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EDITED TRANSCRIPT

AYI.N - Acuity Brands Inc Investor Day and Q3 2021 Earnings Call

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PRESENTATION

Operator

Welcome to the Acuity Brands 2021 Investor Day.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

Good morning, and welcome to the Acuity Brands 2021 Investor Day and Third Quarter Earnings Update. As a reminder, some of our comments today may be forward-looking statements based on management's beliefs and assumptions and information currently available to management at this time. These beliefs are subject to known and unknown risks and uncertainties, many of which may be beyond our control, including those detailed in our periodic SEC filings.

Please note that the company's actual results may materially differ from those anticipated, and we undertake no obligation to update these statements. Reconciliations of certain non-GAAP financial metrics with their corresponding GAAP measures are available in our 2021 third quarter

earnings release and in the appendix of the accompanying Investor Day 2021 presentation, both of which are available on our Investor Relations website at www.investors.acuitybrands.com.

Today, you will hear from our Chairman, President and Chief Executive Officer, Neil Ashe; our Senior Vice President and Chief Financial Officer; Karen Holcom; our Business Presidents, Trevor Palmer and Peter Han; and a selection of our key senior executives, who will give you an update on the Acuity Brands' long-term strategy, in addition to providing information around the quarter performance.

After our financial update, there will be an opportunity for you to ask questions. (Operator Instructions) As a reminder, we are webcasting today's presentation live. Thank you for your interest in Acuity Brands. You will now hear from Neil Ashe.

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

Welcome to the Acuity Brands Investor Update. We're really excited to be with you today to talk to you about the future of our company, to introduce you to our team and to talk through the results of our fiscal third quarter 2021. So we're going to do it a little differently today. Rather than a couple of us and a lot of PowerPoint, we're going to introduce you to our broader team, and we're excited to do it. So first, we're going to talk to you about our Lighting and Lighting Controls business with the team who runs it. Then we'll move on to our new Intelligent Spaces Group. The team that's been assembled to develop and grow there is really impressive, and we're excited that you get to interact with them.

After that, we'll dive in and talk about our culture, our impact on the environment as well as how we actually run the company. And then finally, Karen will come and she'll talk to you about our capital allocation priorities and our results for the last fiscal quarter. So let's get started.

As we look forward, our company is unique. Our Lighting and Lighting Controls business is the market leader in North America. We've returned the business to growth, and we've increased the margins.

How have we done that? We've done that through product and productivity improvements as we increased the vitality of our product portfolio, and we brought the precision of a digital company to this business. As we look forward, our strategy for winning the next decade is very clear. We're going to increase the service levels in the industry. We're going to increase the amount of technology that's both in our products and in how we provide those services. As of today, we've created a new segment, we call the Intelligent Spaces Group. That group has the opportunity to do exactly what its name says, finally make spaces intelligent.

It's a collection of really valuable technology assets and some incredibly talented people who we've assembled to go prosecute the opportunity. Distech is an open protocol and open source distribution technology, which powers buildings. Atrius is the opportunity to create applications, which make a real difference in those buildings and spaces. Our business is financially very efficient. We generate a lot of cash, and we can create a significant amount of value through capital allocation. Our capital allocation priorities are clear. We're going to grow our current businesses. We're going to grow through mergers and acquisitions. We're going to maintain our dividend.

And when there's the opportunity, we're going to create value through share repurchase. We've also invested significantly in our culture. We're a values-driven organization, where the best people come because they feel like they can do their best work here. We're also making an incredibly positive impact on sustainability. What we do matters. We're doing it because it's the right thing to do and because it's a good business opportunity. We're proud of the improvements we've made in our company.

You know that the world has changed. People's expectations have changed, digital has changed everything. You can operate every business with the precision of a digital business, and every business needs to be digital going forward. So we've begun that transformation here at Acuity Brands. The process we use is called Better, Smarter, Faster, and it is exactly what the name implies. Better, Smarter, Faster is our process that takes the best of Lean and the best of digital product development. And it starts from a very simple promise, which is that the satisfaction of the end user, the customer, is all that really matters.

And so we identify what's going to drive that satisfaction. We compare that to what we currently do, including data, to understand how are we really doing. And then we chart a path that gets us from where we are to as close as we possibly can to the art of the possible and then we put it

in front of customers, and we do it again and again and again, so that we continuously improve. As we get better, smarter and faster, it's more and more important to be focused on where we're going. I'd like to say that life is lived in the windshield and not the rearview mirror. And so as we accelerate the pace of our organization, it's even more important to focus on where we're going and how we're getting there so that we can operate with precision and consistency going forward.

So the core of any company is people. And I am super pleased with the collection of people that we are bringing together here at Acuity Brands. Talented people who have been in the company for a long time and new people who are bringing fresh ideas, perspectives and experiences mostly around technology as we bring them together in a unique collection of talent. You need to look no further than the leaders of our 2 segments to demonstrate the talent that we're bringing together. Trevor Palmer is a veteran of Acuity Brands, and he's off to a great start leading the Lighting and Lighting Controls business. Trevor understands technology. He's an innovator at heart. He's driving the product vitality and the pace of operation in the business and leading to significant improvements that you're seeing.

Peter has been a leader in the technology industry, all the way from start-ups to the largest technology companies in the world. He knows how to spot new technologies, new business models and he's a talent magnet, and he's demonstrated the ability to put all those things together and build large businesses. When we talk about the impact that we can have, I'm really proud of how our whole team has come together to make a material impact in a positive way.

(presentation)

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

So first, on our products and services, sustainability is what we do. It's at the core of who we are. We have made a pledge that are put in place products and services will mitigate the impact of 100 million metric tons of carbon by 2030. That's a really, really big number. Additionally, in our own operations, we've reached carbon neutrality over the course of the last year. We're releasing a white paper, which details how we're making that 100 million metric ton impact so that others can learn from what we're doing. And hopefully, they can share with us things that they're learning and we can get better along the way.

And then as we think about the culture of our organization, we're building an organization where the best people come because they feel like they can do their best work here, because they've bought into our values, they're bought into our mission, they're bought into who we are and what we are doing, and they believe that they can make a positive contribution and they'll be rewarded for it. And then finally, over the course of the last year, we've made necessary governance changes from our Board to our pay structure and everything in between so that all of our interests are aligned, our shareholders, our associates, our customers and our communities.

Our ability to allocate capital effectively has been and will be a source of value creation for us going forward. So when we think about our priorities for capital allocation, they're very straightforward. The first is we're going to grow the businesses we already have. The second is we're going to grow through mergers and acquisitions, both in our current businesses as well as entering new businesses.

The third is that we are going to maintain our dividend and then finally, share repurchase. We view share repurchase as the opportunity to create permanent value. We demonstrated over the course of the last year that if there is dislocation in the stock price, we can and will be aggressive to create value, and we did. We bought back about 10% of the company for less than 1 year's free cash flow. So taken together, as we look forward, we are confident that our ability to effectively allocate capital will create long-term value for our company.

So let me dive in and talk about our acquisition strategy. There are really 2 buckets there. First is adding to our existing businesses. We're proud of the addition of OSRAM in the digital solutions business to our portfolio. What does that allow us to do? It allows us to, number one, control the technology in our luminaires and our ability to innovate faster and scale. The second is it provides us a path to the rest of the market, to participate in an OEM business that supplies other manufacturers. And finally, it allows our supply chain to be more robust and resilient going forward. We're really pleased about the addition of Rockpile. It brings to us an additional capability, the ability to participate in earlier-stage companies focused on Edge AI, which are consistent with the direction we want to go as we make spaces intelligent.

We think there's an opportunity to continue to deploy capital to accelerate that. We're excited over the next 12 to 36 months to have the opportunity to add another large business to our company. So what are we looking for? We're looking for sectors that have systemic growth opportunities, where we have the opportunity to demonstrate what we've done in our Lighting and Lighting Controls business, the introduction of Better, Smarter, Faster, the transformation that we've done there, and our ability to develop technology like we're doing in our spaces group to revolutionize another sector.

We're confident that we can create significant value when we do that. AYI is the market-leading Lighting and Lighting Controls business in North America that we've returned to growth at attractive margins and returns. It's the option for us to build a very valuable business in technology by finally making spaces intelligent. It's the ability for us to deploy capital to grow these businesses and to add new businesses to our company. And finally, and most importantly, it's an organization of culture and people that have come together because we're passionate about what we're doing, and we're excited about where we can take this company. And so with that, let's dive in and learn more about Lighting and Lighting Controls.

(presentation)

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

Acuity Brands Lighting is the leader in Lighting and Lighting Controls in the North American market. We've returned the company to growth and see a bright future ahead for us. Lights are essential to all spaces. Where there are people, there are lights and there is an opportunity for growth. The opportunity for growth is both in existing and new spaces. Greater than 85% of the planned indoor environments are already built. In order for the world to meet broad sustainability goals, we will need to materially increase the retrofits of the built spaces with energy-saving technology.

Lighting and Lighting Controls are a huge part of this. Lighting Controls, which provide functionality beyond illumination are growing in popularity. When the industry was transformed by LED, it was an inflection point for controls and luminaires to do more. We should now think of luminaires with embedded network controls as a constellation of sensors, which deliver value beyond illumination. As the market leader, we offer a broad grouping of the best brands and categories and as a result, can address more of the market than others at a high level of service and consistency.

We have the #1 market access in the industry, comprised of the leading independent sales agents, electrical distributors and retailers. This is a big part of our success today and will be tomorrow. To continue leading the industry, our strategy is simple, challenge the service levels of the industry. There is an opportunity here to provide a consumer-grade experience to our channel and change the industry's expectations on what service means. Data and software will play a part in the transformation of the industry. We will aggressively reinvent the service experience using technology.

We will also maintain a high product vitality and continuously reinvent our portfolios faster than others can. By doing this, we will continue to lead the industry's technology curve. As a Lighting and Lighting Controls manufacturer, our portfolio provides a consistent integrated controls platform with luminaires that others cannot. We will continue to use technology like this to differentiate our portfolios and lead the market as a result. We're excited about the opportunities for growth in the future. Our strategy to continue leading and reinventing the industry is sound, and Acuity Brands Lighting and our associates are committed to continue leading the market.

Sarah Golish;SVP, Digital Lighting Networks

Often, we get asked if we sell light bulbs. We do not sell light bulbs. We actually sell light fixtures that we call luminaires. A luminaire is made up of a couple of key pieces of technology. The first is a light engine, which contains the LEDs, the LEDs are what drives the light. Then from there, you have the driver and the driver is actually the brain of the luminaire. It first converts AC to DC power to power the LEDs. Secondly, it is actually where all of the controls occur. So it takes the input from embedded sensors and it is able to create control for a space.

When you embed sensors into a luminaire, you are able to do things like dim the luminaires, monitor for occupancy or even create an experience with light movement or color. Often, you want to be able to group luminaires together to be able to control a space. In order to do that, you either wire them together or even better, embed a wireless sensor into the fixture. That then allows you to control a luminaire individually or put them together to create an experience for the occupant, whether it's for an individual room, a building or even across the campus.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

When we think about product vitality moving forward, we can proxy it to the luminaires, the Contractor Select portfolio, architectural controls, but we really want to lead the technology curve of the industry, right, and reinventing these portfolios faster. So what are some of your thoughts, maybe just go around the room and...

George McIlwraith;SVP, Commercial Lighting Solutions

Well, from my perspective, I think that traditionally, we've looked at product vitality, mainly focused on those exciting new products and technologies that we bring forth to the market. And I think we've now -- and going forward, we've really viewed this in a much broader context. You've often heard us use the expression that we have the industry's broadest portfolio.

Well, we also have global competition today, and we have to keep that portfolio competitive every day, whether it's in performance or cost as well as bringing the new and exciting technologies to the market. And typically, we bring 75-plus new product families to the market every year, which is fantastic. But when you look at the broader portfolio capability that we have, whether it's to upgrade the performance of our products, think about when the LED chip improves, which it does about every 18 months.

Now we have to depopulate the luminaire of those chips, adjust the driver technology and now we can bring down the scale of the luminaire. And a great example of this in the fulsome value proposition that it brings is this new CPHB, which is a new high bay that we're bringing to the market for the warehouse and logistics market. And it's an 80% reduction in cubic volume and the name stands for Compact Pro High Bay. 80% reduction, if you just contemplate that, think about the impact on raw material usage, think of the impact on trade, think of the impact on packaging. You think of the ease of installation now when you're handling something that's much, much smaller, it's almost a virtuous cycle of the customer base that is satisfied with that. And at the same time, it gives us -- it feeds right into carbon footprint reduction because you have the energy saving for the customer, which is fantastic.

But now you have the energy used to -- that's consumed, to produce the lesser material, the lesser packaging, the lower freight expense. And so I look at this as being a fantastic position for us to not only create new and exciting things but to upgrade and improve and reduce the cost and improve the value proposition for the broader portfolio.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

It's kind of interesting the way you're thinking in terms of the portfolio and the CPHB is a great example of not only how you're creating a new product but actually how you're thinking about the next generation of products and what they're going to look like in terms of kind of form factor, content, technology, what's the customer experience going to be like? What's the contractor experience going to be like?

George McIlwraith;SVP, Commercial Lighting Solutions

And Trevor's been in the market now for about 90 days. And just what we've seen in the first 90 days with the acceleration, it won't just be one of our most successful products. It might be the most successful product launch we've had in the history of the company. And don't forget that it comes with the embedded controls capability. It's manufactured in multiple locations for service continuity, which is fantastic in these challenging times. And it's just an example though of how we're looking more fulsomely at the broad value proposition of not only the new and exciting, which is great, but the broad portfolio that constantly needs to be energized.

Sarah Golish;SVP, Digital Lighting Networks

It's just so interesting to see embedded controls really start to take off for -- within all of our luminaire portfolios, right, all the way from JOT, which is much more positioned to the contractor created with them in mind, all the way through to embedded controls that are driving your architectural platforms.

Rick Earlywine;SVP, Architectural Lighting Solutions

Yes, our focus has been to be able to work directly with the architect and the lighting design community, to be able to bring their visions for a given project alive. And with our embedded controls, we're able to do that. Classic case is right here in Atlanta at Atlanta Hartsfield, Jackson International Airport. If you drive under the new canopies that they've created, you'll see that they're beautifully lit with white static light. But come July 4, it will be red, white and blue. And on St. Patrick's Day, it will be green. And perhaps pink during breast cancer awareness. So that's just one of many opportunities where our challenge is to use that technology, whether it's Hartsfield, Jackson; the 9/11 Memorial at New York City; the new KPMG Learning Center in Orlando that we've -- have used our product and embedded controls is a great opportunity for us to take that leading technology and work with that architect and lighting designer to deliver what they want out of that project.

Trevor S. Palmer - Acuity Brands Lighting, Inc. - President

Yes, it's very exciting to me to think of. We were talking about an industrial luminaire, right, just a few moments ago and talking a little bit about controls and how we can get technology to do heavy lifting for the contractor and drive preference there with JOT, but also how we're creating products that actually stimulate an emotional experience. When you think about how beautiful a canopy is and what was done at the Memorial in kind of New York City, I mean, those are things that we should all feel very good about, right, overall, and it kind of represents what's in our DNA as a Lighting and lighting technology business.

