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OVERVIEW:

Company Summary

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PRESENTATION

Operator

I would now like to hand the conference over to Charlotte McLaughlin, Vice President of Investor Relations. Charlotte, please go ahead.

Charlotte McLaughlin - Acuity Inc. - Vice President of Investor Relations

Thank you, operator. Good morning, and welcome to the Acuity fiscal 2026 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 2026 fourth quarter and full year performance. There will be an opportunity for Q&A at the end of the 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 provision 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 2026 fourth quarter earnings release and supplemental presentation, both of which are available on our Investor Relations website at www.investors.acuityinc.com. Thank you for your interest in Acuity.

I will now turn the call over to Neil Ashe.

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

Thank you, Charlotte, and thank you all for joining us this morning. We demonstrated solid execution in the fourth quarter of fiscal 2026. We grew sales, expanded our adjusted operating profit and adjusted operating profit margin. We increased our adjusted diluted earnings per share, generated strong cash flow and allocated capital effectively. Throughout fiscal 2026, we strengthened ABL while continuing to scale AIS, building the operating and financial capacity needed to compound growth and value over time.

In Acuity Brands Lighting, we continue to advance our strategic and operational priorities. During the fourth quarter, I appointed Ruth Gratzke as President of ABL. Ruth brings extensive leadership experience across go-to-market, product and engineering and operations in complex industrial technology and infrastructure businesses. Lighting and lighting controls are essential technologies in every built space, and we

have differentiated ABL through our industry-leading capabilities, trusted brand portfolio and strong customer relationships across luminaires and electronics. I believe the combination of Ruth's experience advancing growth and innovation, technical depth and operating discipline make her the right leader to build on ABL's strong foundation and capture the opportunities ahead.

Product vitality is core to our strategy in ABL. Within our luminaires portfolio, we are introducing new products and leveraging established product families to address customer needs and growth opportunities. In the fourth quarter, we expanded the BLT family from Lithonia Lighting with a purpose-built luminaire for data centers. Designed around the specialized ceiling grid system used in these facilities, it simplifies installation while bringing BLT's proven performance and reliability to a growing end market. In Luminis, we expanded the Hollowcore family with the introduction of Hollowcore Element. The solution extends the offering by broadening the range of applications and mounting options, providing architects and designers with greater flexibility while delivering a cohesive visual aesthetic across spaces.

And we introduced Ridge by Hydrel, a premium outdoor linear floodlight range used for facades, bridges, tunnels and stadiums. Ridge combines precision optics with durability and installation flexibility to deliver differentiated architectural lighting outcomes in some of the most challenging environments. Our electronics portfolio also continues to evolve. At the controls layer, nLight connects luminaires and sensors into a single intelligent control architecture that scales from a single room to an entire campus. nLight helps customers reduce energy consumption, improve occupant comfort, simplify code compliance and gain visibility into building performance through both wired and wireless control options.

SensorSwitch completes the offering with contractor-preferred solutions for simpler applications. At the components layer, eldoLED is transforming LED drivers from traditional hardware components into configurable solutions through eldoLED Studio, a cloud-based application that enables customers to configure, deploy, manage and update drivers more efficiently. The newly released Accela 85-watt driver leverages eldoLED Studio and NFC technology to allow customers to tailor the driver to specific applications while simplifying deployment and ongoing management. This creates opportunities to deliver new updates, enhance capabilities and differentiate performance throughout the life cycle of the lighting solution. The industry continues to recognize our innovation.

This quarter, 6 of our products, including Eureka River and the SensorSwitch TLS Twist-to-Lock sensor, were included in the IES Progress Report. Three of our campaigns are in tED Best of the Best awards, and 3 products, including Eureka's Torno, received SIT Design awards, an international program recognizing creativity and innovation in furniture and interior design. Now switching to Acuity Intelligent Spaces, which continued to deliver strong sales and margin performance. In AIS, we have differentiated and growing portfolios in building operations and in experiences. Over time, a common data architecture will enable interoperability across these portfolios, improving productivity for our customers and making spaces increasingly autonomous.

