Signet Group Services US Inc.(Q4 2023 Earnings)

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Corporate Speakers:

- Vince Ciccolini; Signet Group Services; SVP, Finance & CAO
- Gina Drosos; Signet Group Services; CEO
- Joan Hilson; Signet Group Services; CFO & CSO

Participants:

- Lorraine Hutchinson; BofA; Analyst
- Ike Boruchow; Wells Fargo; Analyst;
- Jim Sanderson; Northcoast Research; Analyst

PRESENTATION

Operator^ Hello everyone. Welcome to the Signet Jewelers' Fourth Quarter Fiscal 2023 Earnings Call. (Operator Instructions)

I'll now hand you to your host Vince Ciccolini, Senior Vice President Finance and Chief Accounting Officer to begin.

Please go ahead.

Vince Ciccolini^ Good morning. Welcome to our fourth quarter earnings conference call.
On the call today are Signet’s CEO, Gina Drosos; and Chief Financial, Strategy and Services Officer, Joan Hilson.

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

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

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

During the call, we will discuss certain non-GAAP financial measures.

For further discussion of the non-GAAP financial measures as well as reconciliations of the non-GAAP financial measures to the most directly comparable GAAP measures,

investors should review the news release we posted on our website at www.signetjewelers.com/investors.

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

Virginia Drosos^ Thanks to all of you for joining us today.

Let me begin by thanking our entire Signet team for delivering on our commitments.Their dedication to our customers and their agility in the face of unrelenting challenges and change, continues to be our most enduring competitive advantage.

Through fiscal '23, our company has been recognized as a great place to work certified company for three years in a row and for the fifth consecutive year, we've been honored as the only specialty retailer included in the Bloomberg Gender Equality Index. I'm grateful to lead such a strong and diverse team.

There's one clear message I want to convey today. Our Signet team delivered in fiscal year '23 and are poised to do it again in fiscal '24. There are three reasons for our confidence. First, Signet is uniquely positioned to grow market share because of our differentiated and broadband portfolio, industry leading connected commerce presence and ability to invest in our competitive advantages consistently and sustainably.

Second, we are confident in our ability to deliver an annual double-digit non-GAAP EBIT margin based on our transformed operating model and the flexibility it creates. And third, our healthy balance sheet and strong cash generation enables us to invest in our business, while also consistently returning meaningful cash to shareholders.

At this time last year, we expected the US jewelry and watch market to be down low to mid-single digits with particular pressure at lower price points, coupled with the difficult year-over-year comps. Added to that, was the volatility created by the war in Ukraine, inflationary shocks, economic turmoil in the UK and a major winter storm occurring in the peak selling period before Christmas. As a result, the category declined to the lowest end of our range.

These were serious headwinds. During three of the highest revenue days of the year, winter storm Elliot caused almost one third of our stores to close or operate at reduced hours and consumers in roughly three quarters of our trade areas were under a travel advisory warning. For perspective, these days are eight times more valuable than an average shopping day in January, for example, in a way that is unique to jewelry.

A critical consumer segment for our category at holiday is the late inspiration seeker who typically spends more than other consumer segments and buys gifts in person for their significant other in the last days before Christmas. Many of these shoppers delayed their purchases as long as possible this year with the storm disrupting their normal behavior at a critical time.

But our team pivoted quickly in the face of all these challenges, enabling us to deliver our commitments and provide strong returns to shareholders. This is a testament to our culture of agility and innovation, the flexibility we've created in our operating model and to our financial liquidity. We've created both the culture and the capabilities to adjust as market conditions require.

For fiscal '23, we estimate we again outpaced category growth and gained 40 basis points of market share driving our share to 9.7%. We delivered $7.8 billion of revenue up slightly versus fiscal '22 and an annual EBIT margin of 10.8% despite a negative 6.1% sales comp.

We also executed well on our capital priorities, which are to first, invest in growth through organic investments and M&A; second, optimize our capital structure and maintain a leverage ratio less than 2.75 times EBITDAR and third, return cash to shareholders through share repurchases and dividends in line with our commitment to be a dividend growth company.