Rick Earlywine;SVP, Architectural Lighting Solutions

The other important thing, for every one of those projects, there's hundreds of K-12 schools, health care facilities, office complexes, major retail establishments that have our embedded technology and luminaires and so it's not just the high profile. It's those everyday, major vertical markets that you see that we are able to be able to go and win the business there.

Trevor S. Palmer - Acuity Brands Lighting, Inc. - President

So big part of the opportunity we have in front of us is kind of having more influence or control over each one of the pieces. So whether it's the luminaire itself and redesigning to some of the new characteristics, what the next generation of these luminaires are going to look like and be for the customer. The technology inside, of course, we can't go through this product vitality discussion without talking about the acquisition of OSRAM. So what that means in terms of our product vitality overall and controlling technology, et cetera, et cetera.

Sarah Golish;SVP, Digital Lighting Networks

Obviously, OSRAM is a big piece of our future as we go forward, our most recent acquisition, and it really allows us to expand that portfolio of drivers from eldoLED all the way now down across that portfolio, so broadens it. But lets us really work with the team, innovate, drive where we want the products to go forward, as well as really be able to control the experience for our customers going forward, whether it's the technology inside as well as the entire luminaire.

George Mcilwraith;SVP, Commercial Lighting Solutions

When you think of the heart of the system being the control system and the heart of the luminaire being the driver and the integration of those 2, we've seen it with nLight, nLight AIR and of course, the eldoLED brand. Now we expand that into OSRAM, which will take us into more industrial applications, more outdoor applications, the breadth of application that we can address now really aligns well with the breadth of the portfolio. And our ability now to think about how to highly optimize that, this gives us much more influence in those road maps, to work closely with those technology providers. And it's when you start to allow your mind to work forward into what is potentially possible to optimize the solution, the system, the network. Again, it's very exciting about where this is all heading.

Sarah Golish;SVP, Digital Lighting Networks

And it gives us scale, right? It starts to give us -- in a world where components and shortages are all over the place, this gives us more scale with our suppliers.

George Mcilwraith;SVP, Commercial Lighting Solutions

Yes, absolutely. So when you think about the role of electronics today in our industry, it's far, far greater than ever before, and we've witnessed that. Remember the MOSFET shortage a few years back, then the supply issues during the early days of COVID. And here now we are, we're competing globally with the expansion of the EV industry, the 5G telephone systems. And the demand for electronic components has never been greater. And this gives us much greater influence to work with those large corporations worldwide, to see us as the industry leader in North America and to want to support our future technology growth and the continuity of our supply, especially in a world where there's allocations and such. So there's so many dimensions where this really fits in with making us not only a better business but a better support mechanism to our entire customer base.

Rick Earlywine;SVP, Architectural Lighting Solutions

And let's not forget quality. It gives us the opportunity to be able to really maintain the level of quality that's -- we're used to from an Acuity perspective, the ability to deal with customers when they have problems directly, there's so many opportunities for us to continue to cap premium quality.

Trevor S. Palmer - Acuity Brands Lighting, Inc. - President

The opportunity to become a key strategic supplier to the industry for -- in luminaire technology beyond just our own form factors. That's a very exciting opportunity for growth. What does growth look like in the context of, kind of our product portfolios and where we're focused kind of in the future? And what are some of your thoughts, George?

George Mcilwraith;SVP, Commercial Lighting Solutions

Well, you've really got to go to Sarah because embedded control is our growth engine. And so I think that's really where we have to start. That is an incredible trend in our industry. And Trevor, as you and I debated many times, this has to become bigger than just where energy codes specify. And that's the transition that we're seeing nationwide.

Sarah Golish;SVP, Digital Lighting Networks

It's a simplification of controls, right? By embedding them in the luminaire, it just makes it easier to install. It makes it easier to set things up, control it going forward. And then on top of it, as we look at the future from at least a controls perspective, which is obviously part of everything, it's about

the software, right? How do we make it easier for our contractors to design, to install? How do we make all of our controls easier to operate, so that it becomes just sort of -- it's in everything. It just happens.

Rick Earlywine;SVP, Architectural Lighting Solutions

I think it's important because you said easy to install for the contractor, but we've also talked about the environment, doing things like we've done with Hartsfield. And I think we're seeing that in the marketplace where the buying influence is bifurcated into -- you still have the architect and the lightning designer driving specifications on plan and spec jobs and our ability to be able to do things like we have with the frescoes and our technology that we have there. It's critical along with our architectural luminaires. But on the other hand, you've got the contractor that's driving a lot of that design build type products that between the commercial product offering and some of the things that we're doing to make it easier to install with architectural product. I think it's critical so that we can attack, as you see, the varying buying influences change and the contractor having more influence our ability to be able to service them.

Trevor S. Palmer - Acuity Brands Lighting, Inc. - President

It's exciting to me that you look at some of the products and technology we're deploying or we have deployed over the past year or so. So if I think of just one touch from a Controls perspective, and that product and technology is really doing a lot of the heavy lifting that would need to be done by either the factory or an agent and embedding it in our best-selling luminaires or the most used luminaires, that's solving the contractor's problem. And let's face it, customers vote with their wallet, right? And so it's very easy to understand why these new technologies and these new products are becoming so popular because we're solving real-world problems where we...

George McIlwraith;SVP, Commercial Lighting Solutions

Well, Sarah talked about making it simple and easy, the use of technology. A conference room like the one we're in today can be done with your standard high-volume BLT luminaires and a wall-mounted switch that is JOT-enabled and the contractor needs no other help, no commissioning, and it will operate with product he can buy straight off the shelf from the distributor. But I think it's really important that we recognize when we all come together and what that ultimately means for value for the customer.

Rick brought up earlier, the canopies at Atlanta Airport. Without the technology and those color-changing canopies, which are truly iconic now, you think about -- you forget that all the luminaires from our business were in the land side, and the air side. Land side being the main terminal where you arrive, the air side being where the planes come in on the outside terminals, A, B, C and D. And you think every one of those luminaires internally had the eLDOLED drivers and the nLight AIR technology. And you start to see how the 3 businesses work together. And yes, there is a few luminaires in the airport that are not Acuity's, where the architect has specific things they wanted to achieve with those strange shapes and everything else, but they also all have Acuity's technology inside, because it had to be a seamless technology experience. And I think that's just a great example of how it's not just a portfolio of products. It's solutions for customers, applications, and iconic facilities like Atlanta Airport.

Rick Earlywine;SVP, Architectural Lighting Solutions

And that's what with the OSRAM acquisition and what where we've put the focus on the technology will allow us to continue to grow over the next 3, 5 years is to be able to lead that technology curve and do it with the technology inside. There's things we can do optically. And you mentioned with the product itself, sustainability and some things we can do there. But ultimately, it's going to come down to that technology that drives the overall project, and we're positioned well to be able to lead in that area for the future.

Sarah Golish;SVP, Digital Lighting Networks

Our wireless portfolio, nLight AIR, right there, right? It just gives that ability to easily renovate and retrofit the space.

George Mcilwraith;SVP, Commercial Lighting Solutions

Look how quickly it's accelerated past the wired solutions. And at first, folks were a little bit apprehensive with wireless technology. And now it's pretty ubiquitous everywhere. And we've figured out how to make the technology very, very robust and utilizing whether it's Bluetooth or Internet solutions. Look at how our knowledge in that area has greatly expanded.

Rick Earlywine;SVP, Architectural Lighting Solutions

And software, you mentioned software. That's become more and more prevalent in what we're doing from that perspective, is leading on the software side of the business as well.

Sarah Golish;SVP, Digital Lighting Networks

But on top of it, right, we don't just do lighting. We've made investments now with the health, the safety, right? As the world starts to come back from COVID, we've made some great investments in GUV.

Rick Earlywine;SVP, Architectural Lighting Solutions

Right. This positions us to grow in a lot of niche areas -- GUV, where we've rolled out the broadest portfolio in North America to be able to make it safer for people to work and play be it DC to DC with the modulus and other platforms that we're looking at. It's positioned us to be able to grow into the long-term future by having this technology backbone.

George Mcilwraith;SVP, Commercial Lighting Solutions

I do want to add there, though, just to the Care222 technology in break rooms, restrooms and the basic facilities that are in every building, I think that, again, just gives us tremendous influence in the complete building specification. And I'm really excited to see how this will go beyond just the period of time where we're thinking about the pandemic. But I think as folks think about how to be prepared if there's another such event in the future, I think that really puts sliding in a very good position and Acuity at the center of that industry innovation.

Well Trevor, how many times have you heard us use the expression that when Acuity puts its shoulder behind something, which is really us committing our people, that their enthusiasm to take on a challenge, be it technical, be it global competition, supply chain, all of those things, I'm always amazed by their ability to coalesce across any organizational boundaries and become 1 team. And when we focus and you watch the creativity and the ideas in almost any challenge they undertake, there's never any doubt in the outcome, and I'm always amazed by how many times we surprise ourselves.

Just look at the -- how quickly Contractor Select has come into the marketplace in 2.5 years. And you look at the position that it takes in the market, the growth it had in the summer. And now it's talked about as a common term, like it's been here for all 75 years of Lithonia Lighting.

Trevor S. Palmer - Acuity Brands Lighting, Inc. - President

Yes, absolutely.

Sarah Golish;SVP, Digital Lighting Networks

That was a key project, too, right? We brought people together from all the different groups, marketing, product, sales and really just pushed out that launch and that just has taken off since then.

Rick Earlywine;SVP, Architectural Lighting Solutions

I think the other thing we have is the people that we have here want to do the right thing the first time, and that's the other, I think commonality across all the folks that we have. There's not that questioning a customer on whether or not you believe what they're telling you or whatever. We take care of customers' problems throughout the entire chain, internal, external customers and there's a genuine desire throughout the organization to do the right thing.

Trevor S. Palmer - Acuity Brands Lighting, Inc. - President

Yes, I think even internally, and that culture is contagious. And even going out and seeing members of our independent sales network. The agents, they really see, they really understand and thoroughly see and they want to be a part of the culture, right, part of a winning team, which is Acuity. And they really see the opportunity to work with the people that they view as the best in the industry. And I feel like another really exciting opportunity for us is, to kind of carry that forward and cultivate the talent. And really, I think that's a big part of our winning recipe.

Sarah Golish;SVP, Digital Lighting Networks

And I think we've got a lot of like really great initiatives to help our associates be able to develop themselves going forward, right? We really put a focus on it over the last year and as we go forward, just helping people figure out what those next steps, are figuring out, how do we move from like my team to yours, George or yours, Rick, right? How do we really cultivate, because we have some of the best people and the best talent in the industry.

Rick Earlywine;SVP, Architectural Lighting Solutions

And we've had to make a radical change. When we started, we're blocks of steel with copper wrapped around it. Now we're a high-end technology company and the type of people we hire are coming from a different environment, be it software or be it the electronics side and to be able to get those folks be able to work together, I'm always impressed that that's continued, and we've continued to be able to maintain that environment here even as we pivoted and made the change to becoming -- from a manufacturing company to a technology company and still been able to do that.

George Mcilwraith;SVP, Commercial Lighting Solutions

I think a great example of our people, though, as we rallied around the notion of sustainability and how we took it beyond just the traditional, what we do with our products, what we do with the energy of our customers. And that's fantastic, from reducing the carbon footprint. But then you think about what they try to do for their local community, to network themselves and the projects they undertook, the food banks, all the things that they've done there. And then even bringing it into the workplace in terms of our own facilities, water utilization, electricity, segregating the waste, I mean, I just see the way they enthusiastically embrace things. And you almost see it in every avenue that we choose to focus on.

Sarah Golish;SVP, Digital Lighting Networks

When I think back to COVID, right, that hit. And we -- our teams pivoted like immediate. Overnight, we kept everything running. I mean we talked -- went out and talked to some of our agents, and they did not feel like we missed a beat, and that's all because our people were ready to get on teams and keep moving and it's really pretty awesome.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

Yes. You think about the change, I think it was around March, early March, maybe second week of March. And we went from full time, nearly full time in office all the time, which is great, to flipping a switch to the following over the weekend to everybody working remotely. And I don't feel -- and again, this is a testament to the talent and the attitude of the individuals. It could have gone either way, right? But I feel like the exciting piece is, the connectivity didn't change, the productivity output didn't change. You could even argue we got more done, right, in many ways, right? And it's -- that's -- that really culminates with kind of the attitude of the individuals here and the culture that's been cultivated over time.

Rick Earlywine;SVP, Architectural Lighting Solutions

And we've been rewarded for it because it gave us the opportunity to get more business. I think the customers realized that we had the ability to be able to do that. That was an opportunity for us to grow.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

Sure.

George Mcilwraith;SVP, Commercial Lighting Solutions

I'm amazed that during that whole period, our product vitality went up. So none of all the big innovative projects broadly across the portfolio slowed down.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

True.

George Mcilwraith;SVP, Commercial Lighting Solutions

Which really are looking back and that you would have assumed there would have been some type of delay. But the notion that folks found a way once again. And really, you could ultimately say, at the end of the day, our #1 differentiation factor is the great folks that make up Acuity Brands Lighting.

Sarah Golish;SVP, Digital Lighting Networks

Well, I'm just excited too, as we look forward, right, we're going to learn from all -- what we've learned through COVID, and we're going to take that, and we're going to build a culture for the future, which is going to be sort of this blend, right, of remote versus in-person for those roles that need to be and really set, I think, a very modern work style going forward.

George Mcilwraith;SVP, Commercial Lighting Solutions

Well, Rick, as you think about it, there's never been a more exciting time to be in the lighting business. And you've been in it a long time.

Rick Earlywine;SVP, Architectural Lighting Solutions

The good news is -- I've been asked, why have you been here this long? It's because I like the people I work with.

George Mcilwraith;SVP, Commercial Lighting Solutions

That's good.

Trevor S. Palmer - Acuity Brands Lighting, Inc. - President

Hey, gents, thanks for meeting this morning. I just wanted to spend a little bit of time with you talking about our thoughts on the channels to market moving forward and what opportunities we have for growth. So maybe I can start with you, Jose, independent sales network, the agents have obviously been a big part of our past success, and we see them as a big part of our future success. So what are you thinking through as you're planning today moving forward on what the agents mean to us and what the channel looks like?

Jose Cordova;Vice President, Channel Sales

Absolutely. So if you think about the independent sales network, they are representative of manufacturers in the local market. What is great about the independent sales network is that they can adapt to the nuances of that local market. So call it, let's say, for example, a different construction code or an energy rebate, just how important for that market might be sustainability. So the ability to adapt to the needs of this contractor or the specifier or the electrical distributors, it's very important, makes them bring that value to the local market. So it's critical for them to make sure that they have the right products to offer and the right service model to offer -- to serve the needs of those individuals.

I would say for us, I mean, we've had a very strong relationship with them for over 30 years. We've been together and a relationship...

Trevor S. Palmer - Acuity Brands Lighting, Inc. - President

Is that the average tenor?

Jose Cordova;Vice President, Channel Sales

It's about the average tenor.

Trevor S. Palmer - Acuity Brands Lighting, Inc. - President

The average tenor.

Jose Cordova;Vice President, Channel Sales

Yes, the average tenor is about 30 years.

Trevor S. Palmer - Acuity Brands Lighting, Inc. - President

Very strong relationships then?

Jose Cordova;Vice President, Channel Sales

Yes. And it's -- I would say, it's a great relationship in the sense that we need them as much as they need us.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

Yes.