I want to spend some time reflecting on QSC's first full year as part of Acuity. We have aligned the team and established a solid foundation for continued growth. During 2026, our focus was on delivering strong performance and increasing our addressable market by extending Q-SYS into new customer spaces, introducing new solutions and making progress on our multinational expansion. Q-SYS is recognized for delivering high-quality experiences in spaces, ranging from theme parks and stadiums to campuses and corporate offices. Our recently introduced network video management offering, or NVM, represents the next generation of video distribution within the Q-SYS platform.

NVM enables customers to connect, distribute and manage low-latency video across hundreds of endpoints through a common operating environment. This allows customers to deliver live video to hundreds of screens in complex environments like stadiums and casinos.

In 2026, we also advanced our vision of transforming all spaces into high-impact spaces. We introduced RoomSuite, the Collaboration Bar and the Scheduling Panel to bring this capability to small- and medium-sized spaces. These solutions illustrate how Q-SYS provides a common platform to manage experiences of all sizes, from individual collaboration rooms to complex high-impact environments. The industry is already recognizing the value this delivers to our customers. During the quarter, Q-SYS received multiple awards at InfoComm 2026, including the Best of InfoComm Awards for the RoomSuite Collaboration Bar and the Scheduling Panel and Commercial Integrator's Best Case Study of the Year Award for the Q-SYS Microsoft Experience Center.

As we enter 2027, I want to step back and talk about what we are building at Acuity. Our strategy is simple. We are building a compounder, compounding our operating capacity that, in turn, compounds our financial capacity. 2026 was an important year. We advanced core strategic and operational initiatives in Acuity Brands Lighting and invested in the capabilities needed for long-term growth.

And we scaled Acuity Intelligent Spaces, which is now a quarter of our business, by developing strategically differentiated portfolios that uniquely position us in the market. We believe that our Acuity platform is our strategic differentiator. We define our platform as our values, how we create value, our better, smarter, faster operating system and increasingly, our human-agent organization. We are leading in the development of a human-agent organization, one in which people and intelligent systems work seamlessly together to unlock new capabilities, elevate performance and accelerate growth.

We've been very purposeful in how we have rolled out AI in our business. We are redesigning core processes across the organization through the combination of agentic abilities and reimagined workflows. This is creating repeatable capabilities that can be deployed across the company, accelerating productivity improvements and scaling expertise. We are embedding AI in many of our products. Examples of this include Q-SYS Reflect and Atrius DataLab, which help customers better understand, manage and optimize their spaces through data, analytics and actionable insights. These capabilities improve outcomes today while creating opportunities to deliver new applications and services in the future.

And we are increasing associate productivity through LLMs and agentic workflow development so that our associates can spend more time applying judgment and creating value. Our Acuity platform provides the context, capabilities and operating discipline to make better decisions, move with greater velocity and turn knowledge, judgment and experience into repeatable advantage. It is how we are able to operate more productively with greater distribution of responsibility and accountability throughout the organization. It creates financial capacity by driving performance that leads to strong free cash flow generation and the decision-making that supports disciplined capital allocation. The result is a more capable, productive and resilient business positioned to create stakeholder value over the long term.

Now looking ahead, in Acuity Brands Lighting, we are focused on product vitality, elevating service levels, using technology to improve and differentiate both our products and how we operate the business, and driving productivity. Our growth algorithm is clear. We will enter new verticals. We will take share, and we will grow with the market. And as we have done in the past, we intend to add around 50 to 100 basis points of adjusted operating profit margin per year.

In Acuity Intelligent Spaces, we have differentiated and growing portfolios in building operations and in experiences. Our focus will continue to be on growth, both organic and inorganic, and we have the opportunity to continue to expand margins over time. We are effective capital allocators. We have grown our business organically, and through acquisitions, we have increased our dividends, and we have been opportunistic in repurchasing more of our outstanding shares. In conclusion, we have demonstrated resilience and adaptability across our organization.

We are building the operating and financial capacity needed to compound growth and value over time. Now I'll turn the call over to Karen, who will update you on our fourth quarter performance and our fiscal 2027 outlook.