We allocated more than $1 billion of capital in fiscal '23 to achieve these priorities. Specifically, this included $210 million of CapEx, $426 million of share repurchases, $390 million for the cash acquisition of Blue Nile and $37 million to shareholders in the form of common dividends, all while maintaining a two times leverage ratio that is well below our stated goal.

Our strong liquidity position allowed for these investments and shareholder returns. Based on our confidence in our operating performance and cash flow, we are raising the dividend to $0.23 per share on a quarterly basis and are increasing our multi-year share repurchase program by $263 million for a total authorization of $775 million.
For the fourth quarter, revenue came in at $2.7 billion, down 5.2% or down 9.1% comp. Blue Nile contributed to our total growth and performed ahead of sales and profit expectations in its first full quarter as part of our portfolio. It was slightly accretive to the quarter.

We continue to see strength at higher price points overall and the strength of our fashion assortment continues, helping to partially offset the expected decline in bridal. Importantly, we saw some recovery post-holiday and we had one of our strongest Januarys in Signet history.

As we look ahead to fiscal '24, we believe the jewelry industry will continue to be pressured by a combination of macroeconomic and industry-specific bridal dynamics. We forecast the jewelry industry to be down mid-single digits this year.

Given this, we expect to deliver top line results that are flat to down low single digits and believe we are well-positioned to continue gaining market share. Despite the anticipated economic and industry headwinds, we also believe our strengthened operating model will continue to deliver annual double-digit operating margins, and we expect to maintain our

approach to capital allocation, investing to widen our competitive advantages and deliver strong returns to shareholders.

I want to comment briefly on bridal, which has been temporarily impacted by COVID. The jewelry industry's bridal segment is composed of two distinct parts, weddings and engagements. After a decline during COVID fiscal '23 was the year of the wedding, a 40-year high. Having anticipated this, Signet delivered strong growth in wedding bands and bridal jewelry.

Meanwhile, engagements held flat during COVID at pre pandemic levels, but declined low double digits in fiscal '23 and will again decline low double digits in fiscal '24. We expect fiscal '24 to be the trough of engagements, with fiscal '25, seeing a return to growth and fiscal '26 returning to normalized levels.

Supply these shifts, it's temporary and COVID driven. We have rich proprietary data on couple's behavior engagements typically occur approximately three years after couples begin dating. COVID had a meaningful impact on dating, delaying the formation of new relationships because of the lack of in-person activities for the majority of 2020.

So as we begin to lap that three-year period since COVID began, we expect engagements and engagement ring sales to start recovering toward the end of fiscal '24 and continue rebounding in fiscal '25 and '26.

The important point is this, bridal jewelry is a great business to be in. Absent COVID, it has been, and we believe will be again, a very steady business with roughly 2.8 million engagements and 2.2 million weddings each year. It is the financial and emotional point of market entry to our category and the opportunity to build relationships and trust that drive lifetime value. With our leadership position in this important segment, Signet is well-positioned to take full advantage of the engagement recovery as it happens both to grow sales and gain market share.

In fiscal '24, we will continue to widen the mode of competitive advantages that we've built around our business in three interdependent ways. First, we're continuing to differentiate our banners with improved in-store experiences, including new store concept pilots and where appropriate, higher price point assortments. As we cast our net wider, covering more customer demographics, we have higher potential to grow market share. Second, we are continuing to strengthen our capabilities to accelerate new customer acquisition, to increase repeat purchases, to drive higher transaction values and to improve the increasing sophistication of our supply chain. Third, we're growing the value of our lifetime customer relationships by strengthening our service offerings through warranty programs, repair services, piercing services, and our new loyalty program. Let's take a closer look at each of these efforts.

First, we're continuing to differentiate our banners. Given our breadth, we're able to serve accessible luxury customers, digitally native customers and value conscious customers in a scaled way that no other company in our industry can. We have clarified our banner

value propositions significantly reduced overlap and created the flexibility to lean into trends to best meet changing customer's needs and economic conditions.