Jeff Teasley;Performance Lighting Systems;General Manager

Being in the Los Angeles market, being in California, where energy codes are so important to us, their investment in the digital transformation and LED product and in the ability to control those fixtures at a level that no one else in the industry can do has been so key to our success. They are continuing to separate themselves from other people in the marketplace and are going to maintain a significant leadership position in the market as we move forward. That is going to allow performance lighting and other agents to continue to distance ourselves from our competitors in each of our markets.

Jose Cordova;Vice President, Channel Sales

So just to put it in simple words, I mean, we always want to make products that deserve to be chosen, and they have the responsibility to ensure that those products are in fact chosen. So as you can see, it's -- we're -- we need each other.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

Yes.

Jose Cordova;Vice President, Channel Sales

When you look at just agents in general, they want to bring that differentiated value to the local market. And we have those products. And we have those broad portfolio of products of lighting and lighting controls and that offering. So at the end, what I would say is that their local relationships, combined with our broad product offering, is really what makes us the leader in the market.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

Awesome. Well, likewise, for retail, right? Retail is another channel of interest for us. We obviously have the Contractor Select product range. I know you've been doing some great work to kind of cultivate the relationship even further. What plans do you have? What can you tell us about where you are with that?

Terrance Oliver;Vice President of GM Home Center, Digital Retail and Contractor Select

Thanks, Trevor. So the most important thing about retail is ensuring that we have the best products at the best price at the right placement in our retailers' platforms. I've been working pretty relentlessly with our partners to ensure that we pick the best products to go on their shelves because it's important because of the customers and end users are crossing multiple channels. Some of them are in the agency network as well as online. And we saw this through the COVID times of last year, where lots of customers were shopping across multiple channels. They're expected to get packages at their home, at their place of work, even on a job site. So it's important that these channels coexist and work together because customers are starting to expect it. And we need to meet the customer exactly where they're at, where, when or wherever they're at.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

Yes, that sounds, I mean, so classic, right product, right price, right place, kind of 101 basics and getting those basics really right is going to make our customer and our channels more efficient and gives us a better opportunity for growth moving forward. You can't think about these things and what we're doing overall with our channels to market in the business without introducing technology, right? And we're -- this is kind of thematically what we're doing within the business is applying software and data. So if I can go to you again and say, how do you think data and software creates a bigger opportunity for the retail channel to market?

Terrance Oliver;Vice President of GM Home Center, Digital Retail and Contractor Select

Trevor, my background is in e-commerce and technology and data empowers the business. We're seeing that today, and we're going to double down on that as our business continues to progress. If you think about the digital website, content is king, the item page, videos, installation videos, all those key components to explain what the features and benefits are for the customer. So technology will help enable that as we scale our retailers as well as our agency network using forecasting models. Forecasting is going to be an amazing discipline, driven by algorithms that allow us to predict and be more predictable in the future so that we understand demands again around understanding what products and where they need to be placed. The key part there is going to enable a more profitable business for us.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

Yes. I mean the great thing is getting those things great for the retail market, right? You think of retail and how that leads into distribution, how that can make that better, but also how we can service and serve our agency channel to market. So what are your -- some of your thoughts on when we think about technology and kind of some of these product and distribution basics, how does that affect our independent sales network?

Jose Cordova;Vice President, Channel Sales

It's a good question, Trevor. And Terrance has touched on some of those things. So if you think about an agent, let's think about the local market and the segments, right? So we have the construction segment and then we have what we would call a stock and flow segment. The construction segment is a typical segment that goes through the -- through certain phases of construction phases. We have the planning phase, we have the design phase, then we go into the bid phase, and then finally, the build, which is the construction.

Then on the stock and flow, I would say that's more of maintenance-type work, maybe some small jobs that you don't have necessarily an architect involved. So let's go into that construction phase. And I'm just going to go quickly, just describe through it, and I'm going to go fast. Typically, this is not as easy as I described it. But just so we understand and then how we can better service it through technology, as you ask. So let's do an example. So let's think about, for example, a health care facility, and they're trying to increase patient capacity, they want to offer other services.

So the owner says, okay, we got to do this. So they're going to sign somebody either to manage the project or they would find an owner's rep. So they go through that and they say, okay, let's go into the planning phase. And the planning phase is they look at different proposals. So high level, just how things look like. And then from that, they say, okay, I think I like this concept, I want to pick this concept and then they go from planning into design. In the design phase, you're going to start seeing there's architects or sliding designers, there could be interior designers, there could be electrical engineers, mechanical engineers and all that, and they really get into the details of the plans and the building.

Those details are then used for the bidding process, which is where the contractors basically say I can do that work for this much, simple as that, and then they pick one and then you build. So where in that process, where do our independent sales network get involved, right? Planning and design, critical. They -- we want to make sure -- they want to make sure that the architects, the engineers have the right understanding of our products, our technology so they can in turn offer that to the owners and show the owners what is possible, but also make sure that we meet their needs.

So having that information in their hands is very critical. Understand they have the right information and also make sure that we meet certain budget criteria and things like that. Then we go into the other section, which is the bids part, and I'm going to link it a little bit with the build because at that point is, yes, you talk about pricing and make sure you maintain into the budget, but there's a lot of iterations in the process. Now if you can think about this, throughout that cycle, the independent sales network has visibility of certain demands. This is going to happen.

Somebody -- there's a construction, there's a budget, these things, we're moving forward. So the better connected we are with them, the better we can understand, you talked about forecasting, we can understand what's coming...

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

Yes.

Jose Cordova;Vice President, Channel Sales

In some of the trends, right? And we can also make sure that at the end, where the construction starts and there's construction schedules, we have that right product at the right place, at the right price. So that's -- to me, that's a way to enable the independent sales network through tools that will help us better service their customers. Then you have the other piece and the other segment. And the other segment's a little bit -- it's a little different. And because it's -- some of it's speculated sale, right? You're putting product, assuming that somebody's going to come in and buy it.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

This is traditional stock business in other words, yes.

Jose Cordova;Vice President, Channel Sales

Yes, absolutely. So you're trying to drive that preference into the contractors and you look at your electrical distributor partners and your agencies to drive that preference. And that's where you go. It gets interesting in the sense that that's where you really want to make sure you have the right products and at the right time because it's typically shorter lead times. There's not a whole lot of planning and visibility like you have on the construction cycle. So it's a different ball game.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

So when you think about how much of an opportunity we have to use technology to connect with the industry at those different critical points, be it a speculative project that's maybe design assist or whether it's a bid situation, technology can provide the right information. They can provide status to contractors, they can provide greater visibility and design assistance to -- in the hands of the agents like there's lots of different places where we can look for more opportunities for software and data to give us more visibility as that.

Jose Cordova;Vice President, Channel Sales

Absolutely.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

So I think about -- if I go from retail and then I start to think about these big distributors, these big national distributors, which have presence in local markets as well, what do we think of that part of the ecosystem? Maybe I'll start with you, Jose.

Jose Cordova;Vice President, Channel Sales

Yes. So our approach has to be different, right? And we are the manufacturer of products and we stock their products -- their sales up, right? But we did not necessarily understand what are the behaviors that are happening at the local counter. What are people buying? Are products moving faster than others? So we might get a lot of that data, but it might be months and months later. And it's not, like, realized.

Terrance Oliver;Vice President of GM Home Center, Digital Retail and Contractor Select

Similarly, in the retail channel, the distributors have a limited amount of space to stock the products.

Jose Cordova;Vice President, Channel Sales

Yes.

Terrance Oliver;Vice President of GM Home Center, Digital Retail and Contractor Select

So it's important we get the products right, right? So all the work we're doing to ensure and we have the highest velocity items, from our opening price point all the way to premium is going to be critical in that space. But it all starts with data, right? We have to understand the demand that's happening so that we can anticipate the needs. And I'm pretty sure our distributors are going to love the ability for us to help manage their inventory, which is real dollars that they can put into the bank. And lastly, we're loaning more by millions of touch points that we're having with the end user, to understand how do we feed that information right back into our products, right? Take those ratings and reviews, add them directly back into the product teams so they can understand what enhancements need to be made or where we can improve on the product.

I think all of those things are enabled by data. We talked about pricing earlier.

Trevor S. Palmer - Acuity Brands Lighting, Inc. - President

Yes.

Terrance Oliver;Vice President of GM Home Center, Digital Retail and Contractor Select

Pricing algorithms are going to be critical to have real-time data, to be able to react to the market. As we're seeing with commodity prices today, it's important we stay sharp as well as understand where the market's headed.

Trevor S. Palmer - Acuity Brands Lighting, Inc. - President

Yes. So when I -- just listening to this conversation and as we're going through it, I can think of other kind of pieces, and it brings back to -- you bring the portfolio question, right, which is, you get the shelf space by having a relevant portfolio, right product, right price, right place. You maintain that portfolio with a high vitality, right, and continuously refreshing as you go forward. I'm really excited about the opportunities we have in front of us and to continue and drive the growth.

Good morning, team.

Amra Boucher;Vice President of Marketing

Hey, Trevor.

Trevor S. Palmer - Acuity Brands Lighting, Inc. - President

How are you doing this morning?

Amra Boucher;Vice President of Marketing

Good. How are you?

Trevor S. Palmer - Acuity Brands Lighting, Inc. - President

Good to spend some time with you. There's a couple of things I want to cover this morning if we can. And I'd like to start with kind of pricing. So we all know in the lighting industry, pricing is a complicated animal. And in this environment, particularly it's a dynamic thing, which we have to adjust to more rapidly. So it's great that we're together talking about kind of how data and software can help us in the context of price and some of the projects we're working on to help us in that department. So maybe Amra, you can tell us a little bit about what we're doing and where we're going?

Amra Boucher;Vice President of Marketing

Yes, sure. You make a great point. It's a very dynamic time. And pricing in and of itself and in our industry is -- it has a lot of complicating factors at times. And we -- what we're doing is we're challenging the way we've done things in the past. And in some ways, we're challenging some of those complicating layers, right? Some of that was probably self-imposed, right? So we're looking at areas to peel back some of the things that we've done in the past. A great example is that we've been working with Vijay's team on reducing when we manually touch orders for no reason. It just became kind of a push of a button. And we found that we didn't have to do that 50% of the time, right? So we've removed that. So that's a nice efficiency gain. But we're reapplying that time into more value-added activities for the team and enabling them to make better decisions at their desk. We call it the deal desk, right?

And we segment our business in different areas that project deal desk and then our Contractor Select business. But by enabling them to make better decisions using data to drive those decisions, they're meeting customer needs, they're meeting needs of the business. And then we're also working on projects for the future, right, developing even better tools to enable what they're doing and change what they're doing in the future. We're working on a pricing optimization engine, for example, to help enable that decision-making. And the collaborative nature of which we're working with both Vijay's team and the product teams to develop these things and explore will be very impactful for the business and for the customer base.

Trevor S. Palmer - Acuity Brands Lighting, Inc. - President

So that's a really good point. So when I think back to 6 years ago, when I first joined the business, thinking through, sitting at, understanding what the Acuity quotes desk was, the AQV and understanding what the pricing team actually did, right, sitting at the deal desk and understanding the tools that they had. And dawning on me, there's an opportunity for us to improve this.

Vijay Raghavendra;Chief Technology Officer

No, absolutely. As Amra mentioned, we are working in a very different way. And what I'm most excited about is really that way of working and using data, machine learning, AI is enabling us to drive very different kind of outcomes than we were able to previously. The engineering, data

science teams, the product teams and Amra's teams are all working together as one team to iterate on the products that we are building for pricing and for the deals desk. So we start with data. Data about the products, deep data through our product catalog that helps us understand our products better, but also helps us match it to our customers' products. And we're using technology to understand competitive pricing in near real time that then allows us to feed that data into the algorithms, which can then dynamically help us manage pricing so we can then really meet the needs of our customers in a much, much better way than we were able to do in the past.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

Yes. So fundamentally, we're making a lot of change in terms of price using technology. But what -- when I think of moving forward, what's the opportunity for us, right? And how does that help make us better?

Amra Boucher;Vice President of Marketing

Sure. Well, by utilizing technology and data, right, we're utilizing information in a more predictive way. So if you think about -- when we quote something, we're quoting something that's not probably not going to turn into an order that day, right? The nature of our business, depending on the channel and the customer type and all of those things. But we're quoting for the future. So you really have to have that predictive element to make the best decision possible. and to set ourselves up from a business success standpoint and also success with our customers and what they're expecting.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

Good. Good stuff. So I would say we can't talk about kind of data, data science, software technology and think about and not talk about the supply chain, right? And because I know there's been some fundamental changes there. In a way we're kind of operating over the past year, and we've learned a lot. So Tyler, maybe talk to us a little bit about those -- the types of things that are going to help us that have helped us before, but also are going to help us move into the future and create opportunities?

Tyler H. Moon - *Acuity Brands, Inc. - Senior VP & COO*

Yes. So this last year has been a real challenge for us in the supply chain as you know, Trevor. And one of the things that taught us about ourselves was we never stop improving. So during the year, we literally had to reinvent the way we do things across the business and across the plants. We had to learn to stay connected in a better, smarter, faster type of way and stay connected, not just with ourselves, but also with our customers, about our ability to deliver in our status of orders. Along the process with material challenges and material flow, but also health concerns, we actually redesigned material flow in all of our plants.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

That is true.

Tyler H. Moon - *Acuity Brands, Inc. - Senior VP & COO*

So when we looked at the processes and we had to keep people and material flowing, but in a safe manner, we actually found an opportunity to create some productivity improvement. So -- by doing that, we not just netted productivity, but we netted capacity. So coming out of the backside and now seeing improved business opportunities, we feel like we're ready to scale for the future.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

Yes. So as we've learned a lot over the past kind of 14 months. So as the market's been returning, and returning it is, right, what do you see from a technology standpoint that we're going to use to help increase service levels or help us grow moving forward?

Tyler H. Moon - *Acuity Brands, Inc. - Senior VP & COO*

Right. So as we've experienced those challenges, we've got 18 different manufacturing locations globally and 7 distribution points. So we like to compete globally for cost, but we compete locally for service. So staying connected across all those locations and with the challenging environment for materials, we're digitally connected every day. So by extending that to our customers, now we can be more transparent about our ability to deliver in this environment, and it helps our customers be more efficient as well when they plan for resources on the job site.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

So thinking through this, and you've been involved in a number of the technology projects that we have going on, they're improving the supply chain. So what can you tell us about how we've used kind of the processes and what some of the status of those projects are?

Vijay Raghavendra; Chief Technology Officer

Yes. So as Tyler mentioned, one of the challenges we have is just the scale at which we operate, 18 different locations. Many, many products, which in turn use a number of different components, combined with really the labor and really managing all of that is what really goes into building the products that we eventually deliver to our customers. So we are starting with the foundation of really building good data. Good data is data that is complete, good data is data that is timely and good data is data that allows us to have a complete view of not just the products, but all of the components and the interdependencies that go together.

And by starting with that, and then applying machine learning and AI on top, we are now -- we will then be able to really drive the outcomes that we want. So for example, how do we then ensure that we can forecast both the demand and some of the supply challenges that we may have. So we can then adapt to it better to then meet the service levels that we've committed to our customers.

So really, data then becomes the foundation for us to do not just demand planning, but forecasting and then managing every aspect of what goes into building the products, including helping us manage the workforce and the folks that we need to build these products better. So ultimately, it's all in service of meeting their supply, the service levels that we commit to.