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

Thank you, Neil, and good morning, everyone. We delivered solid performance in the fourth quarter of fiscal 2026. We grew net sales, improved adjusted operating profit and adjusted operating profit margin and increased our adjusted diluted earnings per share. For total Acuity, we generated net sales of \$1.2 billion, which was \$35 million or 3% above the prior year. This was driven by growth in AIS, partially offset by revenue declines at ABL.

Both adjusted gross profit margin and adjusted operating profit margin benefited from the continued growth of AIS as it becomes a larger part of the total company. Adjusted gross profit margin improved to 50.2%, an increase of 130 basis points above the prior year. Adjusted operating profit was \$233 million, an increase of \$8 million or 3% from last year. Adjusted operating profit margin during the quarter was

18.7%, an increase of 10 basis points above the prior year. Our adjusted diluted earnings per share was \$5.77, which was an increase of \$0.57 or 11% compared to the prior year, primarily reflecting higher profitability and lower diluted shares outstanding.

ABL sales of \$959 million decreased \$3 million or less than 1% versus the fourth quarter of fiscal 2025 when we were working through an elevated backlog that resulted from orders accelerated in advance of price increases during the back half of fiscal 2025. On a two year stacked basis, total ABL sales were flat, and the independent sales network and direct sales network combined grew 3%. ABL again delivered strong adjusted gross profit margin of 46.2%, driven largely by product and productivity improvements.

This quarter, we received \$32 million in tariff refunds and had a \$15 million special charge that resulted from certain actions related to productivity improvements, including initiatives involving our product portfolio, supply chain and operating footprint. Both of these items were adjusted out of our results. Adjusted operating profit declined \$14 million to \$180 million, and we delivered adjusted operating profit margin of 18.8%, which was a decrease of 130 basis points compared to the prior year as we invested in technology, which supported the stronger gross profit margin. Now moving to Acuity Intelligent Spaces. Sales for the fourth quarter were \$298 million, an increase of \$43 million or 17%, driven by strong growth across our portfolios.

AIS delivered adjusted gross profit margin of 61.2%, an increase of 200 basis points compared to the prior year. This quarter, we received \$13 million in tariff refunds and had a \$3 million special charge due to an impairment of a facility. Both of these items were adjusted out of our results. Adjusted operating profit was \$74 million, an increase of \$19 million or 36%, with an adjusted operating profit margin of 24.9%, which was up 350 basis points compared to the prior year. Memory cost increases did not affect our performance in the fourth quarter.

However, we do expect an impact to our margins in AIS in fiscal 2027. We plan to manage this as we have other supply chain disruptions. Our first priority is to secure the inventory needed to service our customers. Our second priority is to recover the incremental cost in dollars. We will also begin the process of accelerating our product and productivity initiatives to recover margins.

Now turning to our cash flow performance. During the fiscal year, we generated \$826 million of cash flow from operations, which was \$225 million higher than in fiscal 2025. This increase was due to our operating performance, tariff refunds and lower tax payments. In fiscal 2026, we continued to allocate capital effectively and consistent with our priorities. We invested for growth in our existing businesses by allocating \$78 million for capital expenditures.

During the year, we refinanced our revolving credit facility and continued to reduce debt. We repaid \$200 million of our debt during fiscal 2026, and after the close of the year, we repaid another \$200 million. As a result, we have now fully repaid the borrowings used to finance the QSC acquisition. We increased our dividend by 18% and allocated \$287 million to repurchase over 940,000 shares. Since the beginning of the fourth quarter of fiscal 2020, we have repurchased almost 11 million shares at an average price of around \$164 per share, which was funded through organic cash flow.

This amounts to nearly 28% of the then outstanding shares. Now I want to spend a few minutes on our outlook for 2027. 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 2027, our expectation is that net sales will be within the range of \$4.7 billion and \$4.9 billion for total AYI.

This is based on the assumption that ABL will deliver flat to low single-digit sales growth and AIS will generate low to mid-teens sales growth. We expect to deliver adjusted diluted earnings per share within the range of \$20.50 to \$22. In summary, we delivered a solid performance in fiscal 2026 and finished the year with momentum. AIS continued to grow and deliver strong margins while we strengthened the foundation of our ABL business. We generated significant cash flow, allocated capital effectively and ended the year with a strong balance sheet.