For example, over the past several years, we've successfully teared up our product mix to drive penetration at higher price points and to move our customers up the value chain where appropriate within each banner. Signet's average transaction value is up over 30% as a result with higher price points also resulting in higher service plan attachment.
In addition, in anticipation of some cyclicality in the bridal segment, we heightened focus on sentimental gifting and self-purchase occasion, resulting in fashion driving nearly 36% growth since pre-pandemic. These two strategic actions helped us to partially offset the double-digit decline in engagements in FY '23.

The next way we're differentiating our banners is by optimizing our store footprint. We've aggressively closed underperforming doors over 1,000 of them over the past six years, layering in technology to enhance the connected commerce experience and leveraging data to provide highly personalized service.

In fact, our sales per square foot productivity has improved nearly 50% since the beginning of our transformation. In fiscal '24, we expect to invest more than $100 million in our fleet to showcase our banner's unique differentiators. This includes expansion of new stores with proven formats in key markets, continued repositioning or closing of low performing stores, important sustainability investments like LED lighting and modern HVAC and cosmetic upgrades in key markets to bring more doors to brand standard and deliver seamless banner experiences across channels.

Here are a few examples that I'm especially excited about. We will be piloting new accessible luxury Jared concepts as we continue to shift to higher price points along with additional selling features, offerings, and technology. We are accelerating diamonds direct growth, leveraging Signet scale to double our pace of store openings and give us more exposure to this highly efficient mega store model.

And we are opening a number of new KAY modular concepts, which require lower inventory and build-out costs, and delivered a very attractive return in our pilot.
Importantly, fiscal 24 is also a year of marketing transformation. Marketing has been a competitive advantage for Signet for some time, given our scale and ability to build national brand recognition, coupled with local marketing spend.

With our new CDP coming online in fiscal '24, our marketing will become increasingly personalized. This advanced database and localized approach is important because we are seeing as much as a 40% increase in marketing efficiency when we can identify a customer in social media, present them with the right item based on what we know about their needs, and then send them directly to a nearby store to complete the transaction.

Personalization is also an important theme for product in fiscal '24. Customers have a broad mindset when they think about custom jewelry. For some, it's simple like engraving or tailored sizing. For others, it's configuring a piece from a set of options with

a consultant in the store or virtually. For example, KAY and Zales will have more than 25 different configurators, giving our jewelry consultants and customers the ability to mix and match, cut, quality and finish, and a fast growing segment wants to combine and modify pieces or design a custom piece entirely from scratch, even from a hand-drawn sketch that we transform into a beautiful bespoke piece of jewelry.

High-touch in-store events are a great way to co-create custom jewelry and can be uniquely shaped by each banner's differentiators. We generated nearly $100 million through our pilot events in fiscal '23, and we see meaningful upside as we expand them across the portfolio. We are under-indexed in important areas of product personalization, leaving us plenty of room to grow with this trend.

In fact, our proprietary research indicates that this is a $700 million growth opportunity across Signet, making it an investment priority for us this year and beyond.

The next way we're widening our moat is by continuing to invest in our operating model, including the scale and sophistication of our supply chain. We've been on a journey to both buy product less expensively, leveraging our scale, while also using data to improve our inventory turn and store assortments.

For example, we've vertically integrated within our operations enabling us to remove layers of cost in the system, avoiding the middleman, so to speak, and offering the best value to our customers, despite inflationary and other pressures.

For example, in fiscal '23, we introduced a new sourcing system, which we called The Loupe. This proprietary system gives us far more visibility into component and labor costs across our banners and the ability to break apart, analyze and act on the components of product costs.

In addition, machine learning and AI are driving increased efficiency in inventory costing and pricing, moving us from a sequential test and react approach to a best-in-class data-driven analytical model for both price and promotion. We're investing in these capabilities because they are already unlocking significant margin benefits.

One point I want to underscore is that virtually all of the capabilities that I've referenced here and many others are fueled by the investments we've made in digital technology and data analytics. Since forming our digital organization four years ago and ramping up our transformational investments over the past two years, we've more than doubled the return on our investments.