Tyler H. Moon - *Acuity Brands, Inc. - Senior VP & COO*

And you know, Vijay, the accuracy of that forecasting as we connect with our supply base, we have to understand the market and what the changes are going to be in the future, Trevor. So our suppliers are needing more visibility and being connected and being better able to forecast the future, we're able to help our suppliers be better suppliers.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

Yes, that's true thinking through some of the changes and the actual technology projects that have come out. The first one I go to is kind of the pizza tracker, right? So the order tracker. And if you think of what that used to look like, right, for a customer, maybe you can talk a little bit about that?

Tyler H. Moon - *Acuity Brands, Inc. - Senior VP & COO*

Yes. So we had to think of a new way to do things. So we taught these teams and we pulled together people who actually do the work, so they understand the work. and allowing their creativity, they looked at the way they consume goods like a pizza. So they can see the status of their pizza order, all the way through the process until it arrives at their door, and they thought, well, why can't we do that for our customers? So we developed a similar tool to a pizza tracker to where a distributor or a contractor can actually see the status of their order all the way through our complexity of our supply chain until it's serviced locally.

There was one example that came up early in the development of that tool where we discovered this job down in Texas. It was a multifamily residential housing authority job. And we realized by looking at the order status on the pizza tracker, we're going to miss this delivery schedule for this contractor. And so we were running the risk of really disappointing a customer and possibly damaging a relationship, but we were able to navigate that through this new technology and find a solution that worked for everybody. So it's been really helpful to have this woven into what we always did.

As Amra mentioned, we used to touch orders a lot of times and now by being able to see the status of the order at a glance and having us connected digitally, we don't have to touch it so many times and we still can satisfy the customers.

Vijay Raghavendra; **Chief Technology Officer**

Yes, by working with Tyler's team, what we did was really built near real-time visibility into every aspect of the order. And the ability -- we also added the ability for various stakeholders, distributors, contractors, agents and so on to subscribe to this ongoing status of the order. So this then gets us to the complete transparency that we can then enable for our customers.

Amra Boucher; **Vice President of Marketing**

It's all about enabling the customer experience at the end of the day. And so by being able to deliver personalized, relevant content to various customer types, when, how, when they want it, right, we enable that ultimate customer satisfaction and by enabling our people to have better information, then we can deliver that to the customer, ultimately.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

Completely agree, Amra. So it's been great spending some time this morning team, love the progress, super excited on where we're going.

Operator

There will now be a 10-minute break.

(Break)

Operator

Welcome back to the Acuity Brands Investor Day 2021.

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

Welcome back. We hope you're enjoying the day so far. Now let's talk about our Intelligent Spaces Group. We're bringing together Distech, Atrius and a collection of incredibly talented technologists who together are going to build an impactful business, which finally makes spaces intelligent.

(presentation)

Peter Han - *Acuity Brands, Inc. - President of Intelligent Spaces Group*

I came to Acuity to help drive change at scale. The 2 sides of that together are what excite me, impact for a purpose, impact with innovation. Intelligent Space is the business I lead is, in one sense, a start-up. On the other hand, it already has material revenue, healthy growth, healthy margins, and that comes from serving customers across a wide variety of industries: retail, hospitality, aviation, enterprise campuses, we're meeting customers where they are on their digital transformation journey. Between Distech and Atrius, we have 2 real pieces of the puzzle in delivering edge to cloud solutions, really helping customers transform their business processes.

When I look at retail as an example, I see a customer journey that we can assist in a variety of ways. Think about the shopper walking into a store and seeing digital signage out front, changing offers on a regular basis. That shopper may stroll up and down aisles where they see goods on the shelves that need to be replenished with inventory management solutions. And then as they check out, they'll walk through a digital kiosk. Of course, the entire experience is bracketed by security and surveillance solutions that ensure safety.

Spaces should be smarter, safer and greener. In enterprise offices, for example, we help customers with analytics on their infrastructure, that help them understand what's happening in the space and how to take them forward. We also help those spaces get greener, with heating and cooling solutions that adjust temperatures automatically, holding utility bills down and lowering the environmental footprint. That ability to drive change is what again accelerates the opportunity. Things that are in place, things that will bring to the mix so we can really scale this business over a period of time.

When I think about our business with intelligent spaces, of course, there's a ton of customer stuff and technology stuff, problems that we're solving that really excite me -- But of course, I can't forget about team. I mean just seeing you all, thinking about the teams you represent, I'm really excited about the people we're bringing together. And I guess I would start by throwing it to one of you who've been around a little bit longer and seen that the way Acuity and Intelligent Spaces has built up, how you see the talent coming together in the team?

Eugene Mazo - *Acuity Brands, Inc. - VP of Atrius*

Seeing the digital transformation that Acuity has been going through and sort of watching the teams evolve, looking at the combination of the existing talent that we've had that's been with us through the years and the new talent that's coming in, we have a really diverse set of people from various industries. We have people from various sized companies. When you think about the industries that we have and then the breadth of knowledge that's now available within our team, you look at people that have come from IoT, from OT, IT from building intelligence, there's really a pretty rich knowledge base that exists here.

But we also have sort of the difference in processes. You have people that are coming from start-ups that are used to really nimble, really quick operations. You have people that are coming from enterprise technology and large enterprises that are very disciplined in terms of processes and they're really set up for that scalability. So I feel like this mix of all of the capability that we have from a team perspective, really makes us a very, very, very strong organization to be able to be a go and execute.

Martin Villeneuve - *Acuity Brands, Inc. - SVP of Distributed Building Technologies*

Eugene, I cannot agree more with you with my 22 years at Distech. I've seen many people joining the organization having brought with them the technical expertise, the domain expertise of the technology as well as the geographical diversity in order to reach the customer where they are in order to understand their needs and develop the different market over the years.

George McIlwraith;SVP, Commercial Lighting Solutions

Yes. I would totally echo that. Having been here since we were more in start-up phase and seeing us join a larger company culture, it's been really great to see us sort of grow with the stability of a larger company backing us. But we've really come a long way in terms of building our processes and our standard procedures and all of that and really being able to serve our customers better with more tools and resources.

Sandeep Modhvadia - Acuity Brands, Inc. - VP of Product Development

Yes, what's really interesting to see is like you get all those different viewpoints coming in from tech, IT, OT. For me, as a relatively new starter joining mid-pandemic, what was super interesting was the infrastructure was built out to be super productive from anywhere. People are working remote, people are working from home. The fact that we are truly a global team and distributed and just as productive as ever, was very, very, I would say, it's very interesting coming in.

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

When I think about platforms and payloads, this notion of solving our customers' problems in spaces. Sandeep, from the product standpoint, how would you think about how that's playing out?

Sandeep Modhvadia - Acuity Brands, Inc. - VP of Product Development

Yes. I think it's playing out really well. We have a strong collection of assets already. And if you think about the payload first, the payload really is the application, the consumable that our customers care about, and that's where they derive the maximum value, like is that are we able to solve the actual problem? The platform underneath is then what allows us to scale, to be enterprise friendly, to be able to support global customers, to be able to deliver on that 5-9 capability. So really the 2 of them working in combination, a dependable platform and then the payload that solves the problem is really how we actually meet our customers' needs.

As you think long-term loan, the capabilities that you need, really tries to anchor ourselves around what does it mean to be an Intelligent Space. An Intelligent Space is, in my mind, one that is truly humanized. When you think about human decision-making, you sense, you think and then you act. And that's how our technology is being built out, with sensors that are ubiquitous and across an entire building, so you really understand what's happening. The think piece is kind of the AI or the cloud coming in, the software that allows you to then take a decision and draw inference from that data and then act. Is that OT hardware within a physical infrastructure that allows you to kind of close that loop and then take action in the building.

So as you think about kind of scale, solve a problem and then solve a problem with the ability to sense, think and act, that's really how we come together on this.

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

Those exact pieces fitting together, Martin, I'm going to bring it to you because, obviously, as the leader of Distech, this business that's built up over years and has a really nice installed base of customers around the world I'd love to just hear in your voice how you see that -- the Distech part of this equation?

Martin Villeneuve - Acuity Brands, Inc. - SVP of Distributed Building Technologies

Yes. This is a good point with more than 600 system integrators, distributors and OEM customers in over 65 countries. They have been engineering, programming and installing our intelligent building management product and solution for more than 2 decades. And I believe the secret of the success of the tremendous growth has been the: one, the true open technologies: And two, the open distribution. So when I speak about the open

technologies, first, we were founded on BMS open protocols such as LonWorks and BACnet to start with, integrating now with the application that we talked about, IoT applications protocols.

And open is a key differentiator that it's important to understand that most of our competitors are not and they keep a level of proprietary technologies. And then on the open distribution side of things, from the lens of the building owner, the independent system integrator can unlock the building owners and facility managers from single providers.

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

That open nature of Distech's platform is certainly a huge differentiator, we all agree with you there. And of course, it invites in the payload of all kinds of Atrius services and partner services. And Hannah, working in customer success, I'd actually love to hear about your experience of how customers are experiencing different building management services, some of those payloads through Martin's platform?

Hannah Greinetz - *Acuity Brands, Inc. - Senior Enterprise Customer Success Manager*

Yes, absolutely. So our customers are what drive what we do every day and we are able to see their data coming into the platform, and they're really successful in building off of that, finding insights, being able to find actionable actions they can take in order to make their buildings more efficient and hit metrics that they need to hit either for standards, for benchmarks, for energy management goals, for driving down costs and sustainability. We see great results on the operations side, and we're really able to use the tools that the platform provides to see results.

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

And those impacts in terms of environmental footprint and energy savings are a huge part of, I think, some of the different services. I mean, Sandeep, do you want to talk about how you see that playing out in building management and other spaces?

Sandeep Modhvadia - *Acuity Brands, Inc. - VP of Product Development*

Yes. So from a building management perspective, we really look at 2 major outputs from a customer lens perspective. One is customers want to just save on dollars, like help me manage my building, help me manage my fleets of buildings in a more cost-effective way. The second is, I don't just want to manage my buildings in a cost-effective way, but I want the buildings themselves to be efficient. So how do I drive towards more sustainable, more green outcomes? Now those 2 things aren't actually mutually exclusive, like you can drive towards a common purpose and a common goal across both of them.

One great example is how can I optimize my energy usage and optimize towards occupant comfort, facilities management and minimize my emissions in the same, all in the same breadth. And so some of our technologies like our building insight product allows you to do that, we can measure and track all of the energy being utilized across the entire building. We can then benchmark that. And then we can round trip that back down to your controllers, back down to your on-site infrastructure to then take action.

So again, going back to that sense, think and act motion, we understand the energy being used, we're able to intelligently act upon it based on the constraints that the customer has put in place and then we're able to act and put that motion into practice.

Peter Han - *Acuity Brands, Inc. - President of Intelligent Spaces Group*

And this is a really excellent point. I think it's fairly easy to just cut all energy costs, right, make the building super-efficient, just turn everything off, super easy. I think the key constraint here is how do you keep the occupant comfortable? How do you make sure that the -- whoever the current occupant is, if it's a team, that they're still productive that they're comfortable, that they're enjoying the space and being within the space. So having that balance and making sure that we keep that constraint of making sure that we are keeping the occupant comfortable, if not increasing, making

them more comfortable, while reducing the energy consumption and emissions and reducing hence, the cost of operations, that's where it's challenging, but there are significant opportunities.

Hannah Greinetz - *Acuity Brands, Inc. - Senior Enterprise Customer Success Manager*

I think it goes both ways too, with engaging occupants, so they're more aware of what's going on in the building and also giving them some input or control into how the building's being operated. So 2 very different sort of customers or end points is the building manager and then the actual occupants, they often want very different things in terms of efficiency or cost savings versus comfort.

Sandeep Modhvadia - *Acuity Brands, Inc. - VP of Product Development*

I think the one thing that we're learning is that building management in this way is not a binary activity. It's not on or off. It's very dynamic, down to the geography, down to a time of year, down to the amount of daylight within a specific time frame at a time of day, the number of people in the building. So being able to respond based on the changing nature of the building is what really allows us to drive maximum efficiency rather than thinking about this as a set it once and forget it. It's a continuous process of optimization to make sure we're always driving for that best possible yield as it comes to costs or it comes to energy efficiency.

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

So I want to bring it back to something we were talking about earlier, which is the open nature of our Intelligent Spaces platform. And Martin, I think you raised it. And as you think about the benefits of an open platform, obviously, across our business, we do have a significant channel partner contribution. Systems integrators and agents who are helping advance our business. Can you speak to a little bit about the role that channel has played?

Martin Villeneuve - *Acuity Brands, Inc. - SVP of Distributed Building Technologies*

To tell you an anecdote of how this is important and how this is fueling our growth, a large university campus, who would have never thought about flat specking a technology nor a manufacturer, have done it so and in multiple locations with this Distech Controls technology. So what they do with that is integrate their temperature control, their lighting controls, their indoor location application through BLE sensors, all of it in a single app that a user, namely a student, a teacher can use in the environment. So this is pretty impressive. And they've done it so for 2 main reasons, simply because it's the most advanced open technology, ensuring the building is future ready.

And the second is the ability to comply with the 3 bidder process, providing them the best choices at any point in time. And we have multiple other installed and countless references around the world by vertical market. It could be in office buildings like we were speaking earlier. It could be in business or governmental offices. It could be in main health care systems, national multisites, but even and also in large worldwide hyperscale data centers.

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

So I really want to dig into that notion of sense, think and act, both as the part of the business that we have today and the one on which we have a future option. And Sandeep, I'd love to just open up more what -- how do you see sense, think, act, playing out in different industries?

Sandeep Modhvadia - *Acuity Brands, Inc. - VP of Product Development*

Yes. Let me give you an actual example, a concrete real-world example that we have today of a customer who's using our technologies in production. So we have a very large national retailer, thousands of stores up and down the country, with, a very impressive footprint. From an IT perspective,

they are super sophisticated. They understand in-store really well. They're phenomenal e-commerce retailers. But they don't have that same level of fidelity of understanding in-store as they do online. And one of the things that we're helping them to do is really understand their in-store visits and their customers and how they interact with their environment.

So using our sensors that are part of our luminaires and our fixtures, we were able to map the store out, we're able to put beacons on carts and baskets, and we're able to use that to detect exactly where do people go within a store. Do they spend more time in a clothing section versus a different clothing section? Is there a new end cap that gets people particularly excited, and so people loiter there? And we're able to do this at scale. So when it -- when you start to think about how do I plan my stores out, how do I optimize for footfall traffic, how do I make sure I'm giving the best possible experience to -- for my customers and my visitors, we're able to collect all of that data together and help give them a view of how is their store really being used.

And you start to match the level of fidelity and the level of accuracy that they get in an online transaction. Now that's a super powerful experience for the retailers because they're getting to know a customer with really, really deep intimacy. That same level of technology though doesn't just stop with the retailer, we can actually use it to improve the visitor experience as well. So I'm a visitor, I'm visiting a new location, I may not know where things are or I need help being able to pick out and plan a journey through a facility, that same technology really has benefit to the end consumer as well.

For context, today we have about 500 million installs of our phone-based technology deployed around the world today, and customers are actually using this to figure out how do I locate within a space.