We are well positioned to deliver sales and EPS growth in fiscal 2027. 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.

Timothy Wojs - Robert W. Baird & Co Inc - Analyst

Karen, maybe just to kind of circle back on the guidance commentary that you just gave. I don't think, just kind of quick back of the envelope, that it implies a lot of margin expansion. We obviously have a fair amount of inflation that's kind of entering the system. So maybe you can just talk about, a, is that correct? And b, how we should kind of think about inflation kind of pricing and maybe the cadence of margins as we think about fiscal '27?

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

Yeah, Tim, thank you for that question, and thanks for being here this morning. So let me just reiterate what I said in the prepared remarks. We expect sales to be in the range of \$4.7 billion and \$4.9 billion and EPS of \$20.50 to \$22. And what this reflects is our low single-digit -- flat to low single-digit sales growth at ABL and low to mid-teens at AIS. So what you're seeing is continued growth in AIS is also impacting the favorable mix.

So that's having some improvement on the overall EPS as well as ongoing productivity. But I think to your question of why you're not seeing a lot of margin improvement is what I was referring to with some of the memory cost increases at AIS that we're anticipating for next year. So the underlying business is still really strong, but just the impact of those memory cost increases, while it doesn't impact the pricing and to cover the cost, is having some impact. So as we said, our priority there will be to ensure we have the right supply for our customers. The second will be to cover the cost in dollars.

And then over time, we will work back that margin. So that's probably a little bit of what you see. But overall, we think we're in a really good place as we enter 2027, and we'll continue to adapt to these conditions.

Timothy Wojs - Robert W. Baird & Co Inc - Analyst

Okay. Is there a way to kind of, I guess, pinpoint or just kind of ring-fence like what the memory cost headwind is? Are we talking about kind of flattish margins in AIS this year, kind of all inclusive of everything? Or -- just trying to kind of conceptualize what the higher memory costs actually mean for the model.

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

Yeah. I think if you take memory costs alone, similar to what we've talked about before with tariffs and other disruptions that we've had, this is around a couple of hundred basis points. So think of it that way. Now they will still work to improve that with some SG&A leverage as they grow their sales. But -- so you may not see the full impact of that couple of hundred basis points, but that's the gross impact around that. Yes, the gross profit.

Timothy Wojs - Robert W. Baird & Co Inc - Analyst

Okay. Got you. And then, Neil, you added a new leader in the ABL business recently. Can you just kind of talk about what she adds to the business and kind of what it means for the ABL business going forward just in terms of focus?

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

Sure. So before I talk about Ruth, though, let's -- I do want to talk about Acuity Brands Lighting for a second. Acuity Brands Lighting is the undisputed leader in North America and the best-performing lighting company in the world. And lighting and lighting controls are essential technology in every built space. In other words, this is an outstanding platform.

Over the course of the last five or six years, we've taken that business from high 30s gross profit margins to upper middle 40s gross profit margins through structural improvements in the business. And we are confident in the continued trajectory that we can display with Acuity Brands Lighting. I chose to bring Ruth in both because of what I believe ABL can do and also what I believe she can do. So she comes to us from Siemens. She's got a demonstrated history in industrial technology and everything from go-to-market to product and engineering to operations with disciplined growth, where she's taken large businesses and increased their size materially.

She fits with us culturally and can grow. But what I want to emphasize is I feel like even all the way back to when I joined Acuity, the narrative around the lighting industry has always been what can the lighting industry be that's different than what it is. And I think we need to celebrate what the lighting business and the lighting industry is, which is what I said when I got here. The lighting business is incredibly durable. It's essential to every built space, and we have the opportunity.

We've demonstrated the opportunity for material structural improvement in the quality of the business, and we'll continue that over time. So she is a perfect fit for where that business is now and where I want it to go over the course of the next five years.

Operator

Ryan Merkel, William Blair.

Ryan Merkel - *William Blair Capital Partners - Equity Analyst*

Neil or Karen, can you talk about ABL order trends and how we should think about seasonality for fiscal 1Q? And then can you comment on if you've seen any impact from higher interest rates and higher cost inflation on project activity?

