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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning and welcome to Acuity Brands' fiscal 2024 fourth quarter earnings call at this time. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to Charlotte McLaughlin, Vice President of Investor relations. Charlotte, please go ahead.

Charlotte Mclaughlin - Acuity Brands Inc - Vice President of Investor Relations

Thank you, operator. Good morning and welcome to the Acuity Brands' fiscal 2024 fourth quarter and full year earnings call. On the call with me this morning are Neil Ashe, our Chairman, President, and Chief Executive Officer; and Karen Holcom, our Senior Vice President and Chief Financial Officer. Today's call will include updates on our strategic progress and on our fiscal 2024 fourth quarter and full year performance. There will be an opportunity for Q&A at the end of this call.

As a reminder, some of our comments today may be forward looking statements. We intend these forward looking statements to be covered by the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995.

As detailed on slide 2 of the accompanying presentation, reconciliations of certain non GAAP financial metrics with their corresponding GAAP measures are available in our 2024 fourth quarter earnings release and supplemental presentation, both of which are available on our investor relations website at www.investors.acuitybrands.com. Thank you for your interest in Acuity Brands. I will now turn the call over to Neil Ashe.

Neil Ashe - Acuity Brands Inc - Chairman of the Board, President, Chief Executive Officer

Thank you Charlotte, and thank you all for joining us this morning. Our fiscal 2024 fourth quarter performance was strong. We grew net sales in both lighting and spaces, delivered margin expansion, and increased earnings per share.

Fiscal 2024 was a successful year of improved operating performance that delivered end user satisfaction and improved financial results. In ABL we grew net sales $11 million, increased our adjusted operating profit by $13 million, and expanded our adjusted operating profit margin to 18%.

These results are being driven by our strategy to increase product vitality, elevate service levels, use technology to improve and differentiate both our products and how we operate the business, and to drive productivity.

In August we announced that we combined our lighting and supply chain organizations under one leader to better align the end-to-end connectivity of our ABL processes. I appointed Sach Sankpal to lead the combined organization. Sach joined us about three years ago in a growth and transformation role. He is a dynamic leader who has the ability to bring the business together in order to accelerate growth and to drive productivity.

This quarter, we continue to further our ongoing product vitality. One of our recent product launches was Holobay by Holophane, a capable and configurable round high bay for use in industrial environments, manufacturing environments and warehouse spaces.

Holobay reinforces Holophane's leadership position in the industrial space by leveraging both existing and new technology to deliver game changing performance. Its innovative thermal management can withstand the most demanding environments. It has the broadest lumen output options on the market, it's 5 pounds to 10 pounds lighter than alternatives, has multiple mounting options, and it's configurable with our nLight controls. This is the biggest technology improvement in over a decade in industrial highways.

Our team has continued to be recognized for innovation and for the value that our products bring to our customers. In the fourth quarter many of our lighting solutions were selected for the 2024 Illuminating Engineering Society Progress Report, which showcases the year's most significant advancements in the art and science of lighting, including Lino by A-Light, the Gotham IVO shallow recess down light, and the Lithonia FRAME, all of which have been highlighted on earnings calls this year.

We additionally won for our cyclone crosswalk, a street light that was designed to maximize pedestrian safety through innovative contrast and vertical illumination. And for the Hydrel Tierra, a compact in-grade fixture that is used in outdoor architectural and landscape lighting, its innovative sealing capabilities allow for maximum structural integrity that ensures long-term use with minimal maintenance.

Now, I'd like to take a step back and recap our achievements this year in the lighting business. Overall, our financial performance was strong and we made progress on our strategy and on our initiatives. We evolved our differentiated product portfolios made to order, design select, and contractor select, to create the most effective way for end users and contractors to get what they need when they need it for their specific projects.

And we invested for future growth, prioritizing new verticals where we have not historically competed or where we are underpenetrated. Notably in the refueling market where we developed a new line of tailored product solutions and in the horticulture vertical where we built a product portfolio to service the horticulture environment through organic and inorganic product development.

