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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning and welcome to the Acuity Brands' fiscal 2025 first-quarter earnings call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to turn 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 2025 first-quarter 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 2025 first-quarter 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 2025 first-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 2025 first-quarter performance was solid. We delivered sales growth, expanded our adjusted operating profit, and adjusted operating profit margin, and increased our adjusted diluted earnings per share. We're also pleased to welcome QSC to Acuity having successfully closed the acquisition last week.

Now turning to Acuity Brands Lighting, we continue to perform well delivering sales growth in the first quarter. Our performance is more predictable, repeatable, and scalable as a result of the continued actioning of 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.

Our strategy has informed the development of our differentiated product portfolios, Contractor Select, Design Select, and made to order, enabling us to drive growth and productivity for ourselves and for our partners. With Contractor Select, we are driving growth and productivity for our electrical distributors by lowering their cost of doing business and empowering them to carry less inventory.

With Design Select, we're focused on delivering productivity to architects, lighting specifiers, design build contractors, and electrical contractors by enabling them to choose the right configurable products for their projects.

Our portfolios are constructed with high levels of product vitality. In Contractor Select this quarter, we launched two new products: TruWrap and the REBL Round High Bay. Both products feature switchable technology and offer multiple functionality, with the end result being that distributors can carry fewer SKUs while providing more options for customers.

TruWrap from Lithonia Lighting enhances the traditional wrap, offering even lighting for spaces with limited natural lighting options like locker rooms, storage utility areas, garages, and offices. It features three adjustable lumen settings and three switchable color temperature settings.

The REBL Round High Bay delivers uniform illumination for large open spaces like industrial facilities and indoor sports arenas. In addition to offering an expanded lumen range with switchable color temperature options, it is manufactured to withstand harsh conditions and could be easily integrated with our sensor switch controls for improved energy savings.

These innovations are important to our customers and our team has once again been recognized for the value they deliver. In the first quarter, many of our lighting solutions were selected for the GRANDS PRIX DU DESIGN Awards, an international competition that celebrates the excellence and talent of creative professionals and firms.

Our winners included Mochi by Cyclone, Hydrel – Flame, and several Eureka products including the Tangram family and the Frank, Joli, Elke, and Marro Luminaires. Our Luminis Syrios Pro was recognized by The Architect's Newspaper's Best of Products Awards, which elevates well-designed products serving the architecture and design community.

The Syrios Pro family includes interior and exterior luminaires for a seamless aesthetic transition. The luminaires are compatible with our in-light controls, allowing seamless control of indoor and outdoor spaces, while reducing energy costs, aiding in building compliance, and improving occupant comfort.

Now, moving on to Intelligent Spaces, which delivered another strong quarter of sales growth and margin performance. Our mission in Intelligent Spaces is to make spaces smarter, safer, and greener through a strategy of connecting the edge with the cloud using disruptive technologies that leverage data interoperability.

In Distech, we are focused on where we compete and what we can control to expand our addressable market. As part of our geographic expansion, this quarter we continued to add systems integrator capacity in the UK, Asia, and Australia.

Distech partners with the best SIs in specific geographies to sell our full suite of controls, sensors, and applications. In October, we brought together our North American SI partners in Nashville for our CONNECT Conference. This is a highly engaged community of the best systems integrators in the world that come together to learn more about Distech and Atrius products.

During the conference, we launched new products and applications and delivered updates on the latest technology trends, while also offering technical training. This year was the highest attendance since the event began and highlighted the continued strength and importance of our relationships across the building management systems industry.

We are thinking about spaces differently. We're using data to maximize occupant experience and transform spaces. Last week, we closed our acquisition of QSC. Through Distech, Atrius, and QSC, we can now control both how a space is managed and what happens in that space with our disruptive technologies that promote end user satisfaction through data interoperability.

Imagine a future where you walk into a room and the space intelligently adjusts, where data is used to predict how many people will be using that room, cooling or heating the room in advance for optimum occupant comfort, aligning the in-person and virtual experience by seamlessly transitioning between microphones and cameras based on who is speaking and where they are located, using data points to optimize lighting levels lowering shades if there is an increased glare. And if a meeting is canceled, reverting a room back to its unoccupied settings to save energy and lower costs. We're excited about the addition of QSC to Intelligence Spaces as we continue to execute on our mission.

