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# FINAL TRANSCRIPT

AYI.N - Q3 2025 Acuity Inc Earnings Call

EVENT DATE/TIME: JUNE 26, 2025 / 12:00PM GMT

## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Joseph O'Dea** Wells Fargo Securities, LLC - Analyst

**Chris Snyder** Morgan Stanley - Analyst

**Ryan Merkel** William Blair & Company - Analyst

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

**Christopher Glynn** Oppenheimer & Co., Inc. - Analyst

**Jeffrey Sprague** Vertical Research Partners - Analyst

**Brian Lee** Goldman Sachs - Analyst

**Brett Castelli** Morningstar - Analyst

## PRESENTATION

### Operator

Good morning and welcome to the Acuity fiscal 2025 Q3 quarter earnings call.

(Operator Instructions)

Please be advised that today's conference is being recorded. I would now like to hand the conference over to Charlotte McLachlan.

Vice President of investor relations. Charlotte, please go ahead.

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

Thank you, operator.

Good morning and welcome to the QT fiscal 2025 3rd quarter earnings call.

On the call with me this morning are Neil Ash, our Chairman, President, and Chief Executive Officer, and Karen Holcomb, our senior Vice President and Chief Financial Officer.

Today's call will include updates on our strategic progress and on our fiscal 20,253 quarter performance.

There will be an opportunity for Q&A at the end of the call.

As a reminder, some of our comments today may be forward-looking statements.

We intend these forward-looking statements to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1,995.

As detailed on slide 2 of the accompanying presentation.

Reconciliations of certain non-gap financial metrics with their corresponding GAAP measures are available in our 2025 3rd quarter earnings release and supplemental presentation, both of which are available on our investor relations website at [www.investors.acuityinc.com](http://www.investors.acuityinc.com).

Thank you for your interest in acuity. I will now turn the call over to Neil Ash.

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

Thank you, Charlotte, and thank you all for joining us today.

We delivered strong performance in the 3rd quarter of fiscal 2025. We grew net sales, expanded our adjusted operating profit, and adjusted operating profit margin, and we increased our adjusted diluted earnings per share. We generated strong cash flow and allocated capital effectively.

In ABL, we took aggressive actions to get in front of the evolving tariff policy.

We have a dynamic and resilient worldwide supply chain. Over the last several years, we have diversified our supplier options and locations.

During the quarter, we leverage these options to move away from higher tariff environments.

We also took strategic pricing actions intended to cover the dollar impact of the tariffs while remaining competitive in the marketplace.

Partially as a result of these actions, we received accelerated orders in the 3rd quarter that built backlog. We began to ship this backlog in the 3rd quarter and will continue to ship it in the 4th quarter. And finally, where we could, we accelerated productivity efforts to reduce expenses.

Here we'll talk more about the specifics of this later in the call.

Now moving on to some recent highlights in our electronics portfolio.

As we said last quarter, our electronics portfolio is a unique offering in the marketplace, extending from the drivers that power our Luminaires to the sensors, controls, and software that control.

Light in a space and connect with the cloud seamlessly through our Atrius data lab.

Recently we rolled out two significant controls products.

The new wireless sensor switch air product line simplifies lighting control with Aless pairing, out of the box operation, and broad compatibility.

The product line features wireless sensors, wall switches, and embedded sensors that can be used with select lathonia products.

SensorSwitch air is available as part of Contractor Select and is designed to save contractors time and money, upgrading any project to a connected project with minimal effort and cost.

The second product is the Animate Controller by Night, a single user interface that simplifies installation, programming, and operation of dynamic lightscapes.

Installers are able to define their projects, sketch their required outcomes, and see their design come to life with the ability to dynamically alter color settings and movement in real time.

As part of our ABL growth algorithm, we continue to make investments for future growth, prioritizing verticals where we have not historically competed or where we are under penetrated.

This quarter we accelerated our product vitality efforts through the acquisition of M3 Innovation and launched M3 by Lathonia and Hollowbeam by Hall of Fame.

This strengthens our floodlight portfolio and has product applications in sports lighting and other industrial and infrastructure settings.

These products enhance our offering in multiple verticals where we had gaps in our product portfolio, including education, municipalities, and infrastructure.

These solutions incorporate multiple innovations designed to reduce total installation costs and enhance the user experience.

Our products continue to be recognized by the industry for their design and performance.

At Leducation this year, several of our products were identified by Edison Report as must-see, including the Nightingale Embrace, an overbed Luminna used in healthcare facilities that offers multi-functional modes designed to improve patient experience and optimize patient outcomes.

