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# EDITED TRANSCRIPT

AYI.N - Q1 2021 Acuity Brands Inc Earnings Call

EVENT DATE/TIME: JANUARY 07, 2021 / 3:00PM GMT

## OVERVIEW:

Co. reported 1Q21 net sales of \$792m, diluted EPS of \$1.57 and adjusted diluted EPS of \$2.03.

## CORPORATE PARTICIPANTS

**Karen J. Holcom** *Acuity Brands, Inc. - Senior VP & CFO*

**Neil M. Ashe** *Acuity Brands, Inc. - Chairman, President & CEO*

**Pete Shannin** *Acuity Brands, Inc. - VP of Corporate Development*

**Richard K. Reece** *Acuity Brands, Inc. - EVP*

## CONFERENCE CALL PARTICIPANTS

**Baoyi Zhou** *Goldman Sachs Group, Inc., Research Division - Research Analyst*

**Christopher D. Glynn** *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

**Christopher M. Snyder** *UBS Investment Bank, Research Division - Analyst*

**John Fred Walsh** *Crédit Suisse AG, Research Division - Director*

**Timothy Ronald Wojs** *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

## PRESENTATION

### Operator

Good morning, and welcome to the Acuity Brands Fiscal 2021 First Quarter Results Conference Call. (Operator Instructions) Today's conference is being recorded at the request of the company. (Operator Instructions)

Now I would like to introduce Mr. Pete Shannin, Vice President, Investor Relations and Corporate Development of Acuity Brands.

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### **Pete Shannin** - *Acuity Brands, Inc. - VP of Corporate Development*

Good morning. With me today to discuss our fiscal 2021 first quarter results are Neil Ashe, our Chairman, President and Chief Executive Officer; Karen Holcom, our Senior Vice President and Chief Financial Officer; and Ricky Reece, our Executive Vice President and President of Acuity Brands Lighting. We are webcasting today's conference call at [acuitybrands.com](http://acuitybrands.com).

During this call, we will also discuss certain non-GAAP financial measures. Reconciliations to comparable GAAP financial measures can be found in our first quarter press release.

I would like to remind everyone that during this call, we may make projections or forward-looking statements regarding future events or future financial performance of the company. Such statements involve risks and uncertainties such that actual results may differ materially. Further, forward-looking statements speak only as of the day they are made, and we undertake no obligation to update publicly any of these statements considering new information or future events. Please refer to our most recent 10-K and 10-Q SEC filings and today's press release, which identify important factors that could cause actual results to differ materially from those contained in our projections or forward-looking statements.

Now let me turn this call over to Neil Ashe.

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### **Neil M. Ashe** - *Acuity Brands, Inc. - Chairman, President & CEO*

Thanks, Pete. Good morning, and Happy New Year. Thank you for joining us today to discuss Acuity Brands. As we transform our company, I am pleased with our performance in the first quarter of fiscal 2021. We had strong financial results and we made progress on our digital transformation. Our team was able to effectively serve our customers through our broad product portfolio and diverse paths to market. At the same time, our gross

margins were in line with those in the fourth quarter even on lower sequential sales, and we continue to generate a significant amount of free cash flow.

I am pleased and grateful for the outstanding way our team has continued to manage through the pandemic. We remain diligent about protecting the health and well-being of our associates and ensuring the continuity of our operations.

Turning to first quarter highlights. We are committed to making the communities in which we operate better. We published our second annual EarthLIGHT report, highlighting the company's priorities, actions and metrics for environmental, social and governance matters. We continue to wisely deploy capital by repurchasing 2.6 million shares of the company's common stock for \$255 million. We successfully reintroduced ourselves to the debt capital markets through the issuance of a \$500 million 10-year bond with a coupon of 2.15%. Proceeds were used largely to repay our existing term loan.

We are making strong progress on the execution of our digital transformation. I'll provide more updates on that progress later in the call. Finally, we have added talent to the organization. As we build out our technology organization, we have added outstanding data science, product management and engineering talent.

As we further build our management team, Candace Steele Flippin joined Acuity in November as our Chief Communications Officer. Candace will work with me and our team to define and amplify our company's narrative among our stakeholders. I'm very pleased with the quality of people who are joining our team.