Now looking forward, we are an industrial technology company with the best lighting company in North America and a larger-scale Intelligent Spaces business. Our path to growth and profitability is clear in both segments. In Acuity Brands Lighting, our growth algorithm is grow with the market, take share, and enter verticals where we have either not historically competed or where we are under penetrated.

We will continue on our path to improve margins. In Intelligent Spaces through Distech, Atrius, and QSC, we can now control both how a space is managed and what happens in that space with our disruptive technologies that promote end-user satisfaction through data interoperability. Our focus will be on growth, and we have the opportunity to expand margins.

We are creating value by growing net sales, turning profits into cash, and not growing the balance sheet as fast. And we are demonstrating that we are effective capital allocators. Now I'll turn the call over to Karen who will update you on our first-quarter performance and provide more details of the expected financial impact of the QSC acquisition.

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

Thank you, Neil, and good morning to everyone on the call. We delivered solid performance in our first quarter of fiscal 2025. We grew sales, improved our adjusted operating profit and margin, and increased our adjusted diluted earnings per share.

For total AYI, we generated net sales in the first quarter of $952 million which was $17 million or 2% above the prior year as both Lighting and Intelligent Spaces grew. During the quarter, our adjusted operating profit was $159 million, which was up $5 million or 3% from last year and we expanded our adjusted operating profit margin to 16.7%, an increase of 20 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. We generated net interest income as a result of the cash position our balance sheet.

This quarter, our effective tax rate of 20.8% was lower than last year and lower than the expected full-year rate of around 23.5% due to discrete items in the quarter. Finally, our adjusted diluted earnings per share of $3.97 increased $0.25 or 7% over the prior year.

In Acuity Brands Lighting, net sales were $886 million, which was $10 million or 1% above the prior year, primarily the result of sales growth in our independent sales network and in our direct sales channel. Adjusted operating profit was $154 million and we delivered adjusted operating profit margin of 17.3%, which was down slightly compared to the prior year.

Sales in Intelligent Spaces for the first quarter were $74 million, an increase of 15% year over year as Distech continued to deliver impressive growth. Adjusted operating profit in Intelligent Spaces was $15 million, with an adjusted operating profit margin of 21%, an improvement of 5 percentage points year over year.

Now turning to our cash flow performance. In the first quarter of 2025, we generated $132 million of cash flow from operations. We earned attractive returns on the cash that we have on our balance sheet, and we ended the quarter with $936 million of cash. We closed the acquisition of QSC last week. We financed this acquisition with $600 million of additional debt and the remainder with cash on hand.

During the quarter, we resumed our share repurchase program and allocated approximately $5 million to repurchase approximately 17,000 shares. I now want to spend a few minutes updating our outlook for 2025 for the inclusion of QSC.

QSC will be reported in our results beginning in January. Our updated expectation for full year fiscal 2025 is that net sales will be within the range of $4.3 billion and $4.5 billion for total AYI. And we expect adjusted diluted earnings per share within the range of $16.50 to $18.

Additionally, we now expect to have full-year interest expense of between $20 million and $25 million for the full year fiscal 2025. We will incur integration expenses as well as the impact of purchase accounting adjustments throughout the year.

We're pleased with our performance in the first quarter of fiscal 2025. Our Lighting business continued to perform well, and our Intelligent Spaces business delivered impressive results. 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) Ryan Merkel, William Blair.

Ryan Merkel - William Blair & Company, LLC - Analyst

First off, just wanted to ask on QSC and the accretion, and thanks for updating the guide. But could you give us the full 12-month accretion that you're expecting from QSC?

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

Ryan, it's Neil. Thanks, everyone, for being with us this morning. So actually, it's not really relevant, the full year. So -- but on -- if you were to roll this forward on a calendar basis, I think you would directionally have the ability to do that. Just we have, what, 8 months of this year, so 8, 12 looking forward.

But more importantly, we're really pleased with the acquisition. This is -- I believe, for our Intelligent Spaces group, we have a different theory of the case. We have the opportunity to control both what -- the building itself and what happens in the space. And that is a unique combination of data collection and the ability to control that data and do things with it.

So we're really pleased with that. We're off to a really good start with the team at QSC, and we're excited that they're part of Acuity.