And in April we won several red dot product design awards, most notably for Pelican by Luminous, an outdoor Lumine Air that delivers soft, uniform, and gradual illumination in plazas and pathways. It can be networked using our N light air controls, making it easier to specify, install, and operate.

And Valencia by Cyclone, a unique V-shaped outdoor luminaire that mixes a minimalist aesthetic with advanced optics to meet municipal requirements and reduce costs.

Now switching to acuity intelligence bases, which had an impressive quarter delivering strong sales growth and margin expansion.

Through Atrius, DSTech, and QSC, we have unique and disruptive technologies that are driving productivity for people experiencing spaces and for the people providing those spaces.

Atrius and DTech control the management of the space, and QSC manages the experiences in that space.

Over time we will use data from both to enhance productivity outcomes through data interoperability.

The integration of QSC is going well, as evidenced by their strong performance, accelerated revenue growth, and expanded margins.

QSC is building the industry's most innovative full stack AV platform that unifies data, devices, and a cloud-first architecture to deliver real-time action, experiences, and insights.

During the quarter we released a number of new QIS product enhancements. These included new processing options, next generation automation tools, smarter design workflows, and enhanced data visibility.

I'd like to highlight a few of those here.

The new class of Q's core processors are faster and have more capacity to support in-room processing and cloud networking.

Our QI Vision Suite connects physical spaces to digital AV intelligence. It uses 3D visualization tools to plan and prepare spaces to maximize the effectiveness of live broadcasts or hybrid meetings.

The new technology rollout uses speaker and presenter spotlight technology powered by AI cameras and microphones to dynamically frame meeting participants.

And finally, we enhance the capabilities of QSIs Reflect. Reflect is our cloud-based remote analytics platform. It supports real-time system health monitoring, remote set up and configuration, and centralized control.

I'm pleased with QSC's performance.

They are differentiated in the marketplace. They are operating their business successfully, and they are demonstrating productivity and benefiting from the adoption of our better, smarter, faster operating system.

Now moving on to Dittack.

We are focused on where we compete and what we can't control to expand our addressable market.

This quarter, Distek had strong sales growth. The continued strength of Dstek is largely a result of the popularity of our Dstek Eclipse portfolio.

Dstek Eclipse is a strategic differentiator. It is a comprehensive building automation platform that unifies hardware and software into a cohesive ecosystem for intelligent building management.

The portfolio includes hardware devices used to manage how a building operates, controlling HVAC, lighting, refrigeration, and other systems.

Eclipse devices are modular and scalable and allow for flexible configurations tailored to the specific needs of a space.

Devices include building controls, in-room controls, sensors, and interfaces, including the Eclipse Apex controller and the eclipse display.

Eclipse Facilities is a software that optimizes how a building operates.

It is the operating system that enables monitoring, remote management, and scalability.

Together, Eclipse's hardware and software enhance building performance by minimizing owner costs and maximizing user experience.

Now looking ahead, in both lighting and intelligence spaces, we have taken aggressive actions to manage our outcomes given the uncertainty in the marketplace that has resulted from the evolution of the tariff policy and other geopolitical instability.

It is likely those actions have resulted in accelerated ordering that has positively affected the 3rd quarter.

Our expectation is that the combination of our 3rd and 4th quarter performance will yield the results we expected for the 2nd half of fiscal 2025.

We will continue to focus on factors within our control.

In ABL we are focused on product vitality, elevating service levels, using technology to improve and differentiate both our products and how we operate the business and driving productivity.

Our growth algorithm is clear. We will grow the market. We will take share, and we will enter new verticals.

In intelligent spaces we are making spaces smarter, safer, and greener by controlling how a built space operates and the experiences that happen within that space. We have unique and disruptive technologies that are driving productivity for people experiencing spaces and for the people providing those spaces.

Our focus will continue to be on growth, and we have the opportunity to expand margins.

We have demonstrated that we have dexterity in how we operate, enabling us to continue to execute in dynamic market conditions, and we have demonstrated that we can deliver value to our market and drive margins in our business.

Now I'll turn the call over to Karen who will update you on our 3rd quarter performance.

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

Thank you, Neil, and good morning everyone. We had a strong 3rd quarter. We grew net sales, improved adjusted operating profit, and adjusted operating profit margin, and increased our adjusted diluted earnings per share.

For total acuity, we generated net sales in the third quarter of \$1.2 billion which was \$211 million or 22% above the prior year.