Now, moving on to our Intelligence Spaces Group, which delivered impressive growth and margin performance. Our mission in our Intelligence Spaces business is to make spaces smarter, safer, and greener through a strategy of connecting the edge to the cloud. In spaces, we are focused on increasing our addressable market by expanding where we compete and what we can control.

France was Distech's original market outside of North America. We have an impressive market position as a result of having the most adaptable and capable technology on the market. And not surprisingly, our products were used in many of the facilities in Paris this summer.

In the Aquatic Center, our eclipsed solutions regulated water and energy consumption. Our eclipse controllers played a key role in managing temperature, air quality, and acoustics at the Arena Porte de la Chapelle, which hosted events like gymnastics and badminton.

In the Grand Palais, our controllers enabled nighttime window automation to manage temperature and save energy. And in Maxwell Hall, we demonstrated the modularity of our eclipse solutions. It served the needs of the athletes when the facility was being used as part of the athletes' village. And now it is easily adapted to the requirements of the incoming occupants as the space transforms into offices.

Our Intelligent Spaces business had a very good year. We expanded our addressable market, continued our impressive growth, and increased margins. And now let's look forward. In our lighting, lighting controls business we've demonstrated performance that is clearly differentiated from the rest of the market and we're not done.

We are confident in our ability to grow this business and have a clear growth algorithm to do so. First, as the largest company in the North American lighting industry, we will grow with the market. Second, we will continue to take share.

And third, we will invest for growth by entering new verticals where we have either not historically competed or where we are underpenetrated. Taken together over a long period of time, we believe that our lighting business will grow mid-single digits.

We have also demonstrated that we can improve margins. In fiscal 2020, our adjusted operating profit margin was 15%. And now in fiscal 2024, it has increased to 18%. We are confident that we can continue this trend and believe that we can add around 50 basis points to 100 basis points of adjusted operating profit margin per year in the lighting business. We have made ABL more predictable, repeatable, and scalable.

It is a high quality strategic asset and a core pillar of our company. In our Intelligent Spaces business, we are delivering meaningful outcomes for end users that are powered by disruptive technologies and that generate strong financial results. We are expanding our addressable market, we are growing sales, and we are increasing margins.

Our open edge to cloud solutions currently operate buildings to maximize occupant experience and minimize energy and operational costs and we believe we can do more in the future. We see a future where the data generated from managing a built space, from what happens in a built space, and from who is in a built space comes together in new and unique ways.

Both our organic and inorganic efforts will be focused on continuing to add more disruptive technologies that bring together a new vision of data interoperability to drive end user outcomes. We have a strong pipeline of internal development and small and medium sized acquisitions to satisfy this vision. In conclusion, we are delivering better outcomes for our stakeholders and compounding wealth for our shareholders.

We are continuing to drive improvements in order to make Acuity a much larger and more impactful company in fiscal 2025 and beyond. Now, I'll turn the call over to Karen who will update you on our fourth quarter performance and provide the outlook for fiscal 2025.

Karen Holcom - Acuity Brands Inc - Chief Financial Officer, Senior Vice President

Thank you, Neil, and good morning to everyone on the call. We delivered strong performance in our fourth quarter, Sales in our lighting business grew. We continued to deliver mid-teen sales growth in our spaces business and both businesses delivered impressive margin improvements. We increased our adjusted diluted earnings per share and generated significant full year operating cash flow.

For total AYI, we generated net sales in the fourth quarter of $1 billion which was $22 million or 2% above the prior year as a result of growth in both the lighting and spaces businesses. We continued to deliver year-over-year margin improvement.

During the quarter, our adjusted operating profit was up $16 million from last year and we expanded our adjusted operating profit margin to 17.3% an increase of 120 basis points from the prior year. This increase was largely a result of the significant year-over-year improvement in our gross profit margin driven by product vitality, the management of price and cost, and productivity improvements.

This quarter, we again generated net interest income as a result of the strong cash position on our balance sheet and our adjusted diluted earnings per share of $4.30 increased $0.33 or 8% over the prior year.

In ABL, net sales were $955 million, an increase of $11 million or around 1%. This increase was driven by improvements in the majority of our channels, but was primarily the result of higher net sales in our corporate accounts channel.

