

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended February 29, 2020.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .

Commission file number 001-16583.

ACUITY BRANDS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

58-2632672
(I.R.S. Employer
Identification Number)

1170 Peachtree Street, N.E., Suite 2300, Atlanta, Georgia 30309-7676
(Address of principal executive offices)

(404) 853-1400
(Registrant's telephone number, including area code)

None
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
Common stock, \$0.01 par value per share	AYI	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer
Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock — \$0.01 par value — 39,641,456 shares as of March 30, 2020.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

ACUITY BRANDS, INC.
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	February 29, 2020 (unaudited)	August 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 380.6	\$ 461.0
Accounts receivable, less reserve for doubtful accounts of \$1.4 and \$1.0, respectively	506.7	561.0
Inventories	348.6	340.8
Prepayments and other current assets	71.9	79.0
Total current assets	1,307.8	1,441.8
Property, plant, and equipment, net	279.3	277.3
Operating lease right-of-use assets	59.4	—
Goodwill	1,089.6	967.3
Intangible assets, net	628.8	466.0
Deferred income taxes	2.1	2.3
Other long-term assets	29.7	17.7
Total assets	\$ 3,396.7	\$ 3,172.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 333.5	\$ 338.8
Current maturities of debt	15.4	9.1
Current operating lease liabilities	16.6	—
Accrued compensation	55.6	73.2
Other accrued liabilities	151.1	175.0
Total current liabilities	572.2	596.1
Long-term debt	390.8	347.5
Long-term operating lease liabilities	48.1	—
Accrued pension liabilities	96.9	99.7
Deferred income taxes	117.8	92.7
Self-insurance reserves	7.0	6.8
Other long-term liabilities	118.8	110.7
Total liabilities	1,351.6	1,253.5
Commitments and contingencies (see <i>Commitments and Contingencies</i> footnote)		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 50,000,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value; 500,000,000 shares authorized; 53,859,675 and 53,778,155 issued, respectively	0.5	0.5
Paid-in capital	950.6	930.0
Retained earnings	2,399.6	2,295.8
Accumulated other comprehensive loss	(149.6)	(151.4)
Treasury stock, at cost — 14,325,197 and 14,325,197 shares, respectively	(1,156.0)	(1,156.0)
Total stockholders' equity	2,045.1	1,918.9
Total liabilities and stockholders' equity	\$ 3,396.7	\$ 3,172.4

The accompanying *Notes to Consolidated Financial Statements* are an integral part of these statements.

ACUITY BRANDS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(In millions, except per-share data)

	Three Months Ended		Six Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Net sales	\$ 824.2	\$ 854.4	\$ 1,658.9	\$ 1,787.0
Cost of products sold	480.3	520.5	959.2	1,085.6
Gross profit	343.9	333.9	699.7	701.4
Selling, distribution, and administrative expenses	260.9	237.6	526.2	487.7
Special charges	1.6	0.4	8.5	1.4
Operating profit	81.4	95.9	165.0	212.3
Other expense:				
Interest expense, net	5.7	8.6	14.0	17.3
Miscellaneous expense, net	1.0	1.1	2.4	2.4
Total other expense	6.7	9.7	16.4	19.7
Income before income taxes	74.7	86.2	148.6	192.6
Income tax expense	17.5	19.9	34.4	46.7
Net income	<u>\$ 57.2</u>	<u>\$ 66.3</u>	<u>\$ 114.2</u>	<u>\$ 145.9</u>
Earnings per share:				
Basic earnings per share	<u>\$ 1.45</u>	<u>\$ 1.68</u>	<u>\$ 2.89</u>	<u>\$ 3.67</u>
Basic weighted average number of shares outstanding	<u>39.5</u>	<u>39.5</u>	<u>39.5</u>	<u>39.7</u>
Diluted earnings per share	<u>\$ 1.44</u>	<u>\$ 1.67</u>	<u>\$ 2.88</u>	<u>\$ 3.66</u>
Diluted weighted average number of shares outstanding	<u>39.7</u>	<u>39.6</u>	<u>39.7</u>	<u>39.8</u>
Dividends declared per share	<u>\$ 0.13</u>	<u>\$ 0.13</u>	<u>\$ 0.26</u>	<u>\$ 0.26</u>
Comprehensive income:				
Net income	\$ 57.2	\$ 66.3	\$ 114.2	\$ 145.9
Other comprehensive income (loss) items:				
Foreign currency translation adjustments	(3.7)	4.9	(1.8)	(3.9)
Defined benefit plans, net of tax	1.7	1.4	3.6	4.0
Other comprehensive (loss) income items, net of tax	(2.0)	6.3	1.8	0.1
Comprehensive income	<u>\$ 55.2</u>	<u>\$ 72.6</u>	<u>\$ 116.0</u>	<u>\$ 146.0</u>

The accompanying *Notes to Consolidated Financial Statements* are an integral part of these statements.

ACUITY BRANDS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In millions)

	Six Months Ended	
	February 29, 2020	February 28, 2019
Cash flows from operating activities:		
Net income	\$ 114.2	\$ 145.9
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	49.8	43.3
Share-based payment expense	24.7	15.3
Loss on sale or disposal of property, plant, and equipment	0.1	0.4
Deferred income taxes	(0.1)	0.4
Change in assets and liabilities, net of effect of acquisitions, divestitures, and exchange rate changes:		
Accounts receivable	66.9	139.6
Inventories	8.3	(1.3)
Prepayments and other current assets	(4.0