This improvement was driven by growth in both business segments and includes 3 months of QSC sales.

During the quarter, our adjusted operating profit was \$222 million which was up \$55 million or 33% from last year. We expanded our adjusted operating profit margin to 18.8%, an increase of 150 basis points from the prior year.

This increase was a result of the year over year improvement in our adjusted gross profit, the growth in ABL, and the very strong performance in AIS.

Our adjusted diluted earnings per share of \$5.12 increased \$0.97 or 23% over the prior year.

ABL delivered sales of \$923 million which was \$25 million or 3% more than the prior year, driven by growth in our independent sales network of \$48 million or 8% over the prior year and growth in the direct sales network of \$5 million or 5% over the prior year.

These increases were partially offset by declines in corporate accounts resulting from the timing of renovations of a large retailer.

Adjusted operating profit increased \$12 million to \$174 million and we delivered adjusted operating profit margin at 18.8%, which was up 80 basis points compared to the prior year.

Now I want to spend a moment to explain the impact of the tariff policy on ABL performance.

As we said last quarter, we price strategically to realize the value that our products bring to the marketplace.

During the quarter, we took 2 pricing actions in response to the evolving tariff policy which are intended to cover the dollar impact of that policy. We did not reprice the backlog and as Neil indicated, we saw some evidence of order acceleration ahead of those price increases going into effect.

We also took actions to accelerate productivity efforts. These efforts were primarily related to the elimination of brands, associate severance, and facility reorganization, and resulted in a \$30 million special charge this quarter.

Overall, we believe that our 3rd quarter ABL results reflect some order acceleration with minimal price realization and tariff cost and thus minimal margin impact. Our expectation is that we will realize the majority of the price increases and will be impacted by the full tariff costs beginning in the 4th quarter.

Now moving to acuity intelligent spaces, sales for the 3rd quarter were \$264 million an increase of \$188 million.

Atrius and distech combined grew 21% during the quarter while QSC grew over 20% year over year on a pro forma basis.

Adjusted operating profit in intelligent spaces was \$62 million during the quarter with an adjusted operating profit margin of 23.6%. There are several things to highlight this quarter in intelligent spaces. First, QSC announced several pricing actions to manage the dollar impact of tariffs, and Ditech announced its global price increase in April, effective on June 1st, in line with normal historical cadence.

Similar to ABL, AIS realized some order acceleration ahead of those price increases going into effect.

Also within QSC we own ProAudio, a market leading loudspeaker business that is a relatively small part of QSC.

ProAudio primarily sources from China and has been more heavily impacted by the tariff policy.

We are making changes in this business as we integrate it. However, we expect the financial performance and pro audio to continue to be impacted by the tariff policy while we work through these changes.

Now turning to our cash flow performance.

Fiscal year-to-date, we generated approximately \$400 million of cash flow from operations.

We continue to allocate capital effectively.

In the 1st 9 months, we closed the QSC acquisition, acquired certain assets of N3 Innovation, and we repaid \$100 million of our term loan.

We increased our dividend by 13% and we have allocated around \$90 million to repurchase approximately 344,000 shares.

Since the beginning of the fourth quarter of fiscal 2020, we have repurchased approximately 9.8 million shares at an average price of about \$149 per share, which is funded by organic cash flow.

This amounts to about 25% of the then outstanding shares.

Finally, over the last few years, we have taken steps to simplify and minimize the future impact of our pension obligations on the company.

Through our investment policies and capital allocation decisions, our pension plans are overfunded.

And as a result, we are de-risking our qualified pension plans by transferring the majority of the related obligations to a third party.

There will be no impact to our cash position, and the non-cash GAAP charge of around \$35 million associated with this will be recognized in our fourth quarter.

In summary, we delivered strong performance in the fiscal 3rd quarter of 2025, taking aggressive actions to manage our outcomes, given the uncertainty in the marketplace.

We have set ourselves up to deliver a solid 2nd half of fiscal 2025.

Thank you for joining us today. I will now pass you over to the operator to take your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Joe O'Dea with Wells Fargo. Your line is open.

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**Joseph O'Dea** - Wells Fargo Securities, LLC - Analyst

Hi, good morning.

Good morning Joe.

Morning. So I wanted to start on the QSC margin. I think it looks like the adjusted margin a quarter ago, I think was in roughly kind of 17% zone this quarter it looks more like 23, 24%, and you know you talked about at the time of acquisition, over time getting it to ISG type margins, it looks like quite a bit of progress this quarter and so. Anything transitory within that as well as you know any detail on the steps that you were taking to to deliver that kind of margin performance.