Ryan Merkel - William Blair & Company, LLC - Analyst

Okay. Helpful. And then, Neil, can you just comment on order trends and if visibility has improved on the backlog and the pipeline with those projects potentially getting released?

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

Yeah. So Ryan, I think you're referring more to the Lighting business there. So on the Lighting side, as we said in the prepared remarks, we're pleased with the performance. Our team there is executing consistently, and we're clear on the growth algorithm. As we look forward, obviously, we believe that calendar '25 is going to, from a market perspective, be better than calendar '24.

We base that assumption on our view of data, external data going forward, number one; and second, then our interaction with the field, number two. The kind of the word from the field is that our growth algorithm is working.

We are the leading player, obviously, in the industry and lead not just by size but by performance and by performance, I mean quality of performance. So that is strong. If you dig into our Q1 numbers, you'll see that our C&I channel performed pretty well. Our retail channel did not perform great, but that's really just a point in time. So when you roll that forward, it gives us confidence for the rest of this year and beyond.

Ryan Merkel - William Blair & Company, LLC - Analyst

And if I could just follow up on that last point. I noticed that the corporate accounts in retail were down, but the most important segment, the independent channel was up. So is the read here that you're starting to see sort of demand recovery, demand inflection? Or is it a bit too early?

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

Let's call that when it happens. So I'd say kind of on the C&I and direct channel, this is really a demonstration of I believe our product segmentation strategy coming to life and really working effectively. As you know, on our corporate accounts, it's an inconsistent business but a high-quality business. So we'll have some big quarters and some smaller quarters based on individual customer decisions. And then on the retail side, we have great relationships there.

So they haven't had great results over the course of the last year or so. So this is a little bit of a catch-up, but that's just a point in time. So I think it's early to call the inflection, but obviously, we're confident in where we're going in calendar '25.

Operator

Tim Wojs, RW Baird.

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

I guess just a first question. Just on the guide, I just want to confirm, is the guide raise solely for QSC and the core is unchanged? Or did you guys make any changes to kind of the core guidance?

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

Yes, the guidance is the -- just the adjustment for QSC, so we expect the base business to perform as we laid out in the fourth quarter. And so the increase in the sales that you see, an increase in EPS is really due to the impact of QSC and then also the additional interest expense.

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

Okay. Great. And then just maybe on QSC, just what's been the initial feedback from your system kind of integrated customers? And could you give us maybe a historical example or two of just how these kind of businesses kind of piece together and why it makes sense to have them under one roof?

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

Yeah, sure. Well, so let's take a step back, Tim. As I said earlier, we do have a different theory of the case I believe, in the rest of the industry. And that's that data is the fundamental driver of value in this generation and that there's an opportunity to bring together the data that exists in a build space, what happens in a build space and who's in a build space. So the ability to build a data and control business then is the differentiated opportunity that we believe we've identified.

So these have not historically overlapped. So having said that, the initial response from the systems integrator community at Distech and the systems integrator community at QSC was, hey, can we sell the other one now? And which is exactly what we expected. We're not doing that yet, however. So our strategy for bringing this online is that we believe that, number one, this is a super high-quality asset and there -- and we want and expect them to continue to perform as they have been performing.

So that's kind of step one. Step two is we have the opportunity to create end-user opportunities through the combination of data and data interoperability. And that will happen over the next 12 to 24 months. And then finally, we're confident that they will benefit from being part of our organization and how we do things to drive their value. So a specific example of already how these come together, though, is that we initially met the companies through the interaction at an engineering and product level between Distech and QSC.

So both of those now before the acquisition created data interoperability, so that the Q-SYS control system could control what was happening in the building through their interface, and Distech to control the AV through our interface. So it's a very natural combination, but it's one that hasn't existed between anyone else before.

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

Okay. That's helpful. And then just to sneak one last one in. Just how is Acuity and maybe just kind of the channel in general just kind of preparing for potential tariffs? Has there been any sort of kind of pull forward in shipments? Or I guess, how would you kind of think about the tariff implications for Acuity and how people are managing in the channel?

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

I guess I'd summarize it, Tim, by saying there's been a lot of talk and not a whole lot of action. So we have not -- on our -- for ourselves, for example, we've made very small kind of targeted changes in our purchasing, which are kind of no regrets decisions about what might potentially happen in the future.