We continue to make very meaningful progress across digital. Fiscal '23 was the best Cyber Monday in Signet history with traffic up 18% and an 11% increase in demand revenue versus last year, and we're seeing improvements across nearly all our digital touchpoints. More customers are adding ESAs to their orders up 12% versus year ago in Q4. Loyalty, digital enrolment was up 2.9 times in Q4 compared to Q3. Two way SMS now represents 20% of digital sales and support contacts, growing fast as a channel of

choice, and 40% of customers who engage our virtual jewelry consultants, ultimately purchase in store. In total, digital as a percent of overall sales is almost four times pre-transformation levels.

Our connected commerce presence is a driving force behind our growth, maximizing the enormous potential of our team, and we will continue to invest in this strength as a critical competitive advantage.

The third way we're extending our advantages is by continuing to invest in our team and our culture. We know that our team members continue to be inspired by Signet's purpose and are confident in our strategy, which drives our performance and has also helped improve retention by four points to 80% in the past year.

Since the beginning of our transformation, we've seen a 15 point jump in the organization's belief in our growth strategy, and we've seen a nearly 30 point increase in our team's connection to our purpose of inspiring love. We're building on our strong engagement scores by investing in our team's growth as retail leaders through advanced learning and development. We call it brilliant university.

This growth-focused training improves our customer experiences, drives execution and agility, and enables performance and career growth for every team member who participates in the program. This past year, the average Signet team member visited Brilliant University 23 times, completed nearly 10 courses and virtual classes, and consumed 12 hours of training content.

Usage of our training and development offerings increased 14% last year compared to the prior year with 15% more overall course completions and a 76% increase in instructor-led training in fiscal '23 versus the year before. In total, more than 29,000 team members completed more than 650,000 hours of training and development in fiscal '23. Our team members are highly motivated to learn and excel, and we are continuing to add more offerings to develop leadership at all levels across the company.

The key point is that we have achieved a cultural transformation at Signet and created an environment that is dedicated to ongoing growth, galvanized by our authentic sense of purpose. By investing in our strategic choices and capabilities, we are creating a wider moat of competitive advantages year after year, and we're able to continue fueling this growth through revenue generation and ongoing cost discipline that will deliver more than $100 million in cost savings in fiscal '24.

On that note, I'll hand it over to Joan.

Joan Hilson^ Thanks, Gina, and good morning, everyone. Our key message today is clear. In fiscal '23, we delivered on our stated commitment of a double-digit annual non-GAAP operating margin or 10.8% on a negative comp of 6.1%. We delivered a consistent inventory turn of 1.4 times, and we maintained a two times leverage ratio, even with the acquisition of Blue Nile and cash returned to shareholders.

Our performance reflects our commitment to disciplined capital allocation an inventory strategy that enables us to respond to market dynamics and a gated spending practice that maximizes returns on invested capital. We are confident in our ability to deliver our commitments again this year because our strategies and our operating model are working as designed, even when faced with the challenging headwinds that we expect in fiscal '24. For the fourth quarter, we delivered total sales of $2.66 billion, a decrease of 5.2% from last year, and a down comp of 9.1%. This includes a two to three point negative impact related to severe weather on Signet's largest shopping days of the year, along with labor strikes and volatility in the UK economy. Services posted 4% revenue growth based on the success of our warranty program and service bundles, which as you'll remember, we rolled out over the summer.

In addition, Blue Nile delivered sales ahead of expectations and was slightly accretive in the fourth quarter. As a reminder, we expect more significant synergies over the summer of fiscal '24 as the integration is fully completed.

During the quarter, bridal declined on the expected engagement headwinds while fashion had a sequential improvement throughout the quarter on strength at higher price points. Coming into the quarter, we expected that engagements would be down low double digits based on the consumer insights work that our teams have done. So we pivoted appropriately moving our assortment at the higher price points across our banners, value engineering products at the more value sensitive tiers and refining our marketing and labor approach to capture share.