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

Yeah, Joe, so taking a step back and focusing on AIS in total, obviously we had a really strong quarter across all of AIS. We are, we have a different theory of the case than than our competitive set. We want to consolidate the data state of a built space, and we're doing that successfully through building management with Ditech and Atrius and now through the experiences in the space with with QSC. When we made the acquisition of QSC, we indicated and we were confident that we would bring their performance in line with our historic ISG performance as they combined to be AIS, as we look forward to the integration of of QSC, obviously they fit with us very well strategically. They also fit very well with us culturally, so their performance in the markets.

Place has been strong. They had strong top line, which drives some of that margin. And then the rest of that margin improvement was really the adoption of our better, smarter, faster productivity tools and their ability to to mitigate additional expense as they as a group. So as Karen indicated, we believe we had some more acceleration in the 3rd quarter, which provides some benefit to to the 3rd quarter in AIS and separately in ABL, which I'm sure we'll talk about later. But generally we are, we're really pleased with the integration of QSC. Their growth continues to be impressive. Ditech growth continues to be impressive, and we're bringing their margins in the line as we look forward, our priority will continue to be on that growth, so we may make investments to continue that, but we're really pleased with where they are so far.

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**Joseph O'Dea** - Wells Fargo Securities, LLC - Analyst

Great and then just related to your comment about ABL and then some kind of bigger picture thinking around it and so any any sizing of what you think that pull forward or accelerated order impact was in Q3, how you're thinking about it in Q4, and then if you take a step back I imagine you're in kind of annual planning mode and just you know how you're thinking about the the set up of moving, forward beyond fiscal '25. Sort of the the key watch items for you and if you think the volume environment can stay stable.

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

Yeah, so as Karen indicated, we do believe there are some acceleration in the 3rd quarter for ABL.

The business obviously is very strong. So when you evaluate the disaggregated revenue, we are strong in our independent sales network. In our direct sales, which is balanced somewhat by retail and corporate accounts which, as we've kind of repeatedly said are great pieces of business but but are largely dependent on the timing of large customer's decisions so they create.

Some ups and downs through the through the period.

Our current expectation is that the second half of the year, so our fiscal 3rd quarter, our fiscal 4th quarter, will represent a kind of a normalized performance for for ABL for for based on that. We're we're evaluating kind of demand as it as it builds through the rest of the quarter as a as it fills in behind the order acceleration. And we'll keep our eyes on that as we look forward, obviously we're going to plan probably conservatively, so as we've demonstrated when there is market available to us, we will go get it. So we're not worried about our ability to get market, but we'll probably plan pretty, we will we will plan conservatively to to ensure our outcomes next year and beyond.

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**Joseph O'Dea** - Wells Fargo Securities, LLC - Analyst

Thank you.

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**Operator**

Thank you. Our next question comes from Chris Snyder with Morgan Stanley. Your line is open.

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**Chris Snyder** - Morgan Stanley - Analyst

Thank you. I wanted to ask about gross margin, obviously the 50% here is a very big number. It sounds like there was not much price realization or I guess tariff cost inflation in this quarter. So when we see that step up, is that driven by, the productivity investments and actions that the company is making, and if so, like, how significant, are those, like how much cost savings, should we expect on the back of those, and also is it, are we seeing the positive impact on gross margin of having the full quarter of QSA thank you.

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

Thanks, Chris.

Good to hear.

I you so on gross margin this quarter, you're right, it was really strong at.

50% and it was driven by several factors. So first, you can see the benefit of a little bit of top line growth on ABL at both gross profit and operating profit.

So really strong performance there. Second, we've continued to make improvements in the underlying ABL business over time, we've focused on product vitality, service, technology, and productivity, and that's definitely having an impact, as you've seen in prior quarters and this quarter.

And then also spaces is now a larger part of the portfolio, so we're building a really interesting data and controls business across ABL, I mean across acuity in both ABL with our electronics portfolio, but also in intelligent spaces with Atrius, Distech, and QSC, and these all have really good margin structures and good growth opportunities. We've talked about, the tariff math is going to impact margins over the near term, as we first focus on covering the dollar impact and improving margins over time, but not really a big impact in the 3rd quarter. So really, the bottom line is the underlying businesses are performing really well, and we've done a lot of things to improve the margins to where they are.