Adjusted operating profit increased to $172 million and we delivered adjusted operating profit margin of 18%, a 120 basis point improvement over the prior year. Net sales in Intelligent Spaces for the fourth quarter were $84 million, an increase of 17% as Distech delivered impressive growth driven in part by large data center projects. Adjusted operating profit in Intelligent Spaces was $22 million with the adjusted operating profit margin over 25%.

Now turning to our cash flow performance. In fiscal 2024, we generated $619 million of cash flow from operating activities, a $41 million increase over fiscal 2023. We continue to earn attractive returns on the cash that we have on our balance sheet and ended the year with $846 million of cash.

We allocated capital consistent with our priorities, invested $64 million in capital expenditures, and acquired the assets of Arize Horticulture Lighting. We increased our dividend per share 15% and allocated approximately $89 million to repurchase over 454,000 shares at an average price of $194 per share.

Since the beginning of the fourth quarter of fiscal 2020, we have repurchased approximately 9.5 million shares at an average price of about $145 per share, which was funded by organic cash flow. This amounts to about 24% of the then outstanding shares.

I now want to spend a few minutes on our outlook for 2025. Consistent with our prior practice, we are going to provide annual guidance anchored around net sales and adjusted diluted earnings per share. We will also provide you with certain assumptions, which you can find in the supplemental presentation available on our website after the conclusion of this call.

For full year fiscal 2025, our expectation is that net sales will be within the range of $3.9 billion and $4.1 billion for total AYI. This is based on the assumptions that ABL will deliver low to mid-single digit sales growth, which we anticipate will be more back half weighted in fiscal 2025. And ISG will generate sales growth in the low to mid-teens as we continue to increase our addressable market by expanding where we compete and what we can control. We expect to deliver adjusted diluted earnings per share within the range of $16 to $17.50.

To conclude, we delivered impressive performance in fiscal 2024. We improved margins increased earnings per share and generated strong cash flow from operations. We've allocated capital, effectively investing for future growth in our existing businesses and we finished the year with a very strong balance sheet. We are positioned well to continue to deliver sales and earnings growth in fiscal 2025. Thank you for joining us today. I will now pass you over to the operator to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tim Wojs, Baird.

Tim Wojs - Robert W. Baird & Co. Incorporated - Analyst

Hey guys, good morning, thanks for the time. Maybe if I could just start with one question, Neil, just you know, as you kind of look at the current market conditions, obviously, there's a lot of choppy data points out there. I'm just kind of curious if you can give us an update. Just kind of what you're seeing around quoting, ordering, and release activity in the ABL business.

Neil Ashe - Acuity Brands Inc - Chairman of the Board, President, Chief Executive Officer

Yeah, thanks Tim. So first of all, we feel good about where we're going for fiscal '25. So we're building off of strength. The ABL business returned to growth in the fourth quarter. Our operating performance was very strong.

As we look forward, we're reasonably confident about fiscal year '25. I think, our view is consistent with most of the data that we've seen, which is that calendar year '25 is expected to be pretty strong. So the conditions now are I would say relatively normal, neither extraordinarily good, nor bad on the ABL side. So we're focused there on the growth algorithm, and we feel good about kind of the full ;25 albeit more as Karen said back and loaded.

Tim Wojs - Robert W. Baird & Co. Incorporated - Analyst

Okay. That's helpful. And then maybe just, you know, you guys have built quite a cash pile on the balance sheet at this point, which is a good situation to have, any kind of update and just kind of how you're thinking about the priorities to capital allocation. I noticed you didn't really buy much stock this quarter from a repurchase standpoint. So any kind of just update on kind of how you're thinking about capital allocation and if any significant changes there.

Neil Ashe - Acuity Brands Inc - Chairman of the Board, President, Chief Executive Officer

Karen, do you want to start and then I'll follow up?

Karen Holcom - Acuity Brands Inc - Chief Financial Officer, Senior Vice President

Yeah, sounds good. So Tim, we're really pleased with our cash flow generation this year. We had $555 million of free cash flow, which was $44 million higher than last year. So we've demonstrated that we're capable with our cash flow to satisfy all of our priorities. We've invested in our current businesses for growth. We've got a healthy M&A pipeline, we increased the dividend, and we did repurchase $89 million of shares outstanding.