By leveraging the rich data we have, our team began tracking consumer behavior in time-based segments. Last minute customers, late in the year engagements and post-holiday self-purchasing. We adjusted as needed to appeal to those customers at precisely the time they needed us most.

While we knew the overall trend was negative, we still expected the week between Christmas and New Years to be an important period for engagement and other shopping. We also think of that period after Christmas and New Year's, January 2nd through Martin Luther King Day as the self-purchases holiday, which includes the redemption of gift cards.

Our plan allowed us to partially recover from the storm by having marketing already in place during these key windows. For example, we made it easy to exchange gifts and helped customers purchase gifts for others that they weren't able to get to in time for Christmas.

The net result of all of this activity was that we were able to deliver within our guidance despite the storm and post a record high January for Signet with only slightly elevated promotional activity to effectively manage our inventory position.

Average transaction value in North America was up 3.9% in the fourth quarter and 11.2% for the year, reflecting both the shift in our portfolio towards accessible luxury and a tearing up of assortments within each banner where appropriate. As Gina mentioned, the anticipated decline in bridal impacted ATV in the quarter, as did a more normalized mix of banter in our portfolio.

Compared to pre-pandemic levels, sales per square foot were up 35% in the quarter and 40% for the year, demonstrating the strength of our connected commerce presence, our data analytics capabilities, and our optimized fleet.

Now, turning to gross margin, non-GAAP gross margin in the quarter was 41.6%, up 40 basis points compared to last year. This improvement reflects the expected dilution of Blue Nile, which was more than offset by a 100 basis point merchandise margin expansion in our core businesses and growth and services.

Sourcing is also a margin driver as Gina mentioned earlier. We expect to capture nearly $20 million in sourcing savings in fiscal '24 reflecting the benefit of investments in our proprietary sourcing model. Core inventory was flat compared to last year, excluding acquisitions. Compared to pre-pandemic levels, inventory is down $485 million or 21% and down 8% with acquisitions. Clearance and sell down are relatively flat compared to last year and down 12% compared to pre-pandemic levels in our core banners.

Non-GAAP SG&A was approximately $695 million or 26% of sales leveraging slightly year over year on a high single digit negative comp and leverage 340 basis points compared to fiscal '20. This is due in part to incentive compensation, but is also a good example of the agility that is built into our operating system. We have a gated approach to spending and a flexible labor productivity model. This was effective in Q4 and throughout the year.

In fiscal '23, we took $96 million of cost savings out of the operating model, in anticipation of volatile market conditions and delivered leverage on a down 6.1% comp. This strategy is intentional. We are fueling investment in critical areas as we continue to strengthen our competitive advantages.

Fourth quarter non-GAAP operating income of $405 million was slightly down from $411 million last year, and is a 15.2% margin, a 60 basis point improvement from last year. Non-GAAP operating income excluded $35.2 million in charges related to asset impairments and non-recurring litigation, as well as acquisition and integration charges related to Blue Nile. Non-GAAP diluted EPS of $5.52 is up from $5.01 in Q4 of fiscal '22. For the year, non-GAAP diluted EPS of $11.80 was down from $12.28 in fiscal '22.

Turning to the balance sheet, we had another positive year with $659 million of free cash flow, resulting in $1.2 billion in cash on hand and $2.6 billion in overall liquidity at year end. Further, we were able to maintain a strong DPO due to continued terms management. Our debt leverage ratio of two times EBITDAR is down nearly half from pre-pandemic levels and well below our stated goal of 2.75 times.

Looking forward, we expect capital investments of up to $200 million for fiscal '24. Roughly half will go to investments in our fleet, with the balance being invested in digital and technology investments as well as other critical capabilities. We will focus on marketing transformation and personalized communication, next-gen automation and demand planning in our supply chain and digital features that drive e-commerce conversion.

There's one important point that I want to make regarding capital allocation. Our strong cash position and disciplined capital management enables us to generate free cash flow that funds critical investments even during a slower economy. This ensures that we'll have the capability we need to win with customers and to grow share as economic conditions improve. This is a meaningful advantage. We've created a cash generation engine that enables us to invest when others cannot. We will continue to invest and return cash to shareholders despite challenging market and economic conditions.