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**Chris Snyder** - Morgan Stanley - Analyst

Wow, well, really appreciate that. And then, second on maybe just kind of more of a market, commentary, I guess the piece of the business that has the most exposure to Asia is the contractor select line, it's the company's value brand. I guess any color on, how do those prices compare. To the AI branded products that you guys ship out of Mexico, I have to assume that the price Delta has narrowed or, will narrow depending on, where tariffs go, and I would think it feels like it could support, a mix up opportunity into the AYI branded products shipped out of Mexico. So just any thoughts on that, are you seeing that happen in the market?

Thank you.

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

So Chris, I'll address that strategically first, which is the contractor select portfolio is about everyday lighting products that that satisfy basic needs and as we've accelerated the product vitality efforts over the last several years, we've also created the opportunity to manufacture those products in multiple different places. So, obviously the higher the tariffs, the the closer the the manufacturing costs come in line to to those. Second, then we've introduced obviously the Design select portfolio to to be effectively the next tier above that which is directed at driving productivity with specifiers, with architects, with contractors. And those are largely manufactured in North America, so Mexico and and and the US. So as we look at those kind of going forward, obviously, and we call this out in the prepared remarks, we have a dynamic worldwide supply chain that allows us to to flex our our manufacturing to the most effective place. That begins with our product design. So this all goes back to product vitality and the strategy around the product vitality service and technology that is. That is really combining to drive that productivity. So as we look forward, and I mean over the next several years, it's hard not to be enthusiastic about the positioning of of the lighting business specifically. We we are leaders in the marketplace. We're we're leaders beyond just size and and this quarter really demonstrates, as Karen indicated, what happens when we get a little top line in that business.

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**Chris Snyder** - Morgan Stanley - Analyst

Appreciate that, awesome.

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

Quarter.

Thank you.

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**Operator**

Thank you. Our next question comes from Ryan Merkel with William Blair. Your line is open.

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**Ryan Merkel** - William Blair & Company - Analyst

Hey, good morning, all, congrats on the quarter.

I wanted to also follow up on gross margin. Can you give us a little help on expectations for 4Q?

Is 50% achievable, or do we start to see the higher COGS from some of the tariffs? And I recall that you were passing that on dollar for dollar, and then I don't think you were going to reprice the backlog, so I was expecting a little bit of an impact in 4Q.

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

Yeah, Ryan, so I'll answer that question strategically and build on what Karen said earlier. So we don't think the 3rd quarter had much impact from either the price or the tariff based on the timing of each and the fact that we did not reprice the backlog in any part of the business, so at ABL or on AIS. So the diluted impact of margin will happen we believe starting in the 4th quarter as the dollar for dollar coverage of those tariff costs roll through the system. So we're confident in our ability to to cover them from a dollar perspective that begins with modifying supply where it comes from, etc.

And includes the addition of price, so. That that combined impact of, as you point out of a dollar for dollar coverage would be mildly dilutive to the to the margins. So so that it's partly why we're referring to the second half as within our expectation because we think it more or less normalizes the 3rd and the 4th quarter together when combined.

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**Ryan Merkel** - William Blair & Company - Analyst

Got it. Alright, so we just, we should just think about sequentially you'll have an impact that'll be lower, but hard to quantify at this point.

Correct.

Okay. I haven't seen the guidance yet. Can you just talk about what changes you've made, there?

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

Sure, Ryan, as we said in our prepared remarks, and we've indicated a couple of times here, is that our expectation of a combination of our 3rd and 4th quarter performance is really going to be the results that we expected for the second half. So there's been no change.

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**Ryan Merkel** - William Blair & Company - Analyst

Got it. Okay, maybe I'll slip one more in. Can you just talk about the cadence to orders? My memory is you saw a big pop in sort of March and you expected it to decline. Just how did that ran, transpire and then what's the feedback from the agents? Are they telling you they saw a bit of pull forward?

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

So I'll address that. So first on the ABL side, as we've indicated, we do believe there's some evidence of order acceleration. You can see the strong growth in in the disaggregated revenue and basically all of our controlled environments, so the Independent sales network and direct sales. So that would indicate that there was some pull forward, and we're evaluating kind of that demand through the through the rest of the period. I think anecdotally what the the sales teams independent and direct would say is that they shook loose some projects that where people wanted. To TRY and find some certainty as they as they launch forward. Obviously our customer base there are are rational, so so uncertainty is not their friend. So we'll evaluate kind of how demand rebuilds through the through the 4th quarter on the lighting side.