So on the share repurchases, at the beginning of the year, we did provide you with expectations that we would repurchase about 40 million to 60 million shares this year. So at the midpoint, we bought back about 80% more than we expected to and we did it at an average price of around $194 a share. So we feel good about all of the repurchases this year and how we executed there. And so then I'll let Neil talk more about the M&A pipeline.

Neil Ashe - Acuity Brands Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. And before I do that, Tim I I'll just build on Karen's point. I think the takeaway of our cash generation and balance sheet is that we have the capacity to do it all. We have the capacity to invest for growth in our current businesses, which we've demonstrated through the refueling and horticulture vertical and the continued expansion in ISG.

We have increased our dividend. We've repurchased shares as, as Karen pointed out. And then as we look forward, we believe we have a strong pipeline of opportunity of small and medium sized acquisitions to grow both of our businesses.

Our priority is around is around ISG and we believe that both our organic and inorganic efforts will continue to be directed towards developing and acquiring disruptive technologies that have the opportunity to bring data together in new and interesting ways that deliver end user outcomes. But I think the core takeaway is that we believe with our performance and our balance sheet that we can do it all from a cash perspective.

Operator

Christopher Glynn, Oppenheimer & Company.

Christopher Glynn - Oppenheimer & Co. Inc. - Analyst

Hey, thanks, congratulations on strong results all year. And I was curious for an update on design select, how the reception is going there, and the independent agency adoption to it, any variation of trends across their early adopters or laggards?

Neil Ashe - Acuity Brands Inc - Chairman of the Board, President, Chief Executive Officer

Yeah, thanks, Chris. So big picture, we're really pleased with the way the portfolio segmentation is going. So the contractor select portfolio has performed exceptionally well. We obviously have the made to order portfolio.

And now as we kind of dig in on design select, Sach and I were on the road over the course of the last couple of weeks, we met with distributors and agents and the reaction is universally positive. Their hope for us is that we bring more and more of our product families into the portfolio.

So big picture, it's a lot more effective for each of them to ensure that they're ordering the right things for the projects that they are specking and that our continued increased performance and service levels makes everything better for them, makes them more profitable, makes distributors more profitable, and allows them to choose us.

And so on the agent side there, the reaction has been incredibly positive. Distributors want more of it faster and we're going to continue to methodically turn it out as we meet our internal targets for product vitality and service performance.

Christopher Glynn - Oppenheimer & Co. Inc. - Analyst

That certainly sounds good. And just you mentioned DC projects, data center for the ISG segment and I don't recall you calling that out in the past. So just curious, how much of a driver that vertical is in fiscal '25 anything on win rates pipeline and how that selection process for Distech is rolling around, rolling ahead.

Neil Ashe - Acuity Brands Inc - Chairman of the Board, President, Chief Executive Officer

Yeah, so we obviously had an exceptional quarter on that front last quarter. If we take two steps back on kind of data center control, there's digital control and then there's pneumatic control. We are basically the leader in digital control. So for the scalars who use digital control, we are the choice. And so, so that's what's the driver behind that.

So it's been a part of our business for the last several years. We had a really good quarter this year, obviously that portion of the business will continue to grow both in the US and in some of the markets outside the US.

Christopher Glynn - Oppenheimer & Co. Inc. - Analyst

Thanks. And I'll wrap up with the housekeeping question, $8 million miscellaneous expense, just the context and timing of that.

Karen Holcom - Acuity Brands Inc - Chief Financial Officer, Senior Vice President

Yeah, so the miscellaneous expense, there's a couple of things that fall in there. One is our pension expense, which is pretty consistent quarter over quarter. The big mover this quarter was really around foreign currency movements and that's primarily due to two areas. One is the cash that Distech generates, which is significant.

And so we had some foreign currency movements on the Canadian dollar and then the other would be around our lease liabilities in Mexico and we had some unfavorable movements there. And that's what you saw. So when you look ahead, it really depends on what the FX rates are doing and then we're working to manage our cash effectively.

Operator

Joe O'Dea, Wells Fargo.