With that, I'll turn it over to Karen for more detail on the financials. Karen?

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**Karen J. Holcom** - *Acuity Brands, Inc. - Senior VP & CFO*

Thank you, Neil, and good morning, everyone. I will add some additional insights to our financial performance for the first quarter of fiscal 2021. As you probably noticed in our press release, we are modifying the way we have historically explained our change in net sales to provide a more relevant description of the way we analyze and manage our business today. By way of context, for the past decade, we have provided our best estimates of the impacts of volume and price/mix on net sales. Our intent when we began providing this information was to reflect the impact of the conversion of our lighting products to LED.

Today, our lighting business is fundamentally different. For example, our product life cycles are shorter and our pace of innovation has increased. We frequently and successfully introduce new features and benefits of products rather than just direct product substitutions. Therefore, we believe our historical reference to price/mix is no longer meaningful and is less descriptive of how we manage our business. Going forward, we believe the change in net sales is better described by the activity in our key sales channels.

To help with this transition, I will provide the historical explanation to you this quarter so that you can bridge the gap. In the future, our explanations for changes in net sales will be aligned with our disaggregated revenue disclosure in the 10-Q. Should acquisitions have an impact in the future, we will provide that impact if it is meaningful.

Net sales for the 3 months ended November 30, 2020 of \$792 million decreased 5% compared with the prior year period, due primarily to an estimated 4% decrease in the change in product prices and mix of products sold as well as an estimated 1% decrease in sales volume. Both fiscal 2021 first quarter price/mix and volume were adversely affected by the negative impacts of the COVID-19 pandemic. Also recall that last year's first quarter benefited from price increases put in place to offset tariffs.

Looking sequentially from the fourth quarter using the same calculation, price/mix decreased 1%. Due to the changing dynamics of our product portfolio, it is not possible to precisely quantify or differentiate the individual components on a comparable basis of volume, price and mix, and as noted previously, we will not be quantifying this in the future.

Now I would like to highlight the key changes in our sales channels. I'm encouraged with the net sales of \$599 million through our independent sales network, in which we saw a modest decrease of 3% due to the negative impact of the pandemic.

Turning to our direct sales network. We continue to experience weakness in large industrial projects that we believe have been postponed due to the pandemic. Sales in this channel of \$76 million were down 9.5% in the quarter. Our retail sales channel continues to be a bright spot, with net sales up 3% to \$55 million driven largely by higher demand primarily for residential products. Finally, a key impact of the pandemic has been and continues to be delayed or canceled projects by large retail customers in our corporate accounts channel. Net sales in this channel of \$24 million were down 28% as compared to the prior year. These retrofit opportunities were delayed or canceled as these customers were limiting the activity in their stores.

In the first quarter of fiscal 2021 and 2020, we had some adjustments to the GAAP results that we find useful to add back in order for the results to be comparable. In our earnings release, we provide a detailed reconciliation of these non-GAAP measures. We believe adjusting for these items and providing these non-GAAP measures provide greater comparability and enhanced visibility into our results of operations. We think you will find this transparency very helpful in your analysis of our performance.

I would like to highlight that our current quarter's gross profit margin of 42% was consistent with our fourth quarter gross profit margin even on lower sales. Gross profit margin was \$332 million, down approximately \$23 million from the year ago period. This decrease in gross profit was due primarily to the decline in volume and lower price on certain products as well as the changing mix of products sold, partially offset by our aggressive cost reduction efforts and productivity improvements.

Our SD&A expenses decreased approximately \$19 million compared to the year ago period. This decrease in SD&A expense was due primarily to decreased employee costs, including lower stock compensation, lower freight and commissions associated with decreased sales and the reduction of costs in response to lower sales. Reported operating profit was \$86 million compared with \$84 million in the year ago period, while adjusted operating profit for the first quarter of 2021 was \$104 million compared with adjusted operating profit of \$119 million in the year ago period.