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

Yeah. Thanks, Ryan. So we've talked about in the last earnings call that the order rate and the general business climate around ABL had firmed, and that's what we expect to continue into next year. So in fact, we were just down this week at our next sales conference where we bring together the entire independent sales network and many of our product leaders and introduce the new products for 2027 and beyond. And it was hard to not appreciate the energy in the room kind of all around.

So we feel pretty good about where the business is. On the seasonality, I think that the only impact to normal seasonality is two things. One is the increased backlog that we were dealing with last year, number one, on a year-over-year basis. And then number two, the impact of corporate accounts, which you can start to see kind of working their way into our performance. As it relates to interest rates, obviously, we don't control the economy or the interest rates.

But what we have done is we've demonstrated that we perform in all environments. And as it relates to the top-level context via interest rates, interest rates now are back to where they have been on an average basis over the last 30 years. So -- and a lot of stuff got built in the last 30 years. So our view is that the business will normalize based on the opportunities that are in front of us. And our ABL business is so resilient, partly because we address many segments of the market.

So we can find our way to where growth is in the market. So obviously, you can imagine we had a very strong year in data centers in '26 for lighting. We introduced, as I mentioned in the prepared comments, a purpose-built solution for data centers going forward. So we'll continue to get our unfair share of data centers, which -- on the lighting side, which is an example of us adapting to where the market is taking us. So put all that together, and our durable lighting business will continue to perform in 2027.

Ryan Merkel - *William Blair Capital Partners - Equity Analyst*

That's great. And then a follow-up on AIS gross margin, I guess, a 2-parter. The margin in the quarter was a lot better than we were thinking. So maybe just unpack why it was so good. And then, back to Tim's question, a couple of hundred basis point impact from memory. I just want to make sure I heard that right. And when does that impact hit? Should we think about that impacting right away as we model fiscal 1Q? Or does that take a quarter or two before that shows up?

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

Yeah. Let me first take a step back and talk about AIS. So as I contextualize ABL and the improvement in ABL over time, I want to do the same for AIS. So AIS has gone from about \$150 million in revenue and negative operating income to what you see today, which is a large, vibrant and growing business with outstanding opportunities ahead. And we've done that both mostly organically, but also inorganically.

And so we have a playbook to continue to improve this business over time, to grow this business over time and to make it an increasingly important part of Acuity. So all of the dexterity that we've demonstrated in our performance in ABL, now we're bringing also to AIS. So when there are supply chain shocks, whether it's the pandemic, land wars, oil prices, interest rates, memory costs, whatever they are, we've demonstrated that, a, we can adapt to them; b, we can continue to deliver; and c, we can continue the trajectory of improvement in the business. So the memory cost impact in AIS is just another one of those mild speed bumps on the path to where we're going. As Karen indicated, they're probably -- work out to about 200 basis points of gross margin impact in the -- over the course of the year.

And they basically keep operating margins flat to slightly up. So -- but we will continue to recover those at a percentage basis over time. As you do your modeling, the modeling will depend on when the inventory works its way through sales. So it didn't in the fourth quarter, as Karen indicated in her prepared remarks. It will probably start to impact late in the first quarter and into our fiscal second quarter.

Operator

Christopher Glynn, Oppenheimer.

Christopher Glynn - *Oppenheimer & Co Inc - Analyst*

Yeah, just wanted to spend a moment on the margin profile for ABL. So you had some -- a little bit of sequential gross margin improvement. Usually, I think it ticks down seasonally. I know the last couple of quarters, you've been rebuilding momentum and forecasting that, that will hold. At any rate, it is a pretty solid jumping off point into the new fiscal year to anticipate strong gross margin trends for ABL. And you did reemphasize the 50 to 100 basis points a year, Neil, for the longer term. So I'm kind of leading here a little bit, but are we pretty happy with the gross margin picture and moving into that framework of 50 to 100 for ABL next year?

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

Yeah, Chris, thanks for the question and picking up on the earlier comment and tying it back to the results. The trend for ABL is pretty obvious. And as you unpack the gross margin improvement that we've made over the last periods and as we look forward to the periods going forward, the primary driver of that are structural improvements we've made in the business. So those improvements have been in the

face of relatively low growth, as is pretty obvious from the results. So the impact of those structural improvements is greater than the impact of growth.