Joe O'Dea - Wells Fargo Securities, LLC - Analyst

Hi, good morning, everyone. Thanks for taking my questions. Neil wanted to start just in terms of any additional color tied to your commentary around calendar year 2025 is expected to be pretty strong, any of the contributors there with respect to interest rates or what's been kind of prolonged period of time, with maybe more muted activity and starting to see that shift, but any of the drivers and confidence behind that?

And then related to that when, when you talk about the growth algorithm within lighting and looking at something in the, you know, if it's mid-single digits through the cycle, just how you break that down in terms of market growth, outgrowth, price for some perspective there.

Neil Ashe - Acuity Brands Inc - Chairman of the Board, President, Chief Executive Officer

Yeah, sure. So first on the economy, CEOs are notably terrible economists. So this commentary is worth what you're paying for it. I would say we do a fair amount however of data analysis and our data analysis, trend analysis continues to be consistent, which is that there is a fair amount of activity on the horizon generally.

I'd say, you know, I mentioned Sach and I were traveling with agents and distributors and what they would say is that they are very busy, but projects aren't releasing as consistently or as they will. So in other words, there's stuff building up in the pipeline.

We're obviously going to work through, you know, we were at things like we were in, I'll take one market, for example, we were in Chicago and there's been obviously a significant decrease on the one hand office space that's been put back, on the other hand, a slowdown in warehouse.

But the consumption focusing on warehouse for a second has to turn because they're going to reach a low point in capacity. So these things will work themselves out. And so over the longer term, we feel really good about that.

So then transitioning to the growth algorithm and I'll answer each of your questions. So the first is the -- we're the largest in North America. So obviously, we're going to in some manner, be tied to the performance of the industry. So that's kind of step one.

The second is our performance is clearly differentiated from any other lighting company that we can identify in North America and frankly anywhere else. So we will continue to take share. And third is, despite the fact that we are the largest and we are taking share, there are other verticals within the North American lighting industry where we have been either chosen not to compete or underpenetrated.

So we spend a minute on refueling, for example. And I will focus on that. We literally had no business, zero in refueling as of 12 months ago. We created a new canopy product portfolio that meets the needs of gas stations, and convenience stores, and QSR restaurants. We signed up the largest agent -- independent agent in the network and we are going to prosecute that opportunity. Opportunities like that can be chunky as they add to the portfolio.

So we feel good about the mix of those three things. So we're confident that whatever the lighting industry growth is, we will outgrow it. And then finally, on the strategy on price, so we believe that through our product vitality efforts and through our service, we are delivering more valuable products and services to the industry and we will get paid for that.

So we have a strategic pricing strategy, which allows us to focus on continuing to one, deliver that value to the lighting industry. So they will continue to reap the benefits of that. At the same time, we can continue to earn higher margins. So we feel really good about where ABL is positioned now as we look forward to the next three to five years.

Joe O'Dea - Wells Fargo Securities, LLC - Analyst

I appreciate all the color. And then also just wanted to ask on the East Coast port situation, just any color on your exposure there, your approach to kind of managing the situation. Not sure if there's any sort of buffer inventory that you're looking at and how you think about sort of timeline before it could convert to any challenges for your operating model.

Karen Holcom - Acuity Brands Inc - Chief Financial Officer, Senior Vice President

On the West Coast ports, most of our products come into the West Coast ports. So we do ship a few specific products from the East Coast, but you know, depending on how long it lasts, we feel pretty good about where we are from an inventory position on those specific products, so that customers won't be impacted. There could be some secondary impact as volumes move to the West Coast, but we don't believe we should be materially impacted at this time and are just continuing to monitor the situation.

Operator

(Operator Instructions) Brian Lee, Goldman Sachs & Company.

Brian Lee - Goldman Sachs & Co. LLC - Analyst

Hey guys, good morning. Thanks for taking the questions. I guess first one, just as I think about the different segments and channels, the independent sales network, obviously a big one for you guys, you know, back to growth first time in over a year plus.

Are you seeing a true inflection and trends or maybe kind of speak to the outlook for that business? And, and if you can help bracket what you think growth scenarios look like for that specifically in '25, is that flat, up low, single, mid, single or just trying to get a sense specifically on that part of the business?