Peter Han - Acuity Brands, Inc. - President of Intelligent Spaces Group

When I think about that core capability of location services and how that plays out to all these business problems that you're talking about solving, whether it's seasonal planograms, resets and so forth, where do you think location services could go?

Sandeep Modhvadia - Acuity Brands, Inc. - VP of Product Development

I think location service can go in a number of different directions. We mentioned that in the B2B scenario, the B2B2C scenario. I think there's a couple of different things coming out of this. When you want to get really super specific, I need to locate a single device, and I need to do it within a 2-centimeter accuracy, like there is a high-value asset, and I care about that one device, how do I find it? Like that's one very concrete example of how location works.

The other one is, I may not care about the specificity of one specific asset, but I care about them all in aggregates. So how do I get almost a herd level analytics of everything that's happening in a space at any one given moment in time? Well, then there's the deeply human experience of, I just don't know where I am, help me navigate around this space. And how do I make sure that I feel comfortable visiting the space and continuing to visit this space, like those are all different dimensions of location of that same central capability, which is tell me where I am, tell me where something else is and then how do I bridge those 2 things together.

Peter Han - Acuity Brands, Inc. - President of Intelligent Spaces Group

And then how would location services play out in other industries? So if I think about location in an enterprise office setting, and I think about employee engagement, use of different facilities, any early thoughts there?

Sandeep Modhvadia - Acuity Brands, Inc. - VP of Product Development

Yes, absolutely. I mean the general principles are very, very similar, which are -- I'm in a physical space. I may not know my way around or I want to optimize my use of that space. So take meeting planning, for example, especially in this kind of ad hoc post-COVID world that we're leaning

towards, you might not know which building you're going to be working in or you may be working with other people that don't. So simple things such as I need to book a space really quickly, find me the optimal space for this group of people and take it one step further by making that space comfortable for all of us because we have deep understanding of what we as individuals like.

So thinking about the harmonization of experience with different people as you're coming together is one way that you can actually use location to make meetings and collaboration more productive.

Peter Han - *Acuity Brands, Inc. - President of Intelligent Spaces Group*

You mentioned the post-pandemic world. As companies are looking to understand how their employees are navigating hybrid work environments, some remote, some in the office. How could location impact our understanding of facility use and so forth?

Sandeep Modhvadia - *Acuity Brands, Inc. - VP of Product Development*

Yes. I think everyone will -- everyone understands that the way we use our offices are going to change. And so there's likely a number of efforts across organizations to reconfigure the existing spaces we have, should we move to more open working and collaborative spaces? Should we move to more kind of closed off yet meeting type spaces? Being able to understand how people use the space and how they intend to use the space will help us figure out how do you actually plan and lay out our offices.

And I think that latter piece of how do you intend to use the space is a critical piece of this because how we intend to and how we actually use it if we have an inefficient office space are 2 very, very different things. So mapping out the entire journey for that visitor from how I intend to and how I actually use the space allows us to then optimize for future iterations of that workspace.

Peter Han - *Acuity Brands, Inc. - President of Intelligent Spaces Group*

Hannah, working in customer success, I'd actually love to hear about your experience of that.

Hannah Greinetz - *Acuity Brands, Inc. - Senior Enterprise Customer Success Manager*

Yes, absolutely. It's fun to hear about all of the different inputs that Distech can take. And given all those diverse inputs into the Atrius platform, I'm really proud of our operations and customer success team. We have a really seamless process for most of our customers. And given all the different integrations that can take place from buildings within enterprise campus, higher education, technology companies, data centers, retail, we're really technology agnostic, and our team works with each customer to make sure we get all of their data points onboarded onto the platform. And then we work with them to create dashboards and reports that line up to hit their metrics and make sure that they are reported on exactly what they want to see so that they can make the changes in their business that they -- that are important to them.

Peter Han - *Acuity Brands, Inc. - President of Intelligent Spaces Group*

So Eugene, how do all these pieces come together? As we think about go-to-market, how do you see all the different pieces that we've talked about today coming together?

Eugene Mazo - *Acuity Brands, Inc. - VP of Atrius*

The way we look at how do we become successful, right? What does that sort of success road look like for us? And it's really about just being able to scale the 2 brands that we're going to market with Distech and Atrius. It's being able to scale the revenue meaningfully and being able to scale

the profitability. And the way that I think makes sense for us to look at it from a framework perspective is, #1, we have to integrate all of our existing assets. We have excellent puzzle pieces in terms of technology assets, point solutions that are solving specific problems.

If we're able to take those point solutions and integrate them into a single unified road map, a singular platform, we're essentially creating a hole that is better than the [sum] of the parts. Because we now have the single platform, we have this greater hold in the sum of the parts, we're able to now create new solutions, we're able to build new products that we can offer the market, which are delivering higher value to the customer, which in turn allows us to capture more of that value that we're creating.

The third phase of this -- and the third piece of this really is to start up leveling our strategic verticals. The verticals where we're really successful in gaining a lot of traction with the customers, how do we now utilize those relationships, utilize the products that we've delivered to them and how do we up level those verticals? How do we deliver more? The fourth piece of this that I would say is help leveling our channels. How do we find potentially new customers, new customer types, which we can address that have the characteristics that we're looking for? How do we create new and innovative ways to deliver our products? What are the new potential channels, which will allow us to rapidly scale the delivery of our products?

If we think about holistically the way that we go to market and sort of the framework about what are the swim lanes that we're looking at? It's really those 4 things. And I believe if we do it right in those 4 things, this is where we're really going to start seeing some significant scale.

Sandeep Modhvia - *Acuity Brands, Inc. - VP of Product Development*

Your first 2 points to maybe think about platforms and payloads and how do we actually create innovation there and how do we move our road map forward. As I think about it from a product perspective, it's really 2 things. One is around innovation at the edge. More sophistication in our sensors, greater level of human type of cognition and understanding of our environments and more ability to think at the edge as well.

In the cloud, it's that same level of -- it's that same philosophy, but think about that at scale. We don't just want to do this at one building. We want to do this across thousands or tens of thousands of buildings and we'll be able to learn and understand from all of them and make smarter decisions. And so it's about investing across both of those swim lanes that we improve the platform and the payload of the applications on top.

Peter Han - *Acuity Brands, Inc. - President of Intelligent Spaces Group*

Yes. I love it. Innovation on the edge and in the cloud. One of the questions I've gotten, as I've onboarded here is, how Rockpile, the early-stage firm I was with before contributes all of this because, obviously, Martin's team with Distech, the Atrius team is going to be -- continue to grow, continue to invest. But we're also going to be harvesting the best-of-breed innovation out in the ecosystem. When we talk about the kinds of startups and VCs that Rockpile is dealing with, harvesting the very best knowledge from that external ecosystem, bringing index, harmonize of what we've got internally is how we start to create that recipe for growth.

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

Thank you, Peter and team. We're really excited about what you are doing and what you will be doing going forward. So now let's talk about the heart of our company, our culture, our impact on the environment on social issues and on how we govern ourselves. There are key elements to how we define our strategy and how we execute that strategy, and we believe they will allow us to deliver better results.

Candace Steele Flippin - *Acuity Brands, Inc. - Senior VP & Chief Communications Officer*

I'm going to say, I am so proud of the momentum we've captured over the last 18 months. And when I reflect on it, I think it starts with our values. Do you agree?

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

I completely agree. And I think that the way they've sort of organically evolved has been one of the most exciting parts and that our associates really feel them. Do you remember when Neil -- it was some meeting, I don't know the specifics, but he said we're going to be a values-based organization and not a rules-based organization. And it occurred to me, and I think it occurred to you all, too, that we were already starting to live by sort of a set of values that we needed to formalize a little bit more. But I really -- it's amazing how quickly they've taken root. Don't you think?

Candace Steele Flippin - *Acuity Brands, Inc. - Senior VP & Chief Communications Officer*

I think so too because in order for us to transform our business, we have to bring our people with us and they need to understand what's important and what we value and then help our leaders understand how they can get the best out of our people so that...

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

Right.

Candace Steele Flippin - *Acuity Brands, Inc. - Senior VP & Chief Communications Officer*

So that our best people can show up doing their best work.

Barry R. Goldman - *Acuity Brands, Inc. - Senior VP & General Counsel*

Absolutely. I think integrity is a big part of that. Doing things the right way, the first time -- doing it the right way the first time and every time. We've made some governance reforms that really speak to some of how we're approaching integrity and just making sure that we're earning the trust of our shareholders and of our customers.

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

Sort of punctuating that trust.

Barry R. Goldman - *Acuity Brands, Inc. - Senior VP & General Counsel*

Yes. Yes. We've refreshed our Board of Directors. We have more Board oversight of ESG and the EarthLIGHT program. We've changed our compensation programs. which, by the way, as I think you all know, we have EarthLIGHT goals for every associate who's on the incentive comp program. We've got more focus now on data privacy and data security. So in a lot of ways that we're trying to reflect that value of integrity in everything that we do.

Candace Steele Flippin - *Acuity Brands, Inc. - Senior VP & Chief Communications Officer*

And one of the things that stood out for me when I joined the company is the commitment we made to be a stronger company and a better company coming out of the pandemic. What have you seen Dianne over the past few months of how we're doing that?

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

This is a bit cliché.

Candace Steele Flippin - *Acuity Brands, Inc. - Senior VP & Chief Communications Officer*

I'll allow it.

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

But I think there was a lot of goodness that came out of the pandemic. I think it actually accelerated some of the change and the transformation that we were trying to accomplish. And I think it changed us from a leadership perspective, too, in terms of lessons learned and just being a little bit more willing and frankly, more confident to do things differently.

Candace Steele Flippin - *Acuity Brands, Inc. - Senior VP & Chief Communications Officer*

Like what?

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

You Know like Acuity Anywhere.

Candace Steele Flippin - *Acuity Brands, Inc. - Senior VP & Chief Communications Officer*

Good point.

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

Because when I joined the company, and Barry, you could really speak to this. We weren't particularly open to the notion of large portions of our workforce working remotely. And we weren't confident that they could stay on task and really produce what we needed. And then COVID forced it. One thing that I'm really proud of is that the company kind of in that moment figured out what could be the advantage, what could be the opportunity embedded in that [sea] shift? And really optimizing the way we use our real estate, figuring out how we could update and really innovate around our associate experience, how they're spending their time, maybe commuting 2 hours a day isn't that great. And I think flexibility, just the willingness to say it's outcomes, not activity, like I don't need to see you at a desk. What I need to see is how you're contributing to what the company is trying to do.

Barry R. Goldman - *Acuity Brands, Inc. - Senior VP & General Counsel*

Right. It was having metrics that made sense that showed how you supported your customer and achieve the results...

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

Right.

Barry R. Goldman - *Acuity Brands, Inc. - Senior VP & General Counsel*

That you agreed to were important to helping your customers, right? So it wasn't about where you sat or your location, it was about the results and the outcomes, as you said.

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

Exactly.

Candace Steele Flippin - *Acuity Brands, Inc. - Senior VP & Chief Communications Officer*

I recently hired a new person on my team, and that person traditionally in our old setup would have been here in our headquarters location.

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

Right.

Candace Steele Flippin - *Acuity Brands, Inc. - Senior VP & Chief Communications Officer*

But she is an awesome person. She has great talent. And so we're going to be able to have her join Acuity from another state. And I think it's a testament to our ability to think beyond what we once knew, but to think about what's possible so we can bring the best talent to our company.

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

Well, and the ability to attract talent from anywhere and to say with confidence to them that you can live in California and be remarkably successful here, if you're a technologist. And so it's opened the door. And frankly, it has helped us control expense from the standpoint of we don't have to relocate everybody. And the team has stepped up -- and I'm talking about an entirety, the team has stepped up around how do you onboard people that aren't sharing an office down the hall? How do you think about your management rhythms in terms of keeping people connected to the company and to the mission, but that talent opportunity. And as you know, we've been so fortunate in being able to bring in some remarkable talent in the last 12 months.

And when we bring in great people, they bring in other great people. And so we're really starting to see a lot of momentum there, which is really exciting. It puts a lot of pressure on my organization to make sure that we're creating the environment where they can really be successful, but it's fun to watch that talent influx.

Candace Steele Flippin - *Acuity Brands, Inc. - Senior VP & Chief Communications Officer*

We're right there with you. As I think about transformation, I'm also thinking about how we're communicating and getting information to them. And our team has done a remarkable job. One of the things we're thinking about is not only how people work, but where they work and how we can use technology to get information that we may have done before face-to-face.

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

Right.

Candace Steele Flippin - *Acuity Brands, Inc. - Senior VP & Chief Communications Officer*

Or may have been in some kind of a hard cover, you turn a page fashion to digitize that even not only in a desktop of how we can use our PDA devices and other technology to make sure that we're communicating seamlessly and then also welcoming our folks into the organization in a way that celebrates the talent they're going to bring and help them embrace our culture, I'm really proud of that work.

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

I think one of the things that's really cool about what we're doing, and it's an overused word, but we talk about how we're transforming Acuity. And we're transforming the -- we're starting with the experience for our customer and how we deliver to them. But that insists that we transform on the inside, too. So you really can't give the customer an experience that you don't have on the inside. So that's put -- that's raised the bar on my organization to build a function that's easy to do business with to enable managers to be the best managers they can be, to give the associate a different experience when they're signing up for their benefits, which have been enhanced. And there's just so many opportunities for us to think about that transformation, not only in terms of the impact on the outside, but on the inside of the company.

Barry R. Goldman - *Acuity Brands, Inc. - Senior VP & General Counsel*

I think Dianne to -- for an associate to feel free, when they bring their whole selves to work, they feel more free to bring their ideas and to think about what's the art of the possible, right? How can I do this better? And that's one of the things I love here is the curiosity and the drive to just keep improving. You don't start out perfect, but you keep improving and you innovate and you serve customers. And again, I think for associates to feel comfortable and know that they'll be heard and that they are -- it's okay to share their ideas and to raise your hand and volunteer to go drive a project, I think that's all really important to get us...

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

Yes, curiosity as a value, I think, is pretty unique that because to your point, Barry, that sort of insinuates it's okay to try things, it's okay to fail, it's okay to put yourself out there. And I see people doing that a lot every day now. And it's -- I think it's going to create different opportunities inside the company for us to move faster and to do more and to do things that are pretty remarkably different from what is expected of Acuity.

Barry R. Goldman - *Acuity Brands, Inc. - Senior VP & General Counsel*

I'm in my 25th year here at the company, and I've been interested in sustainability for most of that time. EarthLIGHT is the name that we've given to our environmental, social, governance and sustainability program. And for us, it's not just a separate program where we check a box to improve our governance score. Every day, we make better living and learning and working environments, and we do it by using less energy and saving more carbon emissions than ever before. We make spaces safer. We optimize building efficiency. We make plants grow. We fight germs. We connect people with each other and with the things that they want and need.

We think we have a really special mix of opportunities here at Acuity Brands to make the earth a better place. We have a long history of energy efficiency and sustainability. On the lighting side, for example, we led the transformation first from incandescent to fluorescent and then from fluorescent to digital LED technology. Energy efficiency, sustainability is really at the core of what we've done for a long time. But we've not always been as explicit in telling that story. So that changed a couple of years ago when we published our first EarthLIGHT report. And through that report, we decided to shine a little more light on these efforts. And then when Neil joined the business to lead us about 18 months ago, he brought his passion for the environment and he helped accelerate those efforts. So we have a lot to share, really excited about it, and I look forward to talking more about EarthLIGHT and all the accomplishments over that 18-month period.