On the AIS side, as Karen indicated, we also took pricing actions there. We saw some some order acceleration there as well, so we'll see how how those perform, but in both businesses we have, we believe we have the market leading product portfolios and so, we will react, however demand presents itself to us.

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**Ryan Merkel** - William Blair & Company - Analyst

All right, thanks. Best.

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

Of luck.

Thank you.

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**Operator**

Thank you. Our next question comes from Tim Wos with Baird. Your line is open.

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

Hey everybody, good morning, nice job.

Maybe just the first piece on tariffs, just sorry to beat a dead horse, but, there's been obviously some changes in the rates and in different countries and things. Can you just update us on what you know at this point you see or you're incorporating.

In kind of your forward expectations for the annualized cost impact from tariffs.

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

So Tim, tariffs is a dynamic question and conversation, as you pointed out, today's answer is, it could be tomorrow's question. So, kind of beginning with April 2nd and moving our way forward, we have reacted kind of dynamically to each one of those that have happened from April 2nd to steel and aluminum and those continue to to to kind of change, and obviously we expect news in July, so we'll see how, we, we'll see how that plays out.

As Karen indicated, we between the combination of our supply chain changes and pricing actions, we've covered the dollar impact of those tariffs as we understand them today, and you know they've changed 3 or 4 times throughout this quarter and we'll expect those to to continue to change. I think the the important point really isn't the magnitude of those in dollar amounts, but the dexterity we have to react to them. So we're we're confident in that performance, as we indicated earlier. Earlier and I'll say it for for effect here, a dollar for dollar coverage will have some some impact on our margins going forward. So think of 3rd quarter as unimpacted, think of 4th quarter as impacted. And but either way we will continue to grow, we will continue to to deliver dollar margin and you know our value creation engine continues.

No matter this environment.

Okay, and.

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

And I guess just to follow up to that, so did, is the expectation that the pricing offsets the dollar impact tar of tariffs and then the productivity actions that you took in the quarter kind of get you.

Your margin back or is it the combination of those two things that offsets the dollar impacted tariffs just a clarification.

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

Yeah, so the, so the, I would think the easiest way to think about that is think about the dollar impact being handled at the gross margin level. So between the combination of price and cost of goods sold through the through the changes that we've made there, the productivity actions are designed to start to rebuild the percentage margin over time. We can't rebuild it immediately, but we will be rebuilding it over time.

And I'm proud of the work that our team has done here on these on these productivity actions. So we pulled forward what we could. We're building an organization that, especially on the ABL side specifically to this question is scalable for the future and positions. As well to continue executing and actioning the strategy that that we've been following for the last several years. So so this was a, kind of do some hard work in advance to to continue the growth and value creation algorithm on ABL side over the next year or two.

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

Okay, and then just last one just how would you describe the progress on on shifting to design select just in terms of kind of kind of where you are in that process.

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

Yeah, as I've indicated, strategically, we'll have Contractor select which is we'll have designs, which drives productivity for the distribution and retail channels. We will have Design Select which drives productivity for for architects, specifiers, contractors, etc.

And then finally we'll have the made to order portfolio. Really the progress at Design Select has been strong, although this is, as we've said consistently, a long range project, so we're still in the early to mid innings of the of the Design select evolution. So this will be this will be a multi-year project.

Okay great thanks for all the color.

Thanks Tim.

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**Operator**

Thank you. Our next question comes from Christopher Glenn with Oppenheimer and Company. Your line is open.

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**Christopher Glynn** - Oppenheimer & Co., Inc. - Analyst

Hey, good morning, nice sporty numbers. Congrats. Just looking for a little color on, the ISN, basically the competitive distancing that you're enabling these channel partners with vitality service and data, are you seeing like some agencies kind of race ahead and extend dominance in their particular regions just looking for some anecdotal on the rubber hitting the road there because it seems to bearing out in the numbers.

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

Yeah, Chris, so obviously we're proud of our independent sales network. We believe unequivocally we have the best independent sales network for lighting in North America.

That's, round numbers about 80 independent agents throughout the country. And they are, they're accelerating with our performance generally and anytime you TRY to do something 80 times you'll have those who are accelerating more than others obviously. So the performance isn't perfectly uniform, but it is strong across.

We've leaned in and been really successful with those agencies that are that are on the cutting edge of where we are going. So specifically around controls, those agencies are strong. The agencies that are aggressive in growing markets, some of the some of the changes we've made over the last few years to to upgrade our coverage in markets like Atlanta where we're sitting right now, for example, have really borne out and so. So so we have, I think, the most productive independent sales network in the industry and the most productive part of our independent sales network are those agencies that are most closely aligned with where we are going and and they're seeing real success.