I'll turn to guidance shortly, but first I want to talk about the ongoing potential we see in our services business. Services are a big piece of the jewelry ownership cycle and a key driver of lifetime value. Service customers are 78% more likely to return for a repeat purchase and repeat service customers have a three times higher spend than other customers. Every additional 1% of repeat services customers is worth $100 million in incremental revenue to Signet.

We've made meaningful progress in this business growing revenue by roughly $150 million over the past three years. We are building awareness of our services offerings by mobilizing and training our store teams, amplifying marketing, and by bringing even sharper insights through data analytics into the role that services play in our customer's jewelry ownership experience.

For instance, we've really come to understand how much anxiety some people have when they place a piece of jewelry that they treasure into the hands of someone else for repair. We've acted on that understanding by making that process much more transparent. With online customer repair trackers, for example, customer usage of this tracker has increased by 29 times since we expanded it across all banners, and we know that repair customers checked the tracker three times on average during the course of a repair, all of which are further opportunities to connect and communicate.

We're also working with strategic partners on tracking technology innovation to increase transportation visibility throughout our network. In addition, we know that our warranty program, our largest services business, provides peace of mind for engagement rings, wedding bands, and other sentimental pieces that customers think of as their forever jewelry. We are communicating peace of mind as a key benefit of repair along with the quality of a repair itself.

Another example is our Vault Rewards loyalty program. Loyalty members generate 55% higher average transaction rates than non-members, but that's not their only value. They

are also enabling our personalization efforts. The Vault Rewards program enables us to identify and get to know our customers with increasing precision, who they are, how they like to shop with us, where we exceed their expectations, and where we have opportunity. We've launched Vault Rewards in Jared, KAY and Zales and already have roughly two million members. We expect to reach approximately four million vault rewards members by the end of fiscal '24 as we realize the full year effect of the KAY and Zales programs. In total, we expect the enhancements we're making across services will generate more than $100 million in incremental revenue this fiscal year, putting us on track to build services into a billion dollar business within two years, and to continue growing in a range of mid to high single digits.

Now, let me discuss our full year guidance for fiscal '24. Guidance reflects top line performance that we believe will outpace the market while also delivering an annual double digit operating margin. We expect the US jewelry industry to be down mid-single digits in fiscal '24. As Gina mentioned earlier, we expect headwinds to continue in engagements with recovery beginning later this year.

In addition, with the slowing economy and continued inflationary pressures, we do not expect to see a rebound in the lower price point consumer and will continue to manage our assortment and marketing accordingly.

With this in mind, we expect full year revenue in the range of $7.67 billion to $7.84 billion and non-GAAP EBIT of $765 million to $800 million or 10.2% on the high end. This assumes over $100 million in cost savings, the completion of the Blue Nile integration in the third quarter, provision for incentive compensation back to normalized levels and benefits from investments and improved capabilities.

We expect non-GAAP EPS in the range of $11.07 to $11.59, which includes share repurchase activity through March 15. As a reminder, our EPS guidance does not include the impact of further share repurchase activity, tax discrete items, and any changes in current tax laws. It also includes the dilutive effect of the 8.1 million preferred shares. Now, turning to the first quarter, we expect revenue in the range of $1.62 billion to $1.65 billion and non-GAAP EBIT of $97 million to $108 million or 6.5% on the high end. This includes the shift in Mother's Day from the first quarter into the second quarter, which we estimate to be in the range of $40 million to $50 million of revenue. This also includes the continuation of the engagement trends we saw in Q4.

Recall we're lapping first quarter top line growth of 8.9% last year, which was the highest quarterly performance in fiscal '23, and included the remaining impact of stimulus spending in the first part of the quarter last year.

Our Q1 gross margin will face a drag of roughly 100 basis points of deleverage related to rent expense with a similar level of impact on SG&A from investment spending and our digitally native banners. Our digitally native banners, James Allen and Blue Nile will remain a margin headwind until Q3 when we expect meaningful accretion from this business.