However, growth with those structural improvements compounds on each other. So as you look forward, obviously, we guided to flat to low singles for the lighting business next year. So we're not counting on a growth tailwind to drive those margins. We are counting on our continued structural improvement in the business. And as I said earlier on the earlier answer to Ruth coming in now, this is a great setup for where this business is going to go over the next five years. And as I indicated, we're really bullish about that.

Christopher Glynn - *Oppenheimer & Co Inc - Analyst*

Okay. Great. And then the savings for the \$15 million special charges, does that benefit COGS a little bit in each of the two segments?

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

Yeah. So those were primarily related to a few things. One is we've started to adjust our manufacturing network as a result of all of the productivity improvements that we have implemented over the last 5 years. So we closed one facility. We consolidated into another.

That's the primary driver of those costs. And so you'll see the impact of that primarily in gross profit margin over time. Otherwise, we also eliminated some smaller brands, which -- and some smaller product lines, which we didn't expect to be contributors over the long term. So you should expect to see us continue to do this, Chris. We will continue to -- as we drive productivity, we can rationalize our footprint because we don't need the whole footprint anymore even as we grow. So that -- expect to see us continue to push that forward over time.

Christopher Glynn - *Oppenheimer & Co Inc - Analyst*

Okay. Great. And just if I could sneak in another. The -- you talked about the data center initiative and controls last quarter, the direct digital control and the PLC side of things. So just wondering if you could update where that technology is in terms of qualification and getting recognized in the channel? And also your acquisition pipeline, any updates there?

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

Yeah. So first on intelligence -- first of all, I addressed data centers for lighting in the Lighting section. So now addressing data centers on the Intelligent Spaces side. We have the premier DDC controller in the market at Distech, and we've added a PLC controller, which puts us in position to service multiple hyperscalers going forward. And those discussions, those -- first of all, the existing sales continue and are growing, as you would expect, and we are in the door with more and more hyperscalers over time.

So I feel like we're well positioned, and we will continue that push on the data centers. So as we look forward to our acquisition pipeline, we also have a strong acquisition pipeline with multiple choices of companies to choose from. Again, our priority is around growing Intelligent Spaces, continuing to grow Intelligent Spaces into a larger and larger portion of our company. But our philosophy is really straightforward. We buy high-quality assets at fair prices.

And then we've demonstrated that we can operate them really effectively going forward. So we feel good about the pipeline. We've got multiple things to choose from, and they will continue to be additive to our direction.

Operator

Joe O'Dea, Vertical Research.

Joe O'Dea - Vertical Research - Analyst

Can you talk about the cost inflation and pricing side of things in ABL, just any sizing of the type of inflation you're seeing across raws, components as we see freight as well? And then the pricing response to that? Is the pricing in the market? Or how should we think about the timing and magnitude of pricing that would be coming?

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

Yeah. Thanks, Joe. Let me talk about pricing generally at ABL, and then I will answer the specifics. So first, we've been very consistent in explaining how we price at ABL. We price strategically to realize the value that our products derive in the marketplace.

And through our performance, you can see that we've continued to increase gross margins over time as we've done that. So the primary driver of the gross margin is the structural improvements that are derived. So in other words, we don't price to a markup of changing inflation. So -- but we do cover the dollar cost of supply shocks and the continued evolution in trade policy and other things. So now to the specific inflation, yes, we do see some inflation in some commodities, steel, freight, those sorts of things, which we deal with in through our purchasing, through our product development efforts and through productivity in our manufacturing going forward.

We also continue on our normal strategic cadence of pricing, which includes controls pricing and others. So we announced a price increase for the -- which is our normal price increase -- for the business. We've announced it in September, it goes live in December. That's where our continued direction will be, is, one, to lead the industry; two, through strategic pricing, which we focus on really identifying and realizing the value that our products deliver in the marketplace. And the smaller percentage then is to adjust that to deal with any changes in inflation, trade policy, et cetera.