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**Christopher Glynn** - Oppenheimer & Co., Inc. - Analyst

Thanks, that's really interesting and then I was curious if backlog from.

Before legacy pricing is pretty much refreshed, I think, last quarter you, forecast that you'd probably wash through any demand pull forward within the quarter. It sounds like, that that toggle to actually, effective some net pulling into the third quarter, but do you, is backlog, is there still legacy pricing backlog or that's of any materiality?

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

Well, as Karen indicated, we did not reprice the backlog, so, on the ABL side, so there's, so the Q3 is a relatively clean quarter where, as we indicated, that's what it looks like when we get a little bit of top line in that business, as we look forward to the 4th quarter, that's where most of both the price increase and the tariff impact will will appear.

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**Christopher Glynn** - Oppenheimer & Co., Inc. - Analyst

Okay, understood thank you.

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**Operator**

Thanks.

Thank you. Our next question comes from Jeffrey Sprague with Vertical Research. Your line is open.

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**Jeffrey Sprague** - Vertical Research Partners - Analyst

Thank you. Good morning, everyone. Yeah, I just wanted to come back, Neil, to intelligence spaces margin. I heard your detailed answer to Jo O day, but still trying to get my head around, this margin rate that was, above last year when we had, or at least we thought we had QSC coming in, mid to high 10s sort of margin, is there something in the deal accounting or some.

Just the way revenues hit this quarter, obviously the revenues in the quarter were also maybe a bit higher than a lot of us thought. Really want to kind of nail this down a little bit more if we can, or it really is just the pricing related pull forward and the incremental margins that came on top of that.

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

Yeah, yes.

Yeah, I don't want to lose the obvious here as we answer this question. We're building a very attractive business at AIS, and we made a we made a solid strategic addition to that with QSC, and it's a transaction that is obviously going to going to add a lot of value to to what we're trying to do at at AIS. As we made the acquisition, we indicated that we expected them to to to be pretty close to our legacy performance over time.

Obviously they've gotten there really quickly and that has been has been purely through strategy and operation. There's no deal accounting otherwise, so. So their sales growth obviously is high, it's stronger than they expected, stronger than than we expected, so that's contributor number one. Contributor to number 2 is their their adoption of our kind of productivity metrics. So so the better, smarter, faster operating system really works for them and it has allowed them to scale through this increased business without really adding a whole lot of operating costs. I think it's worth noting that we have not asked them nor have we required them to to really take any expenses out. So we have not eliminated any of what they were doing before. This is the result of them driving productivity and And and really that's how we operate with better, smarter, faster. We are focused on productivity. How can we, how much can we do with what we have and you can see the the leverage that that creates when we get a little bit of top line. That's what's happening at ABL with a little bit of top line that's that's what's happening at QSC as they join us and and adopt our ways of working.

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**Jeffrey Sprague** - Vertical Research Partners - Analyst

And then it's just speaking of expenses maybe kind of an accounting knit for Karen, but you did take a sizable charge in the quarter. I'm sure there was some fixed assets and things like that that were part of that, but, with this substantial, kind of Q3 period cost that now didn't hit Q3 because of the charge and are, below the line, so to speak.

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

Yeah Jeff, so let me just hit on what those actions were. So as we said, they were to accelerate our productivity efforts around ABL. So the things that we did were we consolidated some brands, so really no impact to, the SDNA of that in the quarter. We did have some associate severances. We changed the work and became more productive in certain areas, and that was really late in the quarter, so you didn't really see a lot of the SDNA benefits there. And then on the facility reorganization, that's an administrative facility as we've started to invest in our core ABL business in our Decatur, Georgia area. So that's really just, an administrative office that we're going to close and put that up for sale. So no real benefits of that in the quarter. So bottom line is that we've we've taken these actions and you'll really start to see the benefits in SDNA and amortization in the 4th quarter.

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**Jeffrey Sprague** - Vertical Research Partners - Analyst

Right, and then maybe just last one, back to this kind of big picture kind of demand equation, right? It's obviously human nature that pre-buy in front of price increases and the like, but does that inform any of you about, potential demand destruction from tariffs or, just the ongoing uncertainty that your customer, customers must have in this environment? Just how is that kind of just, tone of business just around moving forward with investments and activity.