The underlying point here is that we believe we are poised to continue growing market share and cementing our competitive advantages because our strategies and operating model are working precisely as we've designed them to do. We're delivering consistently in a range of environments because we're able to leverage our capabilities and flexibility to adjust as market conditions require.

I want to thank our Signet team for delivering on our commitments despite a highly challenging environment. I'm very proud to work by their side.

With that, we're happy to take your questions.

QUESTIONS AND ANSWERS

Operator^ (Operator instructions) Our first question for today comes from Lorraine Hutchinson from Bank of America.

Lorraine Hutchinson^ Thanks. Good morning. I just wanted to understand the cadence of the guidance. Looks like a tougher first quarter and the Mother's Day shift commentary was helpful, but with a nice recovery as we move through the year in both sales and margins, so can you talk about some of the factors at play in the guidance that would get you there?

Joan Hilson^ Yes, thanks, Lorraine, for the question. Good morning. As we mentioned, we saw in the -- for the Q1 guidance, we're assuming the trend in bridal for Q4 continues, as well as the wrap effect of stimulus, which we estimate to be two to three points in the quarter, and Mother's Day selling shifts really meaning the build of Mother's Day selling moves more into the second quarter, and that's roughly a three point impact. And then just this whole, lapping all of that last quarter, last year for the first quarter was as an 8.9% high mark for last year. That sums up the impact for Q1.

If we look at the way that, we think about the full year revenue guidance, we expect bridal headwinds to begin to moderate later in the year. Gina mentioned more towards holiday period, which is the peak period for bridal engagements and when we begin to see recovery. So that's a critical point to consider as you're thinking about the year. Services as well is a key component for us as we look throughout the balance of the year as we wrap services impact for bundles as well as our warranty programs, which we've added additional designs to that program, which will serve as a non-com opportunity for us.

So as we look to the year bridal, just to summarize bridal abates towards the fourth quarter, we expect to see we're anticipating -- we're anniversary a high comp in the prior year, in the first quarter, and the shift of the Mother's Day. So second quarter should see an improvement and then continue to drive that throughout the year.

Lorraine Hutchinson^ Thank you. And then how much pressure will you face with the rebuild of incentive comp and how should we think about SG&A as we move through the year?

Joan Hilson^ Yes. What I said in my remarks is that there's, we had pressure in the full year restoring incentive compensation throughout the year, not only for support center, but also for our field teams as against this performance that we're forecasting. So without we're just positioning it to return to normalized levels.

Another thing to think about there is we have a $100 million of cost savings that we've included in our guidance and that's helping us to offset some of that incentive compensation as well as the wrap of investments and the continued investments that I mentioned in my remarks throughout the year.

So cost savings, it's as you've seen in our history, we've saved over $500 million of cost when you look back over time and this is how we've been able to fund the investments and manage some of the ups and downs in the SG&A line. And then just as a reminder the Blue Nile integration is expected to be completed, by the third quarter. And when that's fully integrated, we expect to be able to get the benefit of this synergies that we saw in our acquisition model and we're optimistic about that.

Operator^ Our next question for today comes from Ike Boruchow from Wells Fargo.

Ike Boruchow^ Hi. Thanks. Good morning everyone. Couple questions. Gina, just a clarification for from you, I think you said earlier on the call you expect the engagement trends, which you gave us a lot of color on to inflect in late 2024. Was that fiscal year '24, meaning later this year, or are you talking about calendar '24 when, when you made those comments about the industry?

Virginia Drosos^ Yes. Hi, Ike. All fiscal year-related. So we expect this to be the trough of the year of engagements. They were down a low double digits in our fiscal '23, so last year, calendar '22. We expect them to be down low double digits again in our fiscal '24, but begin to moderate toward the end of this year, and then we'll see an uptick in our fiscal '25 with a return to normal levels of engagements by FY '26. So this has really been -- it's an important part of our strategy and why we're continuing to invest, so that we are ready to be able to take full advantage of those inflection points.

Ike Boruchow^ Got it. And should we assume that your or the organic comps in the business likely remain negative up until the point of that category in inflecting back positively?

