2018, Signet announced a strategic initiative to outsource its North America private label credit card programs and sell the existing in-house finance receivables. Below is a summary of the transactions the Company has entered into as a result of this strategic initiative:

Fiscal 2018

In October 2017, Signet, through its subsidiary Sterling, completed the sale of the prime-only credit quality portion of Sterling's in-house finance receivable portfolio to Comenity. The following events summarize the credit transaction:

Receivables reclassification: In the second quarter of Fiscal 2018, certain in-house finance receivables that met the criteria for sale to Comenity were reclassified from "held for investment" to "held for sale." Accordingly, the receivables were recorded at the lower of cost (par) or fair value, resulting in the reversal of the related allowance for credit losses of \$20.7 million. This reversal was recorded in credit transaction, net in the condensed consolidated income statements for the 39 weeks ended October 28, 2017.

Proceeds received: In October 2017, the Company received \$960.2 million in cash consideration reflecting the par value of the receivables sold. In addition, the Company recognized a beneficial interest asset of \$10.2 million representing the present value of the cash flows the Company expects to receive under the economic profit sharing agreement related to the receivables sold. The gain upon recognition of the beneficial interest asset was recorded in credit transaction, net in the condensed consolidated income statements for the 13 and 39 weeks ended October 28, 2017.

Expenses: During the 39 weeks ended October 28, 2017, the Company incurred \$28.3 million of transaction-related costs. These costs were recorded in credit transaction, net in the condensed consolidated income statements.

Asset-backed securitization facility termination: In October 2017, the Company terminated the asset-backed securitization facility in order to transfer the receivables free and clear. The asset-backed securitization facility had a principal balance outstanding of \$600.0 million at the time of termination. The payoff was funded through the proceeds received from the par value of receivables sold.

Program agreement: Comenity provides credit to prime-only credit quality customers for an initial term of seven years under the Program Agreement and, unless terminated by either party, additional renewal terms of two years. Under the Program Agreement, Comenity established a program to issue Sterling credit cards to be serviced, marketed and promoted in accordance with the terms of the agreement. Subject to limited exceptions, Comenity is the exclusive issuer of private label credit cards or an installment or other closed end loan product in the United States bearing specified Company trademarks, including "Kay", "Jared" and specified regional brands, but excluding "Zale", during the term of the agreement. The pre-existing arrangement with Comenity for the issuing of Zale credit cards will be unaffected by the execution of the Program Agreement. Upon expiration or termination by either party of the Program Agreement, Sterling retains the option to purchase, or arrange the purchase by a third party of, the program assets from Comenity on terms that are no more onerous to Sterling than those applicable to Comenity under the Purchase Agreement, or in the case of a purchase by a third party, on customary terms. Additionally, the Company received a signing bonus, which may be repayable under certain conditions if the Program Agreement is terminated, and a right to receive future payments related to the performance of the credit program under an economic profit sharing agreement. The Program Agreement contains customary representations, warranties and covenants.

Additionally, Signet and Genesis Financial Solutions ("Genesis") entered into a five-year servicing agreement in October 2017, under which Genesis will provide credit servicing functions for Signet's existing non-prime accounts receivable, as well as future non-prime account originations.

Fiscal 2019

During March 2018, the Company, through its subsidiary Sterling, entered into a definitive agreement with CarVal to sell all eligible non-prime in-house accounts receivable. In May 2018, the Company exercised its option to appoint a minority party, Castllake, to purchase 30% of the eligible receivables sold to CarVal under the Receivables Purchase Agreement. In June 2018, the Company completed the sale of the non-prime in-house accounts receivable at a price expressed as 72% of the par value of the accounts receivable. The purchase price was settled with 95% received as cash upon closing. The remaining 5% of the purchase price was deferred until the second anniversary of the closing date. Final payment of the deferred purchase price is contingent upon the non-prime in-house finance receivable

portfolio achieving a pre-defined yield. The agreement contains customary representations, warranties and covenants. Receivables reclassification: In March 2018, the eligible non-prime in-house accounts receivables that met the criteria for sale were reclassified from "held for investment" to "held for sale" on the condensed consolidated balance sheet. Accordingly, the receivables were recorded at the lower of cost (par) or fair value as of the date of the reclassification with subsequent adjustments to the asset fair value as required through the closing date of the transaction. During the 39 weeks ended November 3, 2018, total valuation losses of \$160.4 million were recorded within credit transaction, net in the condensed consolidated income statement.