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

Yeah, Jeff, I think big picture, the customers behaved incredibly rationally, so as it relates to to the the pricing actions and the instability of the of the tariffs and availability, so if you dug through, kind of what those orders were and what, kind of what they were related to, I think it was incredibly rational behavior on the part of Of the of our customer base as we look forward both kind of short term and long term, the we're looking for stability in the marketplace our customers, our end users are looking for stability in the marketplace so that so that they can make make these decisions.

So as I indicated we're going to be conservative in our expectations we're prepared to accept, kind of as much additional revenue is available to us, but we're going to generally be conservative until we get a little bit more stability.

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**Jeffrey Sprague** - Vertical Research Partners - Analyst

Understood, thank you.

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**Operator**

Thanks.

Thank you. Our next question comes from Brian Lee with Goldman Sachs. Your line is open.

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**Brian Lee** - Goldman Sachs - Analyst

Hi, yeah, thank you. This is, Nick Cash on for Brian Lee. H1stly, just to, one quick question on you know the accelerated orders in the backlog. I mean, you mentioned putting in price which drove these accelerated orders and you mentioned you built a bit of a backlog. Are you still seeing one, any accelerated orders continuing ahead of July 8th now the price is in, and two, I guess, on the back of, those accelerated orders, can you give any color on, the size of that backlog that was built or any estimate how long it could take to work it down?

Thank you.

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

Yeah, there's nothing related to July 8th that would cause order acceleration unless they, kind of turn tariffs up again and we have to take another pricing action. So so as we wait for that, it's really what what country. Will be announced and where and what the impacts if any of those as we as we look forward in terms of the backlog, we've largely or are largely working through it. So as Karen has indicated and I've indicated this will normalize between the 3rd and 4th quarter. So I think it's just look at it over a 6 month period instead of a 3 month period and you'll see a more normalized view.

Great thank you.

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**Operator**

Thank you. Our next question comes from Brad Costelli with Morningstar. Your line is open.

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**Brett Castelli** - Morningstar - Analyst

Hi, good morning, just bigger picture on ABL. Neil, you guys have entered some new verticals in that market, in recent years. I just curious if you can talk about the contribution and the traction that you're seeing overall, in some of those new markets.

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

Yeah, sure, Brett. So as we've talked about our growth algorithm at ABL really is grow with the market, take share, and then enter these white spaces where we haven't.

Either competed or competed as effectively as we expected to so I'd highlight three for discussion now.

The first is refuel, so we made a strategic decision to enter the refuel market where we had not competed before.

And we expect to build a very interesting business over a long period of time. So we're off to a really good start there. We've introduced a product portfolio. One, we've added high quality independent sales agents to, and we're starting to get real interesting traction there. The second place would be Care. So we reinvented our approach to health care largely with the introduction of the Nightingale brand that has changed the perception of kind of who acuity is in the healthcare environment and that's our performance there has exceeded our expectations, so we're really we've got strong traction there. And then as we talked about, we acquired some floodlight technology through M3 that we can use in sports lighting and infrastructure and municipalities which will start to roll in, kind of next quarter and the quarter beyond. So we feel really good about that portfolio. Obviously as we do things, some will be up and to our expect expectations, some will outperform some.

Will be a little bit slower than we expect. Horticulture is one that's that's slower than we expect. So, but generally the portfolio of growth opportunities is contributing to us positively and will be a key component of how we continue going forward.

Thank you.

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**Brett Castelli** - Morningstar - Analyst

That's all I had. I'll leave it there.

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

Thanks Brad.

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**Operator**

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

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

So first off, thank you all for joining us today. We are obviously really pleased with our performance in the 3rd quarter.

We have an outstanding business and a beauty brands of lighting whose strategy is clear and it's demonstrating the results of product vitality, service, technology, and productivity which can deliver results and I think we saw the benefit of what a little bit of top line looks like for ABL in the 3rd quarter.

Second, acuity intelligence basis is differentiated in the marketplace across each of our brands, and then the combination of those brands. We have a different theory in the case. We have a collection of disruptive technologies which are driving productivity for people in spaces and the people who provide those spaces to them, and we're excited about the runway for that business. And then finally, kind of given where the world is right now, we're looking at the combination of the 3rd and the 4th quarter to to deliver what we expected for the rest of the year, and we feel like we have a foundation for an incredibly strong future from that point going forward. So thanks for your time and attention. We appreciate your interest in acuity, and we'll talk to you again in a few months.

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## Operator

Thank you for your participation. You may now disconnect. Everyone, have a great day.

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