Candace Steele Flippin - *Acuity Brands, Inc. - Senior VP & Chief Communications Officer*

Barry, we often joked that when we think about the general counsel, we're thinking about governance, and that's natural. But we don't often think about the passion for our environment, you've led the charge there. Dianne, you have a story about when you first met Barry?

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

I do. It was actually here on this campus. And I sat down with Barry and I sort of had some expectations, but Barry explained to me how he had this passion around this. And it wasn't just something he was kind of doing on the side, he was really serious about it, and he went into a lot of detail, and it left an impression on me because it was something I didn't know about the company until I sat and talked to Barry.

And then you've just really stepped up and stepped into all of the additional opportunities because I think we've continued to look for the intersection between our strategy and kind of what some of those great opportunities are.

Barry R. Goldman - *Acuity Brands, Inc. - Senior VP & General Counsel*

There's so many people at the company focused on it. I'm glad we're talking more about it through the EarthLIGHT program and the EarthLIGHT reports that we publish now. There's thousands of people driving it every day at the company. And it's fun to see the results now. We've achieved carbon neutrality in our own operations, which is exciting. We've saved tons of steel and aluminum from focused products design efforts.

As you noted, we've announced our goal to get to 100 million metric tons of carbon reduction by 2030. So an ambitious and exciting goal. Gosh, we've taken care of our people throughout the pandemic. So their health and safety and well-being were really important throughout that time. While we did that, we hope to keep our customers' warehouses and stores and hospitals running. So really important focus on the community.

Gosh, we developed a health care -- portable health care lighting that went into COVID field hospitals for the U.S. Army, which we are now donating for field hospitals and for other use throughout the Americas now as they're continuing to fight in the pandemic. Just...

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

What do you think that, that makes our associate base really proud to be connected because that's one thing I've learned is most people, when they're considering a company, they really are very interested in the purpose that, that company serves and the good that it does. And now I think we have this evolving great story around what we're doing. And I get asked about it all the time, and people want more excitingly for all of us and particularly for you, Barry, they want to be involved and be part of it. That's been the counsel that we have. Every week, I noticed there's new names of new people that are really involved in this effort.

Candace Steele Flippin - *Acuity Brands, Inc. - Senior VP & Chief Communications Officer*

You're going to hear more about it because we've changed our front door. So when you come to our website now, we're telling that story in a much more prolific and a much more exciting way. And I've been really proud of the questions that we're getting because people -- we've always had great stories. We kept them inside. And so now we're telling folks about it. And I think that's important because you want to be relevant. People want to work for a company that's also relevant in terms of what we're doing to stay safer and greener and we're doing that. And now you see it front and center, when you come to our...

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

Makes my job easier.

Candace Steele Flippin - *Acuity Brands, Inc. - Senior VP & Chief Communications Officer*

Yes. So we're doing that. Barry, when you think about where we're going, what are some of the things that are next?

Barry R. Goldman - *Acuity Brands, Inc. - Senior VP & General Counsel*

There's a lot on the way. There's a lot that's ongoing and more to come. One example that's a pretty exciting story is a group of people who are -- they put their hand up. It wasn't me saying, "Hey, go figure out how to reduce our paper consumption." A group of people put their hand up and said, let's attack this process of putting 4 pieces of paper in every box that goes out of our doors with luminaires. So instead of 4 pieces of paper now, we have a QR code, right, on the product, right? So...

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

You can just take your phone and scan it.

Barry R. Goldman - *Acuity Brands, Inc. - Senior VP & General Counsel*

Take your phone and scan it.

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

Yes.

Barry R. Goldman - *Acuity Brands, Inc. - Senior VP & General Counsel*

And now you have instructions not just at the time of installation, you have it throughout the product life cycle. And we think it will save around \$1.7 million and 24,000 trees every year just because people say, hey, this is wasteful, let's figure out how to do it differently.

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

Do good for our company, do good for our communities, do good for our planet. I love it.

Candace Steele Flippin - *Acuity Brands, Inc. - Senior VP & Chief Communications Officer*

I'd be remiss if I didn't talk about the sea change that we've seen in society around belonging, no matter where you live, where you work, where you play, where you learn and we brought that conversation right in here to Acuity, and we're living it out in many ways. We all sit on our diversity, equity and inclusion counts and we [weren't] many hats as a part of that council. And I got to tell you, I was really struck by our latest meeting of our employee resource group, [Pride], which I am the executive sponsor.

And what I heard, what was very encouraging is that our associates are seeing a change in our culture. And the words that they use where it's a much more open environment. It's a much more progressive environment. It's a place where our leadership is doing what we need to do, so they can show up and they can do their best work. And you don't want to pander.

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

Right.

Candace Steele Flippin - *Acuity Brands, Inc. - Senior VP & Chief Communications Officer*

But you want to create the right environment to do that. And what are you seeing across your organizations in terms of our employees embracing that?

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

I think there's like comfort level. And there's a curiosity about what's this change really mean and what should I do with it. And I think we're stepping into it really nicely that it's about the power of diversity. It's about the power of inclusion. It's not about the words or checking the box, it's about what happens when you create an environment where somebody can bring their whole self to work. You really get a boost in what they're capable of.

And the other thing that I've seen over and over and over, and I've seen it here now is it's hard work to create diverse teams, people with really different backgrounds and different experiences and different perspectives because that has to be processed. It's much easier if you have people that think the very same way, they'll reach a conclusion pretty fast.

But the benefit of having those perspectives and knowing how to manage them and appreciate what somebody else is saying gets you to a much richer outcome. And that's the appreciation that I think we're building that there's real opportunity for our company in this. It's the right thing to do, but there's opportunity and being really good at this and making it a good place for everybody.

Candace Steele Flippin - *Acuity Brands, Inc. - Senior VP & Chief Communications Officer*

Barry, when you first met me, you said, why don't we need to have a communications leader? I did not take that personally. [It is an] opportunity. What do you think now?

Barry R. Goldman - *Acuity Brands, Inc. - Senior VP & General Counsel*

I'm thrilled you're here. In fact, earlier, we were talking about the new associates that have joined the company and how much it's added. And my first thought actually was about you 2, because I'm really impressed with what you 2 have brought and the change, the pivots in that period have been substantial.

We were great before, and now we're at another level. And I think we've got a lot planned as we communicate more of what we're actually doing around developing people around how we hire around how we mentor, all of those things, I think people will be even more excited going forward. But I'm very proud of what both of you have brought.

Dianne S. Mills - *Acuity Brands, Inc. - Senior VP & Chief HR Officer*

Thank you, Barry. It's fun. I think that's what's so awesome is that I think we really are changing things and taking them, as you said, to the next level together and it's fun.

Candace Steele Flippin - *Acuity Brands, Inc. - Senior VP & Chief Communications Officer*

One of the first questions that you asked me was, Candace, how are you going to lead us on this journey, this journey to cool? Letting people understand our commitment to transform our business, getting our people ready to execute on our strategy, which we call better, smarter, faster. And what's exciting to me is that we're equipping our colleagues with what they need to do their jobs well, whether it's where they work, whether it's providing them with the tools that they need to do it well and then also providing them with the information and a commitment wrapped

around our values to understand and identify solutions to our customers' needs so that we can be smarter, orienting our use of technology so that we can work well and work smarter.

But ultimately, to get everyone aligned so that we can get to where we need to go faster. And that's exciting to me. I'm really happy that we have this time today to talk about it because it's a good reminder that the best days for our organization are being formed right here so that when we deliver on what we're setting out to do in space and light, we're going to be well poised to do it and the other things to come.

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

Thank you, Candace, Dianne and Barry. We can all be proud of the progress that we've made over the last year. And I'm confident that what we are focused on in environmental, social and governance are foundational to us being successful going forward.

Now let's turn to Karen. Karen is going to walk us through our fiscal third quarter results. We feel great about the strength in our business. We've introduced the segments. And now you can see that both of those segments are thriving. The transformation is ongoing in lighting. We've returned to growth at attractive margins. Spaces is not only a great opportunity, but it's a great business today.

So as Karen walks you through the specifics of our results in the third quarter, we're excited about how those demonstrate where we're going to be going in the future.

So with that, Karen, please walk us through the results.

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

Thank you, Neil, and thanks to all of you for listening and joining us today. Our third quarter of 2021 was a strong quarter, both from a strategic and a financial perspective. I am proud of all of our associates who worked together to return the company to growth. As you've heard from the team, we are changing quickly and deliberately to transform the company into one where the art of the possible is possible.

Today, I'm going to walk you through our third quarter results, discuss our new segment reporting and give you a framework in which to think about our growth over the next few years. Our changes that we've made over the last 18 months are making a difference. We have evolved our service levels, improved our margins and allocated capital effectively. In addition, we've transitioned to a values-driven company where we aim to do the right thing the first time every time. I'm excited by everything this team has achieved together and the progress we continue to make.

Now moving on to our third quarter results. Net sales were \$900 million, an increase of 16% compared to the prior year. This was a result of the team driving performance through our improved go-to-market focus and enhanced customer service while also leveraging the improvement in the wider economy.

Gross profit margin was 43% for the third quarter of fiscal 2021, an increase of 80 basis points over the prior year. The team continued to remain focused on our gross profit margin. This performance was a result of the increase in our sales volume, in addition to product and productivity improvements, although this was partially offset by increased component and freight costs.

Given this trajectory, we believe that the fourth quarter of fiscal 2021 will also yield gross profit margin at approximately 42%. I will discuss our longer-term outlook for margins later on this morning. Reported operating profit margin was 13.1% of net sales for the third quarter of fiscal 2021, an increase of 240 basis points over the prior year. Adjusted operating profit margin was 15.2% of net sales for the third quarter of fiscal 2021, an increase of 170 basis points over the prior year.

Most of this improvement was driven by the higher gross profit margin and our ability to successfully leverage our fixed cost. While we expect to continue to leverage our fixed cost, we do anticipate that costs will increase sequentially as travel and sales and marketing activities rebound. The

effective tax rate for the third quarter of fiscal 2021 was 21.5% compared with 23.1% in the prior year quarter. The reduction in tax rate was a result of several discrete items. We currently estimate that our blended effective income tax rate will be around 23% for full year fiscal 2021.

Finally, we saw significant improvement in diluted earnings per share for the third quarter of fiscal 2021. Diluted EPS of \$2.37 increased \$0.85 or 56% over the prior year. And adjusted diluted earnings per share of \$2.77 increased \$0.83 or 43% over the prior year. Our share repurchase program favorably impacted adjusted diluted EPS by approximately \$0.24. As you have seen in our results, we provided financial information by 2 segments: Acuity Brands Lighting and the Intelligent Spaces Group. I will talk a little later this morning about our rationale for identifying these 2 segments within our business.

But now I'd like to look at their performance in the third quarter. During the quarter, the Lighting and Lighting Control segment saw sales of \$850 million, increased 15% versus the prior year. This was driven by the improvements within our independent sales network and direct sales network as we continue to see gains from our go-to-market activities and from some recovery in the construction market.

We continue to see strength in warehousing, logistics and retail verticals. We started to see an improvement in our corporate accounts channel in the third quarter compared to the prior year as large retailers began to lift the restrictions related to renovation spending with safety concerns beginning to ease. The performance in this channel has and continues to be inconsistent from quarter-to-quarter as it is dependent upon the customers' renovation cycles. However, it remains a very attractive channel for Acuity.

Sales in the retail channel declined approximately 26% as compared to the prior year. This decrease continued to be driven by one of our large customers carrying out an inventory rebalancing that could also impact us into the fourth quarter of 2021.

ABL operating profit for the third quarter of 2021 increased 28% to \$126.5 million versus the prior year. Adjusted operating profit for the third quarter of 2021 also improved 25.3% versus the prior year, with adjusted operating profit margin improving 140 basis points to 16%. Finally, we announced the acquisition of ams OSRAM's North American DS business. This business will be included in our Lighting and Lighting Control segment.

Now moving on to the results for our Intelligent Spaces Group. This is an attractive business that includes both Distech and Atrius. For the third quarter of 2021, sales in spaces increased approximately 47% to \$55.4 million. This quarter's performance was particularly strong and higher than the typical growth rate for the business, due in part to the benefit of a pull forward from an announced price increase. Although we expect to see meaningful growth each quarter, we do not expect to see this level of growth consistently.

Space's operating profit for the third quarter of 2021 increased \$7.4 million to \$7.2 million versus the prior year. Adjusted operating profit for the third quarter of 2021 was \$11.1 million and was \$6.1 million higher than the prior year, an improvement of 122%. The improvement in operating profit and margin was due primarily to the strong sales performance in the current quarter.

Now moving on to cash flow. Net cash from operating activities for the first 9 months of fiscal 2021 was \$316 million, a decrease of \$62 million versus the prior year. The decline was largely due to working capital to support the higher level of sales. Net working capital days remained the same. We invested \$31 million in capital expenditures during the first 9 months of fiscal 2021 and currently expect to invest approximately 1.5% of net sales in capital expenditures in full year fiscal 2021.

On May 31, 2021, we had a cash and cash equivalents balance of \$594 million. I am pleased with the continued solid cash generation. We continue to prioritize long-term growth and believe that the reinvestment into the future of the company is core to our success. We have maintained our dividend, and we're opportunistic around allocating capital to share repurchases. We have repurchased 3.3 million shares of common stock during the first 9 months of fiscal 2021 for a total of \$341 million at an average price of \$104 per share. We still have 4.4 million shares available for repurchase under our current Board authorization.

I would now like to spend a few minutes reviewing some of the most important conversations around our company and the industry and offer insights into how we are thinking about them. I would like to cover 4 topics: including how are we seeing the price increase play out? What is the

potential impact of commodity price increases throughout the balance of the year? What is our plan to deal with the electrical component shortage? And why did we separate into business segments?

Price increases began to flow in the latter part of the third quarter. And as a result, the overall impact to our third quarter results was minimal. However, our fiscal third quarter was affected by volatility in component pricing, specifically around the rising cost of steel and aluminum and the increasing cost of fuel and freight. And we announced an additional price increase that will take effect in the fourth quarter.

In an effort to protect our customers, we have been intentionally measured in our rollout of our pricing actions to offset these rising costs. We believe cost increases will be volatile, and we may absorb some of this excess cost that is not covered fully by our pricing actions in the short term.

Now turning to electrical components. The shortages continue to make their way through the global supply chain, which is affecting the entire industry and resulting in longer lead times. We are working closely with our suppliers and customers to mitigate the effect of these shortages, but we don't expect the issues to be fully resolved in the foreseeable future.

Finally, I want to address our realignment of the business and our move to segment reporting. First, this is an important strategic move as it allows us to create the necessary focus on each business to maximize its potential. Second, we have strong leadership teams in both lighting and spaces to drive the strategy. And finally, we are pleased that you now have the opportunity to see through to the performance of each of these businesses.

Now moving on to outlook. And I want to walk you through an updated framework in which to think about our company going forward. We believe that the Lighting and Lighting Controls business will grow at total construction plus over the long term, which is expected to be in the mid-single digits. Additionally, we are positioning ourselves to support higher levels of market growth in the short to medium term. We expect to achieve margin improvement in the business as we leverage the higher sales.