Proceeds received: In June 2018, the Company received \$445.5 million in cash consideration for the receivables sold based on the terms of the agreements with CarVal and Castlake described above. The Company also recorded a receivable related to the deferred purchase price payment within other assets and will adjust the asset to fair value in each period of the performance period. See Note 17 for additional information regarding the fair value of deferred purchase price.

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Expenses: During the 13 and 39 weeks ended November 3, 2018, the Company incurred \$0.4 million and \$7.0 million, respectively, of transaction-related costs, which were recorded within credit transaction, net in the condensed consolidated income statement.

In addition, for a five-year term, Signet will remain the issuer of non-prime credit with investment funds managed by CarVal and Castlake purchasing forward receivables at a discount rate determined in accordance with their respective agreements. Signet will hold the newly issued non-prime credit receivables on its balance sheet for two business days prior to selling the receivables to the respective counterparty in accordance with the agreements. Servicing of the non-prime receivables, including operational interfaces and customer servicing, will continue to be provided by Genesis.

5. Acquisition

On September 12, 2017, the Company acquired the outstanding shares of R2Net, the owner of online jewelry retailer JamesAllen.com and Segoma Imaging Technologies. The acquisition rapidly enhanced the Company's digital capabilities and accelerated its OmniChannel strategy, while adding a millennial-focused online retail brand to the Company's portfolio. The Company paid \$331.7 million, net of acquired cash of \$47.3 million, for R2Net.

The transaction was accounted for as a business combination during the third quarter of Fiscal 2018 with R2Net becoming a wholly-owned consolidated subsidiary of Signet. The results of R2Net subsequent to the acquisition date are reported as a component of the results of the North America segment. Pro forma results of operations have not been presented, as the impact on the Company's consolidated financial results was not material.

Under the acquisition method of accounting, the identifiable assets acquired and liabilities assumed are recorded at their estimated fair values on the acquisition date, with the remaining unallocated net purchase price recorded as goodwill. The following table summarizes the fair values identified for the assets acquired and liabilities assumed in the R2Net acquisition as of September 12, 2017:

(in millions)	Fair values
Cash and cash equivalents	\$47.3
Inventories	12.1
Other current assets	9.7
Property, plant and equipment	3.5
Intangible assets:	
Trade names	70.6
Technology-related	4.2
Current liabilities	(42.4)
Deferred tax liabilities	(25.1)
Fair value of net assets acquired	79.9
Goodwill	299.1
Total consideration transferred	\$379.0

During the second quarter of Fiscal 2019, the Company finalized the valuation of net assets acquired. The goodwill generated from the acquisition is primarily attributable to expected synergies and will not be deductible for tax purposes.

6. Segment information

Financial information for each of Signet's reportable segments is presented in the tables below. Signet's chief operating decision maker utilizes sales and operating income, after the elimination of any inter-segment transactions, to determine resource allocations and performance assessment measures. During the first quarter of Fiscal 2019, the Company realigned its organizational structure. The new structure will allow for further integration of operational and product development processes and support growth strategies. In accordance with this organizational change, beginning with quarterly reporting for the 13 weeks ended May 5, 2018, the Company reported three reportable segments as follows: North America, which consists of the legacy Sterling Jewelers and Zale division; International, which consists of the legacy UK Jewelry division; and Other. Signet's sales are derived from the retailing of jewelry, watches, other products and services as generated through the management of its reportable segments.

The North America reportable segment operates across the US and Canada. Its US stores operate nationally in malls and off-mall locations principally as Kay (Kay Jewelers and Kay Jewelers Outlet), Jared (Jared The Galleria Of Jewelry and Jared Vault), Zales (Zales Jewelers and Zales Outlet) and Piercing Pagoda, which operates through mall-based kiosks. Its Canadian stores operate as the Peoples Jewellers store banner. The segment also operates a variety of mall-based regional brands, including Gordon's Jewelers in the US and Mappins in Canada, and the JamesAllen.com website, which was acquired in the R2Net acquisition.

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The International reportable segment operates stores in the UK, Republic of Ireland and Channel Islands. Its stores operate in shopping malls and off-mall locations (i.e. high street) principally as H.Samuel and Ernest Jones. The Other reportable segment consists of all non-reportable segments that are below the quantifiable threshold for separate disclosure as a reportable segment, including subsidiaries involved in the purchasing and conversion of rough diamonds to polished stones and unallocated corporate administrative functions.