Reported operating profit margin was 10.8%, an increase of 80 basis points compared to the prior year. Adjusted operating profit margin was 13.2%, a decrease of 110 basis points compared with the margin reported in the prior year. The effective tax rate for the first quarter of fiscal 2021 was 24.7% compared with 22.9% in the prior year quarter. The increase in the effective tax rate was due primarily to the recognition in the first quarter of fiscal 2021 of unfavorable discrete items related to the deductibility of certain compensation. We currently estimate that our blended effective income tax rate before discrete items will approximate 23% for fiscal 2021.

Our diluted earnings per share for the first quarter of fiscal 2021 was \$1.57, an increase of \$0.13 per share or 9%. Our adjusted diluted EPS this quarter of \$2.03 was \$0.10 lower than the prior year. The decrease was primarily due to lower pretax income and a higher effective tax rate, partially offset by lower diluted shares outstanding.

I am pleased with our positive cash flow from operations and the improvement in our working capital days, driven by improvements in accounts receivable and inventory. We generated \$124 million of net cash provided by operating activities for the quarter ended November 30, 2020. We invested \$11 million or 1.4% of net sales in capital expenditures during the quarter. We currently expect to invest approximately 1.5% of net sales in capital expenditures in fiscal 2021.

Additionally, during the first quarter of fiscal 2021, we repurchased 2.6 million shares for approximately \$255 million or an average price of \$100 per share. We have approximately 5.1 million shares remaining under our current share repurchase Board authorization. At November 30, 2020, we had a cash and cash equivalents balance of \$507 million. We have demonstrated our ability to generate cash and used that cash to create shareholder value through investments in our business, dividends to shareholders and share repurchases during the quarter.

Thank you, and I will turn it back to Neil.

**Neil M. Ashe** - *Acuity Brands, Inc. - Chairman, President & CEO*

Thanks, Karen. Our company is a unique combination of domain expertise in the industries that we serve and in the technology that will change them. Our core lighting business is a durable performer in all markets, including the current market, and we are executing on the transformation of this business. We are in the process of making it better, smarter and faster to transform the service levels to our customers and the vitality of our product portfolio.

Distech and Atrius are attractive, valuable and strategically impactful technology assets that we believe we can build upon over time. We are demonstrating consistent cash generation, and we have the opportunity to use that cash to grow our current businesses and invest in new businesses while managing our capital structure, including share repurchases.

I'll now turn to our Q1 performance. As Karen mentioned, net sales of \$791 million were 5% below the prior year. I'm particularly pleased with the performance in our retail sales channel, which was up 3% over last year's first quarter and in our independent sales network, which was down 3% as compared to the prior year. As I described last quarter, our broad portfolio enables us to flex where there is opportunity, which this quarter included strength in warehouse and logistics, education and residential verticals.

Throughout the pandemic, we have seen broad disparity of performance across geographies, and that continued in the first quarter. We also managed productivity and costs relative to price to maintain our gross margin at 42%.

Throughout the pandemic, we have maintained our investment in product development. We are introducing new lighting and controls products as well as improving and evolving parts of our product and solutions portfolio. We are increasing the impact of software in our product portfolio. In the first quarter, we had a major firmware release for our in-light air product. This release is called ABT, Autonomous Bridging Technology, and is designed to increase the overall range of the in-light air system in networked environments by 300%, making connectivity more reliable.

We have increased our focus on contractors and making their lives easier. We launched the Compact Pro High Bay fixture by Lithonia Lighting during the quarter. This is a new addition to our Contractor Select portfolio and is the most compact high bay on the market, making it easier and quicker to install. Contractors and distributors continue to respond favorably to our Contractor Select portfolio. This portfolio of products has enabled us to respond to discretionary opportunities in the independent sales network and to serve the needs of customers in the retail channel. Sales growth in these products continue to meaningfully outpace the market.

We expanded our capabilities to provide a broad portfolio of leading germicidal UV products. In addition to our relationships with Ushio, Puro and Violet Defense, we had an agreement to purchase and resell the UV Angel Clean Air disinfection system as well as pursue joint development of UV light disinfection products. We now have the ability to serve multiple end use alternatives and are in the market selling a variety of UV products. We are uniquely positioned to support customers with our luminaire, controls and building management portfolio.