Joe O'Dea - Vertical Research - Analyst

And then on ABL and SG&A specifically, those dollars went up a little more than we anticipated sequentially. As a percent of revenue, that's up a couple of hundred bps versus where it was a year ago in the fourth quarter. So it sounds like there's some COGS coming out structurally. But are you structurally adding SG&A? And then specifically, any color around the technology investments that you're making there?

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

Yeah. So those will normalize over time. That's just one quarter. So I wouldn't place too much credence on the fourth quarter. There's some timing things going on, et cetera, and onetime. The investment that we're making in technology is incredibly purposeful and unbelievably valuable. So you know my background. I've been through these technology transformations multiple times from Internet 1.0 to social to mobile, now to AI or, I guess, as of today, superintelligence. And I will tell you that I am incredibly bullish on both the impact -- well, first of all, the technology. So I'm an AI optimist.

Second, I believe that the benefits of that technology will not be evenly distributed. So everyone will get some benefit, but organizations like ours that know how to, a, to control it ourselves; and b, to use it to actually change the business will have disproportionate benefit over time. And so these are incredibly responsible investments that we're making in technology, and I expect them to yield very positive results.

Joe O'Dea - Vertical Research - Analyst

Last one, just related to that. You recently added a Board member, maybe someone who also would be characterized as AI optimist. But as you think about the AI value creation opportunity, how do you think about that on the revenue side of things? And when we'll hear you talking more about AI as a revenue tailwind?

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

So let me kind of stack the benefits over time of what we're doing. So AI is technology, and what AI does is write software at the end of the day. So then we use that to reevaluate our core processes and drive structural improvement in our ability to deliver whatever it is that we choose to deliver, from the back of the house, on things like how we pay invoices forward to the structural kind of gross margin to product development. The revenue growth impact will come over time as we shorten our product development life cycles, and we move faster -- continue to move faster than anyone else in the industry. That, I think, is going to be the ultimate growth drivers.

Then over time, at AIS, we believe -- principally, but not maybe exclusively, we believe that we can use AI to drive applications or to deliver applications which drive outcomes for our customers in spaces. So again, basically, it increases our velocity and it increases our ability to do more with the same resources, which ultimately benefits us both on the revenue line and then productivity from profit margin and returns on investment.

Operator

Brandon Knutson, Morgan Stanley.

Brandon Knutson - *Morgan Stanley - Analyst*

Within the ABL segment, the independent sales network grew 4% after being flat for the last 2 quarters. Can you just talk about what's driving that inflection and kind of split it off between market, which you said is firming, and then independent actions you all are taking to gain share?

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

Yeah, Brandon, welcome. Nice to have you. On the independent sales network, I would say that's an indication of us taking share. So we're pretty confident in where our position is across each of these markets. So I say markets because the independent sales network represents 80 independent markets across North America. So we see that pretty consistently over North America, and it's our view that we're taking share.

Brandon Knutson - *Morgan Stanley - Analyst*

Great. And then on capital allocation, you guys did \$57 million of share repurchases during the quarter. It sounds like you paid off the rest of the QSC debt post quarter. So now free cash flow going forward, how are you thinking about capital allocation? And then also on the QSC front, can you just talk a little bit about the revenue synergies you've been seeing there and the opportunities you see there? It sounds like the cost level is normalized there on the revenue side. Just any color there?

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

Yeah. So our capital allocation strategy is very clear. We grow our current businesses. We go through acquisitions. We increase the dividend, and we repurchase our shares. So as we look forward, obviously, I believe that organic cash generation is a strategic asset, and it has been a focus of ours, and you can see it in our results. That ties back to our overall strategy, which is to build a compounder. So we compound our operating capacity, which then compounds our financial capacity, and you see the impact of that in free cash flow and then, more importantly, what we do with that free cash flow. So as we take a step back and we think about kind of where Acuity is positioned for the market going forward and specifically the question earlier about interest rates, our organic cash generation is incredibly valuable, and we can use that to then continue to grow the business. So QSC is just a good example of that.