(in millions)	13 weeks ended		39 weeks ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
Sales:				
North America segment	\$ 1,064.3	\$ 1,022.3	\$ 3,698.8	\$ 3,558.9
International segment	121.3	128.4	381.5	382.8
Other	6.1	6.2	12.1	18.2
Total sales	\$ 1,191.7	\$ 1,156.9	\$ 4,092.4	\$ 3,959.9

Operating (loss) income:

North America segment ⁽¹⁾	\$(19.5)	\$ 53.8	\$(561.0)	\$ 350.2
International segment ⁽²⁾	(4.4)	(1.7)	(18.1)	(1.9)
Other ⁽³⁾	(24.9)	(46.6)	(102.0)	(91.9)
Total operating (loss) income	\$(48.8)	\$ 5.5	\$(681.1)	\$ 256.4

Operating (loss) income during the 39 weeks ended November 3, 2018 includes \$448.7 million, \$53.7 million and \$160.4 million related to the goodwill and intangible impairments recognized, inventory charges recorded in conjunction with the Company's restructuring activities, and valuation losses related to the sale of eligible non-prime in-house accounts receivable, respectively. See Note 15, Note 7 and Note 4 for additional information.

Operating (loss) income during the 39 weeks ended November 3, 2018 includes \$3.8 million related to inventory charges recorded in conjunction with the Company's restructuring activities. See Note 7 for additional information.

Operating (loss) income during the 13 weeks ended November 3, 2018 includes \$9.5 million and \$0.4 million related to charges recorded in conjunction with the Company's restructuring activities and transaction costs associated with the sale of the non-prime in-house accounts receivable, respectively. Operating (loss) income during the 39 weeks ended November 3, 2018 includes \$41.3 million and \$7.0 million related to charges recorded in conjunction with the Company's restructuring activities, including inventory charges, and transaction costs associated with the sale of the non-prime in-house accounts receivable, respectively. See Note 7 and Note 4 for additional information.

(in millions)	November 3, 2018	February 3, 2018	October 28, 2017
Total assets:			
North America segment	\$ 4,428.6	\$ 5,309.0	\$ 5,284.8
International segment	387.1	420.3	404.8
Other	91.8	110.3	111.1
Total assets	\$ 4,907.5	\$ 5,839.6	\$ 5,800.7

7. Restructuring Plans

Signet Path to Brilliance Plan

During the first quarter of Fiscal 2019, Signet launched a three-year comprehensive transformation plan, the "Signet Path to Brilliance" plan (the "Plan"), to reposition the Company to be a share-gaining, OmniChannel jewelry category leader. The Plan is expected to result in pre-tax charges in the range of \$170 million - \$190 million over the duration of the plan of which \$80 million - \$95 million are expected to be cash charges. In Fiscal 2019, the Company's preliminary estimates for pre-tax charges related to cost reduction activities and inventory charges ranges from \$129 million - \$134 million, of which \$40 million - \$45 million are expected to be cash charges. Signet also expects a net reduction in net selling square footage of 5.0% related to a net reduction in stores in Fiscal 2019.

Restructuring charges of \$9.5 million were recognized in the 13 weeks ended November 3, 2018 primarily related to store closure costs, professional fees for legal and consulting services, and severance related to the Plan. Restructuring charges of \$98.8 million were recognized in the 39 weeks ended November 3, 2018 primarily related to inventory charges associated with discontinued brands and collections, professional fees for legal and consulting services, severance and impairment of information technology assets related to the Plan. No Plan liabilities were recorded as of November 3, 2018.

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Restructuring charges and other Plan related costs are classified in the condensed consolidated income statements as follows:

(in millions)	Income statement location	13 weeks ended		39 weeks ended	
		November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
Inventory charges ⁽¹⁾	Restructuring charges - cost of sales	\$ —	\$ —	—\$ 63.2	\$ —
Other Plan related expenses	Restructuring charges	9.5	—	35.6	—
Total Signet Path to Brilliance Plan expenses		\$ 9.5	\$ —	—\$ 98.8	\$ —

(1) See Note 14 for additional information related to inventory and inventory reserves.

8. Redeemable preferred shares

On October 5, 2016, the Company issued 625,000 shares of Series A Convertible Preference Shares (“preferred shares”) to certain affiliates of Leonard Green & Partners, L.P., (the “Investors”) for an aggregate purchase price of \$625.0 million, or \$1,000 per share (the “Stated Value”) pursuant to the investment agreement dated August 24, 2016. Preferred shareholders are entitled to a cumulative dividend at the rate of 5% per annum, payable quarterly in arrears. Refer to Note 9 for additional discussion of the Company’s dividends on preferred shares.

(in millions, except conversion rate and conversion price)	November 3, 2018	February 3, 2018	October 28, 2017
Conversion rate	11.1190	10.9409	10.7707
Conversion price	\$ 89.9361	—	