We continue to make progress on our digital transformation that we call Better, Smarter, Faster. I'm pleased with the team we are creating to deliver on our platform and how we are enabling more customer-centric sales and operations. For example, we are streamlining and enhancing our product catalog to make the process of finding, configuring and ordering products simpler and faster. We are also increasing our ability to communicate with and update our contractors, distributors and agencies with more detailed status notifications. We are offering them the ability to know in real time the status of their product orders. We will continue our work to increase these service levels.

We have successfully recruited talented data scientists to leverage our data and build products powered by machine learning algorithms. I'm excited about the progress we've made on our digital transformation to date and look forward to further enhancements for our customers.

Effectively allocating capital is an important part of how we will create value for our company. Our priorities remain to: first, grow our current businesses; second, grow our company through acquisitions; third, maintain our dividend; and fourth, create value through repurchasing shares. In the first quarter, we repurchased 2.6 million shares of stock for \$255 million. Since we restarted our program during the fourth quarter, we have repurchased almost 8% of the company's stock.

We also successfully reintroduced ourselves to the debt capital markets during the fourth quarter. We issued a \$500 million 10-year bond at 2.15%. We are pleased to lock in this capital for this duration at these rates. As you can see, in the first quarter, we continued to demonstrate our ability to generate cash and our ability to deploy that cash for long-term value creation.

As we look ahead, while we still see uncertainty in the end markets we serve, we are cautiously optimistic about improvement during calendar year 2021. We are using the breadth of our product portfolio and the strength of our go-to-market teams to deliver solid top line performance. At the same time, we are managing our costs well while continuing to invest in our business for the future so that we will become a larger, more dynamic company.

As we look to grow, we believe that both for business performance as well as for the understanding of our company, we should more clearly separate our lighting, Lighting Controls and components business and our intelligent buildings business. To that end, later this fiscal year, we plan to reorganize our business into 2 units: Acuity Brands Lighting and intelligent buildings.

Acuity Brands Lighting will include our lighting, Lighting Controls and components businesses, and intelligent buildings will include Distech and Atrius. This new structure will better position Acuity to meet our customers' needs and strengthen our innovation through better prioritization and alignment within each unit. We also believe this change will provide improved visibility with respect to the operational performance and underlying results of these businesses.

Before I turn the call over to you for questions, I want to say that I continue to be pleased with our performance and our transformation. We are a company that delivers for our customers, our associates, our communities and our shareholders.

With that, I'll turn it over for questions, and we welcome Ricky Reece, our President, to join Karen and me for the question-and-answer period.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) our first question comes from the line of Tim Wojs with Baird.

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**Timothy Ronald Wojs** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Nice job, and Happy New Year.

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**Neil M. Ashe** - *Acuity Brands, Inc. - Chairman, President & CEO*

Thanks, Tim. Happy New Year.

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**Timothy Ronald Wojs** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I guess, maybe just first question I had is just kind of around maybe some broad commentary on maybe what you're seeing in the environment. I guess, first, if you think about specification, if you could maybe just kind of frame what your agents are kind of talking about in terms of backlog and project releases. And then secondly, when you think about some of your distributor and some of your home center customers, could you just characterize sales within those channels as well as how inventory looks?

**Neil M. Ashe** - *Acuity Brands, Inc. - Chairman, President & CEO*

Sure. I'll start, and then Ricky, why don't you add a little bit of commentary? So first, on the specification side on the independent sales network, I'd say that since I've joined the company, I've been impressed by the consistency of the performance through that channel. So the -- obviously, there was a pause at the beginning of the pandemic, and that pause will roll through the results over the course of the -- kind of the next quarter and such. But the consistent order performance and shipment performance of the agent network has been really, really impressive through this period.

At the same time, as I mentioned on my comments, we've been able to flex where the business has been. So whether that be through those channels by industry or through the retail sales network as we've -- as those sales obviously have increased. So that's the power of having this portfolio. And as we look forward, we believe that, that portfolio works for us in the same way. Ricky, would you like to add to that?

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**Richard K. Reece** - *Acuity Brands, Inc. - EVP*

Yes. Just a couple of comments. Very pleased on the retail side, as Neil commented, up 3% there. That is where we most participate along with the distribution side in residential market, and we are seeing good opportunity and believe we're participating effectively in that market. The spec cycle is alive and well. And as Neil highlighted, we do have a bit of a gap here as there was very little specification and projects being started during the summer. So that will impact us, as Neil highlighted, probably for another quarter or so. But the durability and opportunities in other areas of our go-to market team and breadth of our portfolio has helped to offset and mitigate some of that.