From a customer perspective, we've had a lot of customers asking us if we're going to increase prices and win because of tariffs. And then that conversation sort of died down. I'd say the expectation from our customers is that we will react accordingly when that happens. And we've set the expectation with them that nothing has happened, so there's nothing to talk about. And if something does happen, we will be prepared, and we will act accordingly.

Operator

Joe O'Dea, Wells Fargo.

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

Can you just talk about the QSC margin opportunity over time. It looks like what's embedded in the guide for '25, now including QSC, would put their revenue may be up low double digits year over year. So a pretty attractive growth rate and not too dissimilar from ISG. It looks like on the margin profile, we may be looking at QSC margins kind of mid-teens versus the 20%-ish for ISG. So when you think about that margin gap, any structural differences there? And how do you think about the timeline to narrowing that?

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

Yeah. So I'll take you back to what we said when we announced the acquisition, Joe, which is that this is an attractive opportunity, first of all, to bring together. I've talked about that already. Second, the underlying business is a strong business, which we think has similar financial profile to our existing assets in our Intelligent Spaces business.

So I think you're right. It's kind of mid-teens. We're counting on mid-teens -- low to mid-teens growth rate for them, which is consistent with where we currently are. Our priority is growth. So we did not make this acquisition with the expectation that we would be taking costs out. We don't need to.

There's a natural opportunity to increase the margins over time as we grow similarly to what we've done with Distech and the ISG business. So you can see that over the course of the last three years where we've gone with that business.

So to answer kind of your last point, there is no structural difference that would impede our ability to do that over time. But I want to emphasize that our priority is, number one, to continue the growth and performance of the existing business; and then number two, to start to deliver things to the market that other people can't.

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

And then just on the go-to-market and you talked about sort of encouraging feedback from systems integrators. But how much overlap is there in that system integrator go-to market today in terms of the percentage of sort QSC and ISG revenue that will be going through the same systems integrators through separate and kind of that opportunity set to then leverage those separate paths by selling both through them?

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

So I'll take this opportunity, Joe, to highlight what I think is more important than that, which is that there's a fair amount of overlap among the smartest end-user customers between those who have used Distech and those who have used QSC and Q-SYS, the platform -- their platform brand, there is very interesting overlap there.

So one of my observations, when I got here, about Distech was that it seems like the smartest customers by Distech, the smartest end users. Same thing is true with Q-SYS and QSC. So as a result of that, the systems integration community -- systems integrator community, both for Distech and for QSC is very attractive because they have the opportunity to use the best technology and to sell into the most sophisticated customers. So in that way, we're very similar. So we don't have any initial plans for those systems integrator communities to overlap over time.

But I do believe that we're going to have a natural pull from the most sophisticated end users for the solutions that we will be able to deliver.

Operator

Chris Snyder, Morgan Stanley.

Chris Snyder - Morgan Stanley & Co. - Analyst

Maybe just following up on all the questions around the strategic rationale of QSC. It does seem like there is revenue synergy potential and maybe some moderate cost surgery potential. Is any of that factored into the kind of the $0.50 accretion that you guys are calling for this year? Or is that really just kind of a continuation of the steady-state business we've seen at QSC, which is growing and kind of generating these mid-teen margins to begin with?

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

Yeah. Welcome back, Chris. So our expectation for the first 12 months or so of the business is that they continue to operate as they have operated and we'll go through the integration process. So I think revenue synergies are in the future, not the present as a result of this. And as I said, we don't feel the need to take costs out of their business. We want to prioritize growth.

Chris Snyder - Morgan Stanley & Co. - Analyst

I appreciate that. And then, obviously, gross margin just continues to be kind of a phenomenal story for the company. And I think on the last conference call, Neil, you kind of talked about ABL continuing to grow margins in, I believe, the 50 to 100 basis point range over the, I guess, medium to long term.

It seems like that implies that you guys think gross margin can continue to push higher from these levels to drive that level of operating margin expansion. I guess is that the right takeaway and how do you see gross margin going from here? I mean it wasn't that long ago where we were wondering if you could get to 42%.

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

Karen, do you want to take this one?