Virginia Drosos^ Yes. Remember, bridal represents roughly 50% of our business. We love that. It's a great business to be in and absent COVID, it's a very steady business to be in. It's the point of market entry creates relationships, lifetime value, the potential for services, all of that. But we're just seeing a temporary blip from COVID.

Ike Boruchow^ Okay. Great. And then just one last one for Joan, just on the accretion of Nile, I think you mentioned it should inflect pretty meaningfully in the third quarter. Can you -- can you just give us maybe a little bit more detail, what exactly is driving that? What are the synergies that you're expecting and if there's any way you could share what kind of revenue or EBIT or margin you're planning for Nile this year that might help us? Thank you.

Joan Hilson^ Thanks Ike for the synergies. When we, you think about replatforming the business, you're taking overhead out as we, integrated into the James Allen platform. So that's the biggest piece of the synergy that we see. That's then creating cost savings for us as well as we see the opportunity for continued margin expansion within gross margin as we refine the assortment and integrate into Signet's buying practices would be the two key points that I would call out for you.

Operator^ (Operator instructions) Our next question comes from Jim Sanderson of Northcoast Research. Jim, your line is now open.

Jim Sanderson^ Hi, thanks for the question. Just wanted to follow up on Blue Nile a little bit. How do you look at the actual sales retention post-acquisition? I think at one point, Blue Nile was generating about $560 million in revenue, and I'm just looking at the difference in fourth quarter revenue growth and comp growth, and that differential suggests to me that you're capturing about 60% to 70% of that level. Is that the right way to look at that and is there any reason why that asset lost sales over the past couple years?

Joan Hilson^ So when we think of Blue Nile in the top line. We really are thinking about Blue Nile and James Allen as a combined entity of digitally native banners. And as we're working through Jim, that integration and balancing, lab created diamonds, fine jewelry fashion jewelry along with bridal jewelry, we are continuing to refine the assortment and continuing to understand the differences and the opportunities as we look at the two commercial banners.

So, we will continue to navigate that. Refine it as we go through FY '24, and certainly we are believing in the optimization of the two banners together are stronger than individually as we optimize the back end of the operation as well.

Jim Sanderson^ Okay. And just a quick follow up on margin contribution for Blue Nile, combined, should we expect the segment EBIT margin to be contribute to a stronger EBIT margin in 2024? That's if you take into account the overhead synergies and gross profit margin that might be a little bit weaker?

Joan Hilson^ Yes. Well, I said in the guidance, Jim, is that yes, the first half will continue to feel the pressure roughly a 100 basis points related to the impact of the digitally native banners. And that can, will then begins to moderate as we move through the back half of the year triggered by the full integration.

Jim Sanderson^ Understood. I just wanted one last quick question on store count. I think that you had a slight decline at international. Is your square footage in 2024 relatively stable, or how do we look at that on a year of year basis?

Joan Hilson^ Well, we're opening and closing stores, so I would say yes, relatively stable based on how we're seeing the business today.

Operator^ We currently have no further questions.

So I'll hand back to the speaker team for any further remarks.

Virginia Drosos^ Yes. Thank you, everyone. Our key message today is simple and clear. We delivered in fiscal '23, and we believe we'll do it again this year for all the reasons that we've outlined today. Signet is a transformed company with sustainable and growing competitive advantages, and our financial strength allows us to continue smartly investing to widen those advantages to grow market share while consistently returning meaningful value to our shareholders.

We're eager to go deeper into the ways we've transformed our business and organization. So with that in mind, I'm pleased to invite you to join us at the New York Stock Exchange for our next Investor Day on April 18. I'll be joined by Joan, Jamie, and several other Signet lead team members to take you through our strategies and capabilities and many others will be on hand to meet and talk with you as well.

As we continue through fiscal '24 and beyond, we remain focused on our priorities, growing share, delivering double-digit EBIT margin, and maintaining our disciplined capital allocation to invest in our business and deliver enhanced shareholder return. Thank you.

Operator^ Thank you for joining today's call. You may now disconnect your lines.