In Intelligent Spaces, we are participating in existing markets with building management systems and also entering new markets with technology. We expect this business to grow mid-teens, and we will reinvest for growth. In the last 18 months, we outperformed the market in times of unprecedented volatility. We improved margins, continued to generate strong cash flow and we proved our commitment to creating shareholder value by taking advantage of the dislocation in our share price to repurchase 10% of our outstanding shares.

Our focus over the next 18 months will be building on this growth. Our intention is to continue to grow above market and maintain our gross profit margins at or around 42%.

We also want to continue to improve our adjusted operating profit margins as we leverage the sales growth, but we will be making investments in our SD&A. During this phase, we expect to continue to generate strong cash flow, which we plan to use to fund our growth, including investments in our current businesses or potentially bolt-on acquisitions.

Beyond this investment phase, we believe there will be an opportunity to expand further with the potential to add another business to the company. Our takeaways from today are straightforward. We have done what we said we would do. We have returned the company to growth. We have improved our margins. We are being strategic and deliberate in our approach to capital allocation and continue to create value for our shareholders. We are optimistic about the economic recovery and our ability to outperform the market while still being aware of the volatility of component cost increases and the impact of the global shortages of electronic components on our business.

I continue to be proud of our dedicated team. We are committed to ensuring the long-term stability and predictability of the company, and we look forward to continuing our conversation with you.

There will now be a 10-minute break. And when we return, Neil, Peter, Trevor and I will be available to answer your questions about what you've heard today. See you soon.

Operator

There will now be a 10-minute break.

(Break)

QUESTIONS AND ANSWERS

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

Good morning, and thank you for joining us this morning. We're now going to move on to our live question-and-answer session. And just as a quick reminder, you can go to the live chat section of the website and still include your answer. And so I just want to start off with Neil. We've had quite a few questions around the framework for our long-term growth. So would you be able to expand on that and just tell the audience how are you thinking about that?

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

Sure, Charlotte. Thank you. Before I do that, let me say thank you to all of you also. We appreciate your engagement with our company, and we're really excited that you've got to meet so many of the impactful people in our organization. We're really proud of the people that we work with and what they're capable of doing. We're also really proud of where we are in our evolution. So you've seen a lot of the transformation in our company. And so most importantly, we've returned the company to growth. So we've returned the Lighting business to growth. We have an outstanding opportunity with spaces to grow.

And Karen, we have the opportunity to deploy capital to create value going forward. So where are we exactly? And how did we think about our outlook? So first, we've demonstrated that we can deliver margin. We've demonstrated the relationship in lighting between price and cost and our ability to do that and take share, as evidenced by our revenue growth. As we look forward, we wanted to take a longer-term view and recognize that we want to be a consistent, repeatable and scalable business that can grow in the mid-single digits over a long period of time.

Our growth is tied to total construction. Obviously, as construction happens in different spaces, they need lights. So our view is that we can grow at a total construction, which is a census type number, total construction plus. As we grow the business now that we've returned to growth, we can also leverage our expenses. So you'll see us now transition to how do we really create value? Well, we create value by growing revenue by turning it into cash and not growing our balance sheet as fast.

And so our Lighting business is well set up to do that, and we're really excited about that. And then as we think about the Spaces Group, Peter, we have the opportunity there to -- first of all, I'm glad you got to see finally that business. It's an attractive business currently and with only room for improvement. We think that it can grow consistently in the mid-single digits. Karen, as we do that, obviously, we'll leverage our expenses against a bigger company. We'll turn that into cash, and we'll manage the size of our balance sheet so that we can continue to deliver returns.

So with that, maybe we'll take a second, and Trevor, what are you really excited about when you think about growth in our Lighting and Lighting Controls business?

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

Yes. So great question, Neil. Thanks for passing it on. So when I think about our strategy just overall, challenging the service levels of the industry, leading the technology curve and really reinventing our portfolio and using the technology we have to kind of improve materially our portfolios over time, I think those 3 things are really exciting opportunities on their own. And materially, we can think about how those will affect not only us, but the industry. Over the past 100 days or so since I've taken this job, I've been out within the agency channel, aggressively kind of connecting and just getting to know them a little bit more and speaking about our strategy.

And I got to tell you, after visiting roughly 25% of the independent sales agents, they're really excited about kind of how we're applying our strategy. And a practical example would be Contractor Select, right? We made huge progress in that portfolio over the past kind of 18 months. And when you think about what we've really done, we've ended up delivering the right product at the right price at the right place for customers. And we've continuously refreshed that portfolio over time so that we're leading the industry rather than reacting to others. So when I think about -- that's one kind of anecdotal example of what -- where I think we're going and what we can do more of.

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

That's great. Peter, as we think about spaces, where are you thinking about growth? And what are you excited about?

Peter Han - *Acuity Brands, Inc. - President of Intelligent Spaces Group*

Yes. I think with spaces, we're very excited about the business today and where it's going in the future. This quarter actually was a great demonstration of what we're seeing from our customers in a couple of problem areas, areas where we can bring them solutions. One is in energy management, one is in location services. So if I think about energy management, as the world's getting back to a world of hybrid work, they're getting back into workplaces, working remotely, using spaces in very dynamic ways, customers are coming to us looking for heating and cooling solutions, energy management that manages their environmental footprint, manages their bills and their spend. And we're seeing a lot of demand for that with our Distech building management solutions and our Edge controllers. We're also seeing that with the Atrius software that supports those controllers. So it's great to see that accruing on the energy side of the business.

On the location services side, as I come into Acuity and seeing the assets that we have on hand, it's been really exciting to see the way that our footprint actually from the lights business gives us that sensor density, that location, that line of sight, that power and that connectivity. All of those things help us locate devices and people inside environments much better than alternative solutions, and we're in the early stages of realizing that demand. But already in this quarter, when we posted 47% year-over-year growth, you're starting to see that world coming back to work, energy management, location services, I think we're going to see that play out. And then to go back to what Karen said in the financial segment, our long-term objective is mid-teens growth, and we're looking to deliver that.

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

So in summary, as you can see, we've returned the company to growth. There's growth opportunity in each of the individual segments. We've demonstrated we can deliver margin, and we're excited about our ability to continue doing that going forward, Charlotte.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

So just a quick point of clarification, Neil. Just in the Q&A, so we talked about mid-single-digit growth for ISG, but we meant mid-teen growth. Just to clarify.

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

Just to clarify. Yes, that is mid-teens growth.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

So the second batch of questions really come around capital allocation. So the 2 questions that we'd like to address is just to give a little bit more color on our acquisition strategy? And then also talk a little bit about how we're thinking about repurchases?

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

Sure. Well, as we think about the acquisition strategy, Trevor, maybe you could spend a minute on OSRAM and the impact of OSRAM -- potential impact of OSRAM on the lighting business?

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

Yes. So sure -- thanks, Neil. So sure, we -- first of all, we're really excited about the OSRAM acquisition and the potential impact it can have. Clearly, it's -- there's a large strategic value for us as a business there. If you think about it, every luminaire we manufacture has an LED driver included in it. So I'd proxy this back to our strategy, which is the -- challenge the service levels of the industry, reinvent the portfolio faster and better than others and lead the technology curve and use technology to kind of improve our portfolios over time.

So if you think about how OSRAM fits into those 3 strategic buckets, it's like the trifecta. It touches each one of those. It allows us to service customers better with a stronger portfolio of drivers, which are in every luminaire. It gives us more control over our product life cycle management and our product development cycle. And it also is a big piece of the technology in every luminaire. So clearly, beyond that, we inherit a very powerful OEM channel and a broad portfolio of drivers. So not only can we service ourselves but we can broadly offer a great portfolio with eldoLED, IOTA and OSRAM to the lighting industry and become a more meaningful supplier. So that's how we think it through.

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

Yes. No, that's great. And we closed that today. So we're super excited about that. Karen, you say something to me on almost a daily basis, which is that cash is queen. So maybe you can refresh everybody on what our capital allocation strategy is? And then I'll pick up on the acquisition strategy.

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

Of course, Neil. Yes, I do. I remind them at the company, Neil and others, that cash is queen. And we've reiterated our capital allocation priorities. First is to invest in our businesses for organic growth. Clearly, that's a big priority that we demonstrate every year through things of our capital expenditures, R&D. We do that every day, and we do it regularly. Second is to grow through M&A. We want to do things like OSRAM and invest in the businesses that are bolt-on and core to what we're trying to drive going forward. Third, we're going to maintain our dividend. We've demonstrated that over the past several years. And then finally, as you saw the past year, when there's a dislocation in our share price, we're going to be opportunistic about share repurchases.

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

Yes. And we like that because it creates permanent value. So as we look at that going forward, but our primary objective here is to make us -- make ourselves a significantly larger company, and that is through the growth of the businesses that we already have. And then it is through deploying our capital because we're a very efficient capital generator in new areas where we can grow. So the bolt-on acquisitions, Trevor, that you identified, there's probably similar smaller ones potentially around technology and maybe some small verticals on the lighting side.

Peter, as we think about kind of where you are going forward, obviously, you just talked about how excited we are about the organic opportunities. And then once we demonstrate the organic opportunities, that will open up significant additional potential opportunities for us. And then finally, we're also excited about demonstrating what we've done and the transformation in the Lighting and Lighting Controls business, the technology capabilities that we have in spaces and to find another vertical that we can add to that. And so what are we looking for? We're looking for these systemic growth opportunities. What's a vertical that we expect grow for a long period of time. And how can we bring what we know how to do through transformation and through technology to revolutionize another sector of the industrial space. And if we get it right the next time, we'll go do it again. So we're really excited about that opportunity going forward, Charlotte.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

So Karen, just a quick clarification around the OSRAM closure today. Can we just talk a little bit about how we're thinking about modeling that through next year?

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

Yes, of course. As Trevor mentioned, OSRAM is really strategic for us on many points. First of all, it allows us to control some of that innovation within our luminaires, which is really exciting. Second, it gives us better control of the supply chain. And then finally, it does come with a whole -- a fulsome OEM channel. And we're really excited when you add eldoLED, IOTA and now OSRAM to that portfolio, we're a meaningful supplier to much of North America. And so we think that, that will add a couple of basis points to our top line for growth next year.

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

Couple of basis points or a couple of hundred basis points.

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

A couple hundred basis points.

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

So here we go again. We keep messing up our numbers...

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

Here we go again. A couple of hundred basis points...

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

Mid-single -- or double-digit growth and no 200 basis points.

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

A couple hundred basis points. That's right.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

So Karen and Neil, this is a question a little bit for you. So there's a couple of people asked us to clarify exactly what we were seeing around gross margin. And there's a question around, have we changed our discussion around gross margin since the last quarter? Or are we just using slightly different language to say the same thing?

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

Right. Let me take that, Charlotte, and then Neil, you can build on it. We are really proud that we delivered 43% this quarter. It was through the deliberate actions of all of our associates to do the things we said we were going to do around product and productivity improvements. We saw that component costs were increasing, and we took those actions very deliberately to deliver these gross profit margins. But I've been here a while, and I have not seen this level of volatility and movement in our commodity prices. And so we do think there could be some pressure in the near term as we work through some of those cost increases.

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

Well, and as you point out, Karen, the hard work, and Trevor, really, in the lighting business over the course of last year, in the middle of a pandemic, in a shrinking revenue environment, we demonstrated the ability to materially increase margins. We know how to manage margins. So now we're facing an entirely different situation. We've gone from a year ago, which is we're all kind of holding on by our fingernails, trying to make sure that we all stay in business. And now we've returned this business to growth and not just growth but attractive growth. And so as we scale up, that's -- we're going to work through the challenges of scaling up, and you see this in the global supply chain. This is not an Acuity event. This is an everyone event, whether it's chip shortages that affect our production schedules, the component costs that are going up and are coming back down. Look at lumber, which is not one of our components, but is a great example of a skyrocket and then a fall. These are going to level out over time. And so over time, we've demonstrated that we can and we will expand the margins of the business going forward.

The last piece of that, though, Charlotte, is we focused a lot on gross margin over the course of the last year. And we did that because we wanted and needed to demonstrate through the transformation that we could control the relationship between price and cost, that we could compete effectively in all parts of the market. We clearly have done that. We have the highest margins in the industry by a margin. And so now we're focused on growth. And as we grow, you'll start to see the leverage in the fixed cost, both in the -- a little bit in the gross margin line and as well as in the SG&A line. So our outlook is that we think we can be a consistent and repeatable grower that over time expands margins.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

Thank you. So just shifting gears just a little bit. Trevor, historically, we've called out our share between new construction and renovation has been about 50-50. Is that the same now? And are we still excited about both of those channels?

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

When we think about the balance of those 2 item, I don't think there's been largely a material change. But let's face it, 85% of the buildings that are out there, they're already built, right? So we have to construct, continue to invest in our portfolios to make them both applicable for the new construction market, but also be able to apply these technologies to relight effectively spaces to help companies achieve their sustainability goals. So we think about -- when I think about those 2 relevant things, our portfolios need to be equally balance in order to grab the opportunity.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

And when we talk about the renovation cycle, we -- I think there's a perception that now we've introduced LED, that renovation cycle has been pushed out a lot more. What is the kind of average renovation cycle that you're seeing?

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

So when I think about this, I think about large retail right away. And the kind of myth is, okay, people are going to change their lights from legacy technologies to LED, and then they're never going to have to change them again, right? And so the reason why this is a myth is the renovation cycle of kind of these large retailers is anywhere from kind of 5 to 10 years. So pick a number in between like a 7-year time frame. I can't think of

these retailers touching their space without relighting and applying the latest and greatest technology, right? That's the first thing. The second thing I would say is, there has been an improvement over time to the technology that's contained within these products and that provides greater opportunity for the retailers and customers like the retailers when they start relighting or refitting their space.

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

It's a great point. These are technology products, and they are on an upgrade cycle, and they are getting better and better and better, more efficient. And look, I've had the opportunity to work in a number of different businesses, some of which had a different criteria. And so I hate to go all Peter Lynch on this, but as you look at the built environment and spaces in general, I can't imagine any space that you would build from scratch or that you would touch and change where you can't touch the lights. So it's -- the retrofit opportunity is a huge opportunity. And as you point out, the need for increased sustainability, only -- we are only but a very positive impact on that, even in places where we've already installed our luminaires.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

So Peter, the next question is for you. Do you believe that you have now the team in place to be able to scale the business? Is there anything outstanding that you're still working on?

Peter Han - *Acuity Brands, Inc. - President of Intelligent Spaces Group*

Sure. I hear a couple of nuances in that question. One was around team and then maybe on other capabilities or assets that will help us grow spaces. So on the team side, we're really excited about the talent in place. Some of the new people that have joined Acuity over the last few months. We have a few others coming at a senior level, and we'll be making some other announcements on that in the future. So that's very exciting. I mean just the energy and the vibrance of the culture, I think, is going to be attracting more and more over time. So we'll see where that goes on the talent side.

On the other assets, we have a lot to work with. So coming in from the outside and serving, again, some of those pieces around energy management, location services, I think some other things that we could build over time, there is a lot to work with, and we're in the process of integrating that today. So pulling it together in the Atrius portfolio, the Distech portfolio, bringing those in a better together way to the end customers to solve their problems and meet them where they are on their journey, I think we're feeling very good about that. And then, of course, we'll also be innovating with this team over time. And so we'll have more to share in the future.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

Thank you. So Neil, back to you. We've had a couple of questions around our investment in technology as we're going through this evolution. What is still to be done? Where are we on this journey right now?