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

Yeah. Chris, good to hear from you again. You're right. We're really pleased with our gross profit margin expansion over the course of time. We were at 47.2% this quarter, which was up 140 basis points year over year.

Particularly at ABL, it's a reflection of the work we've done over the past few years on the strategy with product vitality, service, technology and productivity, but also the growth of Intelligent Space is having an impact on that gross profit margin.

When you think about product vitality, you've seen it on the presentation. We're not going to stop, and we're going to have products like what we highlighted last quarter with the HOLOBAY, so where we're delivering higher value products with less material content.

So to answer your question, yeah, we think there's still some room there. And our comment last quarter was on the 50 to 100 basis points of margin improvement at ABL from an operating profit perspective.

We do think that over the course of time, that business will continue to improve margins. We're going to make some investments; we talked about technology investments that we need to make to power our gross profit margins. So you may see a little bit more investment in SG&A to get benefits elsewhere. But overall, we feel really good about that business continuing to perform and improved margins over time.

Operator

Christopher Glynn, Oppenheimer.

Christopher Glynn - Oppenheimer & Co. Inc. - Analyst

A lot of good detail on QSC, so I'll pivot to ABL a little more. You've talked about the last few quarters kind of agency activity being fairly positive input and some project delays and release times a factor there. So I'm wondering if the agency activity is still suggesting a bit of a momentum build opportunity as the year goes on, and if financing and inflation are the main pacing items for the release to coalesce.

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

Yeah, Chris, I think those are good questions. So big picture, and I'll react to kind of the agency network in general. Our HC network continues to perform. So the independent sales network is an important part of what we do at ABL. I highlighted their performance or the performance of that channel earlier in the call.

As we look at data to predict the future for us, we do look at inflation, we do look at interest rates. We do look at ABI, we look at kind of a few other factors. And all of those collectively point towards a trend, which improved in '25. It's unclear exactly what -- or let me rephrase that. It's unclear to me personally exactly what opens those.

And I'm not sure it's consistent based on the data that we've seen. Having said that, net-net, the sentiment remains strong in our agency community. A, we talked to them; B, we survey them on a regular basis.

And everyone expects this to be a kind of normal and accelerating performance over time -- well, look, not everybody, the majority expected to be improving over time. So net-net, this feels sort of normal, not like there's going to be a floodgate that opens or anything like that, but it feels like a steady build from here.

Christopher Glynn - Oppenheimer & Co. Inc. - Analyst

Okay. Great. So it sounds like normal seasonal patterns is a very good baseline for us to focus on, you would say, for ABL?

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

Yeah, I think that's the starting point, and we'll see if we can outgrow that.

Operator

Jeffrey Sprague, Vertical Research.

Jeffrey Sprague - Vertical Research Partners LLC - Analyst

Maybe just a couple of loose ends for me, a lot of ground cover. First, just want to touch base on ABL operating margins, which did tick down a little bit. So maybe the larger question is in terms of what's going on with SG&A and investment and the fact that the gross margin and operating margin went in different directions in the quarter?

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

Karen?

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

Yeah. So Jeff, as I talked about before, we are continuing to make some investments in ABL. And if you look at it sequentially kind of on a dollar basis, you'll see that our expenses are more consistent with where we trended in the back half of last year. So the opportunity really is to continue to manage those expenses. And as sales come back, as we've described, a little bit more in the second half, then you'll see the percent of sales start to improve.

But we feel good about our management of those investments. We will invest in technology, which could identify some benefits elsewhere in the P&L. But overall, we think there's opportunity to leverage some of those fixed expenses or the operating expenses as we come back and grow sales a little bit higher in the back half of the year.

Jeffrey Sprague - Vertical Research Partners LLC - Analyst

And then, Neil, this idea of sort of the smartest, most sophisticated customers using Distech, QSC, is there a common theme as it relates to that customer type in terms of, I don't know, use or lack thereof the company or business or the vertical market or some characteristics that you'd say applies across that set of customers that you're referencing?

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

Yeah, Jeff, I'd say that the things that we -- I have identified about the consistency of those customers is generally that they're technology forward, they manage their operations centrally, and they want to get consistency across their fleet of buildings or locations.