Neil Ashe - Acuity Brands Inc - Chairman of the Board, President, Chief Executive Officer

Yeah, Brian, thanks for joining. I would just build on my answer to Joe there. So from a trend perspective, as Karen said, we expect the lighting business generally to be in the low to mid-single digits growth this year, which is more skewed towards calendar year '25.

I will take a minute to outline and emphasize the power of our independent sales network. So I haven't talked about that in a while, but it's worth taking a step back and reflecting on that, you know, it's round number 60% of our lighting business. We have about 80 agents in North America. They have about on average 50 FTE.

So we have 4,000 sales support professionals throughout North America selling our products. We are generally number one in each market in which we compete. They are generally number one in each market they compete, and the symbiotic relationship between them and us is really strong.

So going all the way back to when I first got here and we immediately kind of went into the pandemic and all of the (inaudible) of the global supply chain stuff that followed that. Our agent performance, the performance of the independent sales network has been very consistent.

So they're continuing to perform for us and are an important part of our growth. And as I mentioned, once we've been out on the road talking to them, they're working very hard. They have a lot of activity right now. Projects are a little slow to release, but they will over time. So taken together that you know, kind of they are a contributor, but not the only contributor to our expected continued mid-single digit sales growth over a long period of time on the lighting business.

Brian Lee - Goldman Sachs & Co. LLC - Analyst

Okay. Super helpful and then maybe just question on the gross margins. If I look at the fiscal '25 guidance here, it implies if our numbers are right on gross margin essentially flat on a percentage basis with fiscal '24 where you obviously had very good performance on that metric. So, is it fair to assume the additional margin leverage in fiscal '25 is coming more at the operating level.

And then as we think about that, just maybe contextualize, you know, the long term target for 50 basis points to 100 basis points annually. Is that going to be a split between ongoing gross margin leverage and at the OpEx line or is it more going to be shifting toward kind of leverage on the OpEx line? Like it seems like it could be for '25? Thanks, guys.

Neil Ashe - Acuity Brands Inc - Chairman of the Board, President, Chief Executive Officer

Yeah, thanks for the question. Let me highlight a couple of things on that. First is, it's fair to say that our gross margin performance has been incredibly strong over the last several years and we don't think that that's going to abate.

So the second on the OpEx line is that we have some geographic changes. So for example, as we invest in technology to help power the gross margin improvement, that technology investment shows up in [SDNA] as we now focus on operating profit margin and the combination of those two, we think the 50 basis points to 100 basis points annual target can continue for the foreseeable future. It will be a mix of those two.

So it won't be perfectly linear in any specific period. But we believe that we have opportunities in both areas. We have the opportunity to continue on gross margin expansion to varying degrees in different years. And we believe that we have the opportunity to leverage OpEx as we continue, while we still continue to invest to drive a higher margin.

So taken together, I really wanted to use this opportunity to highlight how powerful our lighting business is. It is clearly a top performer in its industry. We have demonstrated that both we can outgrow the industry and we can continue to expand margins. So it's a strategically valuable industry-leading asset for us for the long term.

Operator

Thank you. And I'm showing no further questions in the queue at this time. I'd like to turn the call back to Neil for any closing remarks.

Neil Ashe - Acuity Brands Inc - Chairman of the Board, President, Chief Executive Officer

Great. Thank you all for joining us today. We're very pleased with the performance in our fiscal 2024. It was incredibly strong. As we look forward to FY25, our lighting business will continue to be the industry leader. That business will grow. We have a clear algorithm to do that. We will continue to expand margins there for the foreseeable future.

And we're excited about the opportunities in our spaces group as we continue to deliver disruptive technologies that stitch data together in new and interesting ways to drive end user outcomes. We feel like we can continue to expand what we can control and where we can compete and we're excited about that possibility.

And finally, all of that delivers incredibly strong cash generation for us to use capital allocation to drive value for stakeholders and compound wealth for our shareholders. So we're looking forward to the year ahead and the year after that and the year after that. So thank you for being with us this morning and we'll talk to you again in another quarter.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.