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

Yes. No, I think that's a great question. And the way I think about the investment in technology is that it's really the amount that you invest is the productivity of your most talented people in the amount that you invest. And so as we think about ourselves going forward, we've obviously, over the course of the last 18 months, funded a lot of the development Trevor that's going on in our -- in the lighting business, in our commerce platform there, the data that you heard about earlier on the broadcast. So there's a lot, Charlotte, that we'll continue to do there. And we have incredibly talented people who have succeeded in the largest technology organizations in the world who now are here congregated in our industrial technology company. And we're really proud of that and where they can go.

Will we add to that investment? Sure. If we demonstrate that we can accelerate the improvements in lighting, we'll continue to invest in that. On Peter's side, Peter, you -- as you point out, there are a number of high-quality technologists here already. We have currently funded the level of

growth that we have had there. But there's always more talent out there. And we are going to be opportunistic about bringing in talent, just like we did with Peter and his team and just like Sandeep and the others that you saw on the video. So we're bringing together the best technology talent that we can, and we're demonstrating that they can and will come here and they can and will thrive here. And so -- and we've also demonstrated that we can pay for it with our current business.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

So the next question really kind of answers itself. So I'll just read it verbatim, but why would gross margins decline from here if revenues are growing, and you get fixed cost leverage and your pricing is kicking in?

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

Thanks, Neil. Really, what we're talking about is looking in the short term, we see that material costs are volatile right now. We see that we've had price increases that we've implemented to offset that, and we're working really hard on the product and productivity improvements to drive to a long-term 42% gross margin as we continue to make investments across the portfolio.

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

I think that answers the question.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

So sticking with some modeling questions. How or what is the right bucket to think about incremental cost around OpEx and COGS?

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

Yes. So as I mentioned on the video, we do expect some sequential increases in our SG&A. When you look at where we are today, we're still at a really low level of travel, of sales and marketing activities, and those things are starting to open back up.

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

Wait, the world isn't still shut down?

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

It's not still shut down. It's not still shut down. but it's starting to open back up, and we're excited to be together again. We're excited to engage more with our customers and do more travel and do more face-to-face activities. That being said, we're going to be really mindful about how we manage that and leverage those costs going forward. But I do see an opportunity for some sequential improvement or increase.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

Perfect. So the next question is around sustainability. We've been talking about sustainability a lot over the last 12 months. Can we just talk about what our priorities are for the next kind of 6 months? And maybe give a little bit of light of what else we're doing on the S and the G side?

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

Yes. So shall I start and then feel free to jump in, anyone, when we talk about this. We have done a ton of work over the course of the last 18 months in each of E, S and G, and we're really proud of that. And I'm glad you got to meet Dianne and Barry and Candace and see how the -- how we're running the company and thinking about it. So I do want to point out the commitment to our products and services, Trevor, Peter, mitigating the impacts of 100 million metric tons of carbon by 2030 is a meaningful number.

It demonstrates how impactful those products and services can be, and then also, I want to highlight, it's a real inspiration for the people who are doing this. For the people who are here who are working on this, what we're doing is impactful, it matters and people are really excited about doing that.

So let me spend a second on the S side, on the culture. One of the most important things that we've done is we've identified that we wanted to be a values-driven organization. And what that means is that we can identify what our aspiration is, and so that anyone in our organization when they're faced with a challenge or a question or how they want to think about it, they know what to fall back on. And the -- I would encourage you to spend a second with those, but one of those is that we want the best people to work here because they feel like they can do their best work here. And so we're doing a significant amount of work around that so that we do create the environment where the best people want to be. And we're demonstrating that people are coming from outside the organization to that. And we're demonstrating that people inside the organization have -- historically have also been really engaged by that.

And so then finally, on governance. Over the course of the last year, as we indicated in the video, and those of you who know us well, we've refreshed our Board. We've changed the committee structures. We've overhauled our total rewards philosophy. And that's really important because it points out that we are creating a way that everyone understands how we're in this together and that our interests are aligned from customers to associates, to shareholders, to our communities. And so our short-term metrics are aligned to short-term activities, revenue, operating profit, cash flow. And our longer-term metrics are the ability for us to continue to create value long term, our return on invested capital, which gets us back to kind of how does all this come together? Well, we grow, we turn that growth into cash and we don't grow the balance sheet as fast, and we create a lot of value for all of our stakeholders.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

So moving on, there's a couple of clarification questions and then the next conversation is around how our third potential acquisition. Are we planning on expanding into new geographies or new verticals? Have we talked about that? Or are we still pretty open to what the opportunity is?

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

So at this point, I outline what our criteria are for. We want systemic growth opportunities. We want places where we can demonstrate our ability to transform, as we've done in the lighting business, and to develop technology as we're demonstrating in the spaces group. So we're not currently constrained by geography. Our current businesses, our Lighting business really is a North American business. They're -- the lighting industry outside North America, it's very different than the lighting industry in the Americas. The spaces business already is in 60 countries and has the opportunity to scale in those countries going forward. So I would like to say the world is our oyster, but I think that sounds a little cheesy. But the reality is we're confident in our ability to add businesses to our portfolio and increase value in those businesses when we do.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

So Karen, quick clarification question for you. Are we saying that we're expecting ABL to grow mid-single digits in addition to total construction? Are we saying that total construction is mid-single digit or expecting to outgrow that?

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

Yes. So we've said over the medium to long term, we would expect the lighting business to grow with -- in a rate of total construction plus, which we believe will be in the mid-single digits for the long term. In the near term, we do have some opportunity based on some increased activity in the market, where we may be able to take advantage of that opportunity. We're positioned to do so, but we're also aware of the component and labor shortages that we're experiencing.

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

No, it's a really good point, Karen. I mean we're well positioned for the rebound that we all expect to come. I don't -- none of us are economists, so we're not going to be able to predict exactly what total construction is going to be over the next 18 months. But we're well positioned, Trevor, Peter, to participate in that and to continue the performance we've demonstrated in the current period.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

And the second clarification question, can we just explain, are we saying that our gross margin into the fourth quarter is going to fall to 42%? Are we thinking about this in a more long-term way?

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

I feel like this question-and-answer session is taking me back to my days as an investment banking analyst at Smith Barney. So in the Excel spreadsheet, what we are saying is that over the course of the year, we should be in the 42s for our gross margin. Karen has eloquently tried to say consistently that commodity prices are bouncing all over the place.

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

They are.

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

Trevor has demonstrated that we will be measured but responsible in our price increases. We have not yet felt the impact of that, Karen, in the third quarter. So we did increase prices, which you could see in the -- we'll start to see the impact of in the fourth quarter. We've announced another price increase, which you'll start to see impacts in the first fiscal quarter. So -- and we're also, at the same time, being responsible to our customers so that we can be consistent. So commodity prices will bounce around. They will settle down. When they do settle down, we will be expanding margins just as we've done in the past, and we think we can grow -- we can outgrow total construction.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

Thanks, Neil. So just moving on to the ISG business. Can we just explain exactly how our technology is different from other people's and why it's differentiated?

Peter Han - *Acuity Brands, Inc. - President of Intelligent Spaces Group*

Sure. I think the thing that comes out really quickly, and we talked about it earlier in the day, is our open protocols. The fact that we promote an ecosystem approach where we're inviting innovation from partners versus some other competitors who might have more of a closed ecosystem approach. So I think that mantra is very real. It's driving customer demand. It's going to continue to be a hallmark of our approach from the spaces side of Acuity.

With that said, I would also add that there are other ways that we're going to differentiate over time. I mean when we think about our business, it's evolved as a building controls, HVAC controls business, those things have driven a lot of great impacts on green mission and so forth. We also see opportunities for AI controls. And so as we think about other workloads, other problems that we'll solve for customers in areas like location services, as I mentioned, that's where we're going to have further differentiation. We're going to be pushing that tech curve in ways that I think others in this industry haven't. And then when you think about some of the things that come out of that in terms of cloud partnerships and so forth, there's a lot that we've been thinking about and we'll obviously have to go out and work to realize.

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

Peter, one of the things that we have not talked a lot about Distech to the investment community, so the Distech Eclipse controller, this in a sentence, the way to think about that is it is the brains of a space. It controls what happens in that space, temperature, light, et cetera. And so that is installed in a number of buildings and spaces around the world. And that's the open protocol that then we have the opportunity for -- to add payloads to.

Peter Han - *Acuity Brands, Inc. - President of Intelligent Spaces Group*

Right. I mean to your exact point, when we talk about platforms and payloads, the fact that we have this back-office implement, this gateway that drives this workload. Historically, it's been pointed at heating and cooling. It's been pointed at building management and energy, which are very independent in their own right, as we're now exposing, it's its own healthy business today. However, as we think about where platforms are going and what other payloads could run through them, where we capture that synergy and grow a number of things that we help our customers do, that's where we're really excited. So again, we're at work and we'll continue to drive those results.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

Just a quick reminder that we can -- we're still taking questions. Moving to Trevor, we've had a couple of questions about our pricing model. It's right that it's not live yet, isn't it? So any benefits that we see from that aren't currently -- we're not currently experiencing.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

Yes, our price optimization tool using technology, yes, it's -- we're modeling it at present. We're kind of at that development phase, we're doing kind of AB testing, but we haven't driven that live as part of our kind of standard pricing practice, if you will. And so we're not seeing the impacts of that yet.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

And this is probably a question for you and Neil, but how are we thinking about pricing going forward? Obviously, you've seen pricing received relatively positively this year. Are we still going to use that as a tool going forward?

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

You want to start? Or do you want me to start?

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

Why don't you go ahead.

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

Yes. No. The -- I think it's really important that -- and Trevor, you mentioned the Contractor Select portfolio. And we've had a lot of success with that portfolio this year. And you talked about -- for the product vitality and the vibrancy of focusing on the most important everyday lighting products, which impact contractors. And we've demonstrated the ability to meet price in the marketplace and deliver margin at the same time. And that really is a key component of the pricing strategy, which is we need to meet price in the market and deliver margin at the same time. And that's how we've done that. And it's been very successful competitively at the lower middle part of the market, which is important to demonstrate, which gives us the opportunity to thrive in our traditional project independent sales network type business.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

It does. I'd just add on to that. I mean you made a comment in kind of the last question around margin. Price is a thing. It's not the only thing, right, which is the portfolio, you have to have the right price, the right product at the right place, kind of product management 101, if you will. And we've got to be measured with managing our relationships with our customers and the costs coming in. So I think you're going to see us kind of repeatedly manage the business effectively moving forward.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

Perfect. So again, a little point of clarification. We've just been asked to clarify the market growth again in ABL, which we have said will be mid-single digits, and then we would outperform the market that we assume will be mid-single digits. So just to say we did not say we would outgrow the mid-single-digit market by mid-single digits. And so please let me know if...

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

We are not speaking in codes. If there's any concern, we are not speaking in code. We're trying to say exactly what we mean.

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

Right.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

Okay. So one quick question, we're not going to split out Distech and Atrius going forward?

Peter Han - *Acuity Brands, Inc. - President of Intelligent Spaces Group*

We're a solutions business. So when you -- the discussion I just had with Neil about the fact that these Atrius services support that ecosystem and Distech does the same thing from the platform side, we're really excited about the way those combine together, harmonize to solve customer problems. So yes, right now, we're a solutions business, and so we're reporting ISG as a whole.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

And for those people who've been following us for a while and know a couple of the other platforms that were acquired in, they will be rebranded now to Atrius and Distech.

Peter Han - *Acuity Brands, Inc. - President of Intelligent Spaces Group*

That's right. So we've got a set of suites that we described around building management, enterprise operations and personal experiences. We're really excited about that set of services. I think our customers are also showing, with this quarter that we've just closed, their excitement. And so yes, we're going to be putting them in the brand families that we described.

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

Perfect. So the last question is really a little bit more of a soft question, but what are you both looking forward to over the next sort of 18 months, what the company is intending to achieve?

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

Why don't we go around the room? Trevor, why don't you lead what you're most excited about? And then Peter, Karen, I'll finish.

Trevor S. Palmer - *Acuity Brands Lighting, Inc. - President*

I would say I'm really excited about the simplicity of kind of our strategy that can be very effective, right? There is a meaningful opportunity to make improvements, not only to us but to the industry, right, and challenging the service levels. We have in the past, and we will continue to more aggressively lead the technology curve for the industry. And I think we've demonstrated in the past that we've used controls technology, et cetera, to kind of materially improve our product and our product offerings over time. And I think those 3 things are really exciting for us to be taking not only us through, but the channel through and the industry through.

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

Peter?

Peter Han - *Acuity Brands, Inc. - President of Intelligent Spaces Group*

Yes. I mean I talked in the beginning about impact with innovation and meeting customers where they are on their digital transformation journey. So what I'm most looking forward to really honestly is working with the different customers across the different verticals, meeting them where they are because we have different levels of sophistication and readiness, yet a common instinct across customers that they need to change, they want to modernize, they want to take steps forward in how they manage their environmental footprint, their costs, how they really make their operations more effective. So regardless of where these customers are, I love that hard work, that reality of just digging into their details, meeting them where they are on their journey.

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

Karen?

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

So I'm so excited that we have these 2 segments. As I said before, the strategic vision that we have for both lighting and spaces is really going to propel us forward. And I'm really excited about the leadership that we have in place to do it and the focus that it's really going to bring. And then I'm excited about the opportunity to see what's next.

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

Yes. No, that's great. And I would summarize by saying this is what I'm most excited about, I'm excited about the people that are assembling here at Acuity Brands, the people that you got to meet in the videos today and the opportunity that we have going forward. We've demonstrated the ability to transform the Lighting business and Lighting Controls business, and we've returned it to growth. We've demonstrated now that you can see the results in the spaces group that it is already impactful and that the technology there matters. And we've demonstrated, Karen, with our impact on the environment and our positive impact on the people that are around us in our communities that we can make a real difference going forward. So we've returned the company to growth. We've demonstrated that we can and will develop -- generate margins going forward. And we've turned that into cash, and we haven't grown the balance sheet as fast, which is a recipe for long-term value creation. So I'm most excited about what comes after, what comes next, Karen, and all that we have in front of us.

So thank you all for being here, and thank you all for spending the time. Charlotte?

Charlotte McLaughlin - *Acuity Brands, Inc. - VP of IR*

No, thank you so much. Just as a quick reminder, if anyone would like a follow-up call in the next couple of days, please reach out to our Investor Relations department. We also wanted to highlight that we have relaunched our website and [IRL] website. So please go there if you have any further questions. And then we're going to cut back to our close. So thank you very much.

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

So as we wrap up today, let me begin by saying thank you. Thank you for your interest and your engagement with Acuity Brands. I also want to say thank you to our associates. Thank you to those that you had the opportunity to meet and interact with today and to the other 12,000 associates around North America and the world who are making a difference and delivering on this performance.

We're confident in the transformation that is happening in our Lighting and Lighting Control business and its return to growth. We're excited about the opportunity in spaces to finally make spaces intelligent. And we're excited about the opportunity to add additional businesses to our company to make our company significantly larger going forward.

So with that, thank you again for your time, and we look forward to talking to you again real soon.

Operator

That concludes the Acuity Brands 2021 Investor Day. Thank you for your participation.

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