So they're looking for, one, productivity of the uses of their space, number one; and number two, they're looking for productivity and how they are able to manage those spaces. And I'll give you two specific examples. So we had the Distech Conference that we mentioned, so the CONNECT Conference in Nashville. That's 700 systems integrators who showed up; they paid to attend.

It's a combination of family reunion kind of tech-forward business opportunity. So we were there and one of the panels was a -- obviously, it was a -- was one of our -- some of our best customers from our what we call our Building Advisory Council.

So the guy runs facilities for Stanford University was talking about the benefits of using Distech and the leveragability that he gets, they get over their campus by the consistency and the technology that Distech provides them.

Similarly, if you go to QSC's website, they have a ton of case studies on Q-SYS, which are really interesting to read. I'd highlight one that I found really interesting, which is Indiana University basically normalized each of their classroom interfaces.

So large spaces, small spaces, so that there's a consistency to the end user when they walk into that space of how it operates, which gives them a significant amount of additional productivity and they can manage that centrally.

So the trends become the same, which is technology, which is creating data getting closer to the CIO and the head of facilities that are driving end-user outcomes in the space and are driving productivity to the organization and how they manage the space.

Jeffrey Sprague - Vertical Research Partners LLC - Analyst

Great. And maybe just one quick one for Karen. I'm sorry, Karen, you mentioned purchase accounting and inventory and the like. All that's adjusted out of your construct, though, correct?

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

Yes, it is. All of that would not be included in our adjusted diluted earnings per share expectations, correct.

Jeffrey Sprague - Vertical Research Partners LLC - Analyst

Right. Thank you, everyone.

Operator

Brett Castelli, Morningstar.

Brett Castelli - Morningstar, Inc. - Analyst

Just wanted to ask on ABL and specifically on the Design Select product portfolio and just the traction you're seeing there with customers?

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

Yeah, Brad, welcome. As we've highlighted, the portfolio segmentation strategy is really about how we drive growth and productivity for ourselves and our partners. So the Design Select portfolio is really created to drive growth and productivity with the design community, not surprisingly, given the name, and how they can execute their projects. So traction is good there. We're -- our growth is -- we expect this to be a multiyear, I think, three- to five-year kind of progression for us.

The percentage of our sales, which are attributable to Design Select is ahead of where we expected it to be at this point, but we're still really early in the process. So we're in the second inning of -- second, third inning of what we think we can do with Design Select.

But the reaction from the external community has been very strong. They understand the premise, they understand how it creates value for them, and they're starting to select it. The gating item for us is we're going to roll it out in over time, meaning the products that are available to that when we get those products right. So we're not muscling through this. We're doing this the right way to create long-term value.

Brett Castelli - Morningstar, Inc. - Analyst

That's great. And then maybe for Karen, just on capital allocation for the remainder of the year. And just curious what you're thinking in terms of potential debt paydown if any as part of that?

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

Sure. Yeah. So first, on capital allocation, let me just reiterate our priorities. So our priorities for capital allocation are to invest in our current businesses for growth, invest in M&A as you clearly see what we're doing there, increase our dividend, and then also to make share repurchases. So to address your question specifically, we do generate a lot of cash.

And as we said, when we announced the acquisition is we do have the ability to pay down this debt pretty quickly to give us options to do more things in the future. So with our cash generation, we can address all of our capital allocation priorities, including paying down the debt over the next 12 to 18 months.

I would also highlight we did resume our share repurchase program this quarter. We were out of the market a little bit because of the announcement of QSC. So we've entered late in the quarter, probably just had the last month of the quarter. So it looks a little bit light, but we continue to be pleased with our repurchase program and the outcome of that program, and so we expect that to continue as well.

Operator

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

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

Great. Thank you, operator. Thank you all for joining us this morning. Obviously, we're pleased with our performance in the first quarter. As we said in the prepared remarks, we have the best lighting company in North America. It's performing.

We have a clear algorithm for growth and the opportunity to continue to increase margins. We also now have a larger-scale Intelligent Spaces business, which brings together data and control in a way that is unique to us, and we believe can provide differentiated opportunities and growth in the marketplace.

We're clear on how we create value. We grow net sales, we turn profits into cash, and we don't grow the balance sheet as fast. So thank you for joining us this morning, and we look forward to talking to you again next quarter.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may now disconnect.