As far as backlog, we still see a pretty strong backlog as we talk to our agents and I -- there's a lot of it being held. We're cautiously optimistic with things looking better out there, that we'll see those projects go forward and job sites opening up, put aside the recent situation of certain parts of the country closing back down because of the spike in the pandemic. But the backlog is comfortable and we're feeling good about that.

Inventories, no real big issues that we're hearing with inventories. This is the year-end for many of distribution so they manage their inventories pretty tightly. Many of them have December or January year-ends, so not seeing a lot of excess inventory in the channel. So inventories, I think, are in pretty good shape throughout the industry.

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**Neil M. Ashe** - *Acuity Brands, Inc. - Chairman, President & CEO*

And then just one thing to add to that, Tim, on the -- as we think about kind of the performance we've had, if you look at -- if you look through, and this is a pretty good quarter to highlight this, the direct sales network, which is really industrial and Holophane, we obviously have a really strong product portfolio for whatever could happen on infrastructure investment over the course of the -- they have -- those projects have been a little bit stalled due to the pandemic, but we have the highest quality products to participate in that going forward.

And then finally, on the enterprise sales account, as Karen mentioned in her comments, those are largely big-box retailers that have not allowed access to their stores because they've been so busy through the pandemic. So that renovation cycle will obviously happen going forward. It's just not happening right now.

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**Timothy Ronald Wojs** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay, that's really helpful. I appreciate all that. And then maybe just as you kind of think forward about pricing and maybe cost inflation, we've seen yourselves and several of the other majors put out price increase letters. We've obviously seen some inflation in input costs. How should we think about kind of price/cost as you kind of work your way through the year? I mean is -- do you believe there's enough opportunity out there that pricing can offset any sort of cost inflation?

**Neil M. Ashe** - *Acuity Brands, Inc. - Chairman, President & CEO*

Yes. I'll start and then, Ricky, if you want to add to this. So obviously, and we indicated this, we've been working hard on productivity and the relationship between price/cost to maintain the gross margin over the course of the last 3 quarters or so. As we're looking forward, we're going to continue those efforts around productivity, obviously. And then we, as you pointed out, we also acknowledge that we're going to participate in the price increases. So our plan is to pretty aggressively manage that price/cost forward. And as we look -- I believe that we are probably best positioned to be able to do that.

Ricky, you want to highlight some of the reasons and where that's coming from?

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**Richard K. Reece** - *Acuity Brands, Inc. - EVP*

Yes. As you highlighted, Tim, we are seeing pretty significant increase in steel, aluminum as well, and we are a pretty big user of steel and aluminum. We have, in our 10-K, we use about 70,000 tons per year of steel and aluminum so that is impacting us. Polycarbonates is another area, use that in our lenses with the demand for PPE and other uses for polycarbonate is causing that supply-demand to get out of whack. And then electronic components is the other area with working from home, and everybody buying extra computers and monitors and so forth has put a lot of demand on that area that has impacted pricing.

Having said that, the industry has, at least in my tenure, 15 years or so in the industry, has been pretty disciplined and good about being able to recover these kind of commodity and electronic increases. The industry has reacted quickly and us as well and getting the word out that our intent is to offset these costs, and I believe we will. Our focus will be on the gross margin. We were flat sequentially this quarter despite some of those pressures. And as Neil highlighted, we're very focused on productivity and other areas to be able to offset any inflation cost issues we have. But price/cost, the objective is to focus on the gross margin and maintain our gross margin and recover any increases that we're experiencing.

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**Operator**

Our next question comes from Chris Snyder with UBS.

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**Christopher M. Snyder** - *UBS Investment Bank, Research Division - Analyst*

So first, kind of following up on the previous commentary on the margin outlook and specifically the commodity impact. Obviously, as you guys have noted, steel and aluminum have inflated pretty significantly here over the last couple of months. So I guess my question is, what is the typical lag before we should expect to have this show up in the numbers? And how significant do you think this headwind could be just based on what we've seen to date?

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**Neil M. Ashe** - *Acuity Brands, Inc. - Chairman, President & CEO*

Yes, I'll start, and Ricky, if you want to add anything to this. Chris, I think if you look at our -- as Ricky indicated on our last comment, if you look at our performance on price/cost over the course of the last 3 quarters and our performance on productivity, we've continued to deliver consistent gross margins through that period. That's been through ups and downs on commodity prices, ups and downs on volume, and that's our expectation going forward. So we're aggressively managing this obviously looking forward.

Ricky, you started to indicate the impact of some of those commodities and how we manage those. Do you want to repeat that or add to it?

**Richard K. Reece** - *Acuity Brands, Inc. - EVP*

Yes. Just to repeat, so you can do some of the math, the 70,000 tons that we used as steel and aluminum, that's predominantly steel. So you can look at steel, it has gone up substantially, up 25% or so year-over-year and almost doubled since the trough in the summer. So that's how much we're using there. And it is expected to mitigate a bit over time.

And then the other area is how long does it take to get through our turn of inventories. It takes us a couple of months to turn inventory. And of course, we have steel and work in process and so forth. So I'd say a quarter or so would be the lag between we would experience a cost increase and before it would run through our cost of sales, which is why announcing the price increase now, we have it come in effective in the middle of March, so it should become effective in time with when we'll start experiencing some of these increases.

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**Neil M. Ashe** - *Acuity Brands, Inc. - Chairman, President & CEO*

So you really see that in our fourth quarter. And again, we will continue to manage price/mix and productivity.

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**Christopher M. Snyder** - *UBS Investment Bank, Research Division - Analyst*

Yes. But no, I appreciate all of that color. So it sounds like as the commodity pricing comes through, you guys think you can offset that with higher pricing.

And I guess just following up on that. How has customer response has been to the price increases that you and some of the other bigger peers are trying to push through? Just given that historically, this industry has seen a lot more price deflation than price inflation. And we've seen pretty steady price deflation in a healthy construction market. And now we're kind of looking into 2021, at least on the nonresi side in a very challenged market. So I guess, how has the response been to this price increase? And does that allow for any maybe risk around lower-cost producers maybe trying to undercut?

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**Neil M. Ashe** - *Acuity Brands, Inc. - Chairman, President & CEO*

So I'd just address that by saying if you look at kind of where -- so first of all, it's early. So it's -- none of these are effective yet, even the first ones that were announced. Ours is at the middle to arguably low end of the amounts that people are -- have identified, including smaller competitors that are largely agent-sourced. So this is a consistent -- this price/cost relationship is consistent across all the industry participants.

And remember, Chris, that we're a diversified developer and manufacturer, so we source both components and finished goods from Asia. So we're pretty balanced in our ability to respond to wherever best opportunity is both on a sourcing perspective as well as on a sales perspective.

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**Operator**

Our next question comes from John Walsh with Crédit Suisse.

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**John Fred Walsh** - *Crédit Suisse AG, Research Division - Director*

Happy New Year. Good performance in the quarter, I'll echo the earlier comments. Want to come back to this price/cost question one last time, maybe ask it a different way. But -- so you announced the 8% price increase broadly in line with the industry. We'll just kind of put the number out there. As you look forward, can you hold the 42% gross profit margin as the higher commodity costs you identified come through? It sounds like you think you can but I just want to make sure I'm actually understanding exactly what you mean by you're going to continue to focus on the gross profit margin.

**Neil M. Ashe** - *Acuity Brands, Inc. - Chairman, President & CEO*

Yes. That's exactly what we mean. So as we said kind of in the last quarter and we're focused this quarter, we wanted to maintain margins in the 41%, 42% range. So as you highlighted, Ricky went through some of the components, but you can do the math and identify that those are an interesting portion of our cost of goods sold, but they're not the majority of our cost of goods sold.

And I'll clarify that it's up to 8%, not 8% across the board. And we are, as you pointed out, into kind of the mid-range of the competitors. So it appears that everyone's pretty rational about this right now, and it's our intention to manage to margin.

**John Fred Walsh** - *Crédit Suisse AG, Research Division - Director*

Great. And then in your press release, you talked about prioritizing and using the strong cash for growth investments and share repurchases. Just wondered if we could get a little bit more on how you're thinking about share repurchases. You've obviously bought back a bunch of stock, but are you thinking about targeting a certain percentage of float reduction and absolute dollar amount you think that's appropriate? Or maybe even a little bit of commentary on where you think the leverage of this business should be as you look forward?

**Neil M. Ashe** - *Acuity Brands, Inc. - Chairman, President & CEO*

Yes. Those are really good questions. We -- so obviously, we've been aggressive over the last period as there was what we believe to be unnecessary dislocation in the stock price. So we took advantage of that to repurchase at levels that average a little -- close to 80% of our current price. So we were pretty aggressive. Our expectation is that we will continue to use share repurchase as we go forward, maybe not to the magnitude that we did, unless there's another dislocation, then of course we will, but to opportunistically to create value for, we believe, create value for our shareholders.

On a leverage basis, as we reintroduced ourselves to the capital markets, obviously, that's -- we've been unambiguous about our desire to build a larger, more dynamic company and to use acquisitions to do that. And we view that balance as such. We were -- we talked a lot when we reintroduced ourselves to the capital markets about -- we wanted, a, for them to remember who we were; b, be familiar with the credit; and c, we talked to them about maintaining our investment grade. So that effectively puts a more -- unless we change our mind, puts a limit on the amount of leverage.

And so we'll use the -- we think it's -- we think our organic cash flow is a strategic asset. We believe that we can use that to, most importantly, grow our business. And then as we see opportunities like we did over the course of the last 5 or 6 months, we will -- we can be aggressive with our share repurchase to create value for the shareholders.

**Operator**

(Operator Instructions) Our next question comes from the line of Brian Lee with Goldman Sachs.

**Baoyi Zhou** - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

This is Grace on for Brian. Some questions. So with respect to your end market and returns through stability, can you give us some sense of what you're seeing by end markets that gives you some confidence for that view in 2021? And I have a follow-up.

**Neil M. Ashe** - *Acuity Brands, Inc. - Chairman, President & CEO*

Yes, I'll take that and then if Karen or Ricky want to add anything to it. Obviously, Grace, it's important to recognize that our product portfolio allows us to serve different end use markets. So -- and we've been specific in each of the last quarters of where we've seen strike. So that was warehouse and logistics, this part, education, et cetera.

So as you look forward, there -- if there is infrastructure investment, we will obviously benefit through that. If there's continued industrial investment, we will benefit from that. If people decide that they need different office configurations as people start to return to work and there's renovation in offices, I haven't seen a renovation project that did not change the lights. So we will participate in those.

So what we're -- where we've positioned ourselves both from a product perspective, from an investment perspective, from a capacity perspective, is to be flexible to adapt to these industry segments as they start to open up. So we'll -- I don't pretend that we have a crystal ball, so I'm not sure exactly which one is going to come when. But we have -- so therefore, we put ourselves in a position to be flexible.

And we've got the right product portfolio for each of those different segments and the ability to respond as they respond. So that's what gives us -- that's what makes us cautiously optimistic that as those end user markets start to improve, which is inevitably they will, we're in a good position to realize our unfair share of that.

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**Baoyi Zhou** - Goldman Sachs Group, Inc., Research Division - Research Analyst

Okay. As a follow-up, just wondering if you can quantify how would you characterize the stability in end markets. Has that returned to just flat year-on-year growth? Or like -- so you're not -- a little bit no longer declining? Or are you referring to like low single-digit or mid-single-digit growth? Just wondering if you can quantify.

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**Neil M. Ashe** - Acuity Brands, Inc. - Chairman, President & CEO

Yes. Obviously, we don't provide revenue guidance. And so you guys can interpret the -- where construction is and obviously as well as we can. So that could give us a good idea. I think the issue is not, and I think this is where everyone's minds are in this, the issue is not that things are -- whether or not things are going to come back. The issue is one of timing.

And I think I would use this opportunity to highlight something that we commented on in this call and we had commented on in the last call also, which is that our end performance has been pretty disparate across different geographic regions of the country. So in this quarter alone, our sales regions range from up 15% to down 13% in different regions. And that's driven largely by the impacts of the pandemic and the activity that does or does not happen in those areas as a result.

And so that's just a window into the inconsistency in the geographic market out there. So there isn't any problem with the broad -- the segments that we target. There's no problem with our product portfolio. There's no problem with our ability to serve it. So we're positioned for when some sort of normalcy returns, and those numbers should not be that wildly disparate in the future.

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**Operator**

Our next question comes from Christopher Glynn with Oppenheimer.

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**Christopher D. Glynn** - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

And just curious some of the comments on cautious optimism for the markets gaining some stability in '21. Does that kind of suggest the sequential seasonality into the current quarter might be kind of muted relative to the kind of normal pattern?

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**Neil M. Ashe** - Acuity Brands, Inc. - Chairman, President & CEO

I don't think so, Chris. As we think about -- Ricky had mentioned earlier, the specification cycle that took a pause at the beginning of the pandemic needs to work its way through the -- needs to wait to work its way through construction numbers, ours included. So I think that any -- kind of any sequential improvement that would obscure that seasonality would probably be counterbalanced by that.

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**Christopher D. Glynn** - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Okay. And anything encouraging or anything indicating out there? Any materiality of the opportunity for the germicidal initiatives?

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**Neil M. Ashe** - *Acuity Brands, Inc. - Chairman, President & CEO*

I'm smiling as I look at Ricky. We have this debate on a regular basis. And I will say that the people who run the business are at a certain level of growth and I'm at a different level of growth. So we are balancing that. I think that the -- we've seen a real and significant interest from large entities that recognize that they need to use this technology as a permanent part of their risk mitigation strategy going forward.

So I am increasingly confident that this is a long-term product portfolio opportunity, not a point-in-time product portfolio opportunity. None of us can quantify how much that is yet. So good news is it's a -- it appears to be a permanent or potentially permanent part of the product mix. And then less good news is it's hard to quantify exactly how much that's going to be. Ricky, is that accurately...

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**Richard K. Reece** - *Acuity Brands, Inc. - EVP*

I think it is. The interest is certainly out there. We just hit the market with the product so it's a little too early to see what the level of demand is. But very encouraged about the breadth of our product offering. We've got capabilities that are broader, we think, than anyone else in the market. And it's very optimistic area but very hard to predict right now, the timing of when people will start ordering.

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**Christopher D. Glynn** - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Okay. And appreciate the color. Last one for me. Working capital has been a nice source kind of back to the beginning of your fiscal '19, that the cash flow has been really terrific. Obviously, that can't go on forever. But just curious what you might comment in terms of ANI conversion or free cash flow outlook for fiscal '21.

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**Neil M. Ashe** - *Acuity Brands, Inc. - Chairman, President & CEO*

Karen?

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**Karen J. Holcom** - *Acuity Brands, Inc. - Senior VP & CFO*

Yes. So Chris, I think we would still expect to see our consistent cash generation of around \$100 million or so a quarter, targeting around \$400 million as we consistently have done. We have opportunities. We've made improvements in inventory but there's still room to go.

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**Neil M. Ashe** - *Acuity Brands, Inc. - Chairman, President & CEO*

Hopefully, there will be sales growth that will require some investment in working capital. So obviously, we've been a little bit of a beneficiary of that shrinking balance sheet. But as Karen highlighted in our comments, CapEx is largely stable at about 1.5%, and our days have improved. So we'll try and maintain that improved days performance.

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**Operator**

Thank you for participating in today's Q&A. I would like to turn the call back over to Mr. Neil Ashe for closing remarks.

**Neil M. Ashe** - *Acuity Brands, Inc. - Chairman, President & CEO*

Thank you. We appreciate you spending some time with us. We feel like we're delivering consistent and improving performance throughout this pandemic. We've demonstrated the ability to deliver at or better than the market and to maintain our margins and to turn that -- those revenues into cash.

And so as we mentioned in the call, we are confident in our product portfolio. We're confident in our ability to serve the market as it currently stands and hopefully, as it begins to rebound some point in the calendar year. So thank you for the interest you've shown in us, and we look forward to talking to you again this time next quarter.

**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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