We bought a very high-quality asset at a fair price, as we do. We onboarded them into our AIS segment. We normalized their performance with our performance through the introduction of our better, smarter, faster operating system and their improvement. And then to your question on sales synergies, now we're starting to see end users who recognize that there is only one solution in the marketplace that ties everything together. So as we tie the data from how the building operates, all the way through to what's happening in the building, then we're starting to get customers who say, I now know where I need to go to centralize each one of those things because we give them the opportunity to do things that other people don't give them the opportunity to do.

So in both of our experiences and operations areas, QSC and in Distech and Atrius, we have open-protocol technologies that come together in a single data layer, which gives our ultimate end users the ultimate power and flexibility to basically to do whatever they need to do and to be positioned to do that over time. And we are uniquely positioned around that in the marketplace. So increasingly, end users are starting to pull our solutions through the channel, which is how you'll see the revenue combination synergies going forward.

Operator

Brian Lee, Goldman Sachs.

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

Operator, I guess we have no Brian Lee.

Brian Lee - *Goldman Sachs International - Analyst*

Apologies, I was on mute. I wanted to just follow up on the last question around kind of the ABL outlook here, Neil. It seems like you guys continue to gain share. So embedded in your flat to low single-digit growth outlook for fiscal '27, is that still the underlying assumption the market is kind of broadly flat to down and you're still gaining share? Maybe just kind of dissect what's embedded in that view for ABL specifically.

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

Yeah. So on ABL, as Karen indicated, we're guiding to flat to low singles. We do expect the market to be flat to down low singles. So that's the underlying assumption in there, and we're taking share and increasing our penetration of the new verticals to drive that, and we're adding some quality performance in our corporate accounts.

Brian Lee - *Goldman Sachs International - Analyst*

Okay. Awesome. Helpful. And then I guess on the margin front, this year, you quoted the investments you made in ABL kind of impacted the margins a bit. Does that reverse fully into '27? And then juxtaposing that against a couple of hundred bps of headwind in AIS, if we try to kind of break out the margin cadence between the two segments, is it sort of ABL improves year-on-year, AIS maybe a bit more sluggish, flattish given the strong performance you had throughout the year? Is that kind of the way to think about the different trend lines between the two from an operating margin performance standpoint?

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

Yeah. I'll contextualize the direction of travel first and then the specifics for the year second. So on ABL, over time, we will continue to make structural improvements in the business, which will drive gross profit margin, and that will then cascade to operating margin. The -- and

that's true this year also. So the structural improvements in gross margin we will make this year will be in spite of the low -- flat to low single digits top line, which then cascade to operating profit.

The story at AIS is slightly different, which is we already have high gross margin businesses there, high 50s, 60%, and really the operating margin improvement over time continues from our scaling of those businesses. So in 2027, as Karen indicated, over the course of the year, the memory impact will be about a couple of hundred basis points at the gross margin line, but we will continue to grow, which will mitigate that impact at the operating profit margin line. So think about operating profit margins about flat or slightly growing. However, on a dollar basis, they continue to improve. And there was some confusion about this when it happened at ABL as it related to other supply shocks in the past.

So the percentage margin here doesn't matter as much as the dollar -- continued dollar improvement in margin. And so at AIS, the dollar margins will continue to scale. We will continue to grow in the mid to -- kind of the mid-teens. And then when we don't have this supply shock or when we annualize this supply shock, then we'll return to our cadence of margin improvement. So this is just a point in time. Dollars will continue to go up, and the company will continue to be more valuable.

Operator

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

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

Thank you all for joining us today. I always try and reflect at the end of year conference call as we look forward about kind of where we are strategically and where we're going. It's hard to not be enthusiastic about where Acuity is positioned now. We have the leading and best-performing lighting company in the world with ample opportunity ahead, and I'm excited about Ruth's leadership and impact on that business. At the same time, we continue to scale AIS, both organically and inorganically.

We're solving problems for end users in the marketplace better and in different ways than anyone else can. And I'm excited about their continued growth and confident in where we can go. And then finally, we're building a compounder where we compound our operating capacity through our values, through how we create value through better, smarter, faster and our human-agentic platform. And that is then, in turn, compounding our financial capacity, and we've demonstrated the ability to use that financial capacity to create value. So we appreciate your interest in Acuity, and we look forward to catching up with you again in another quarter.

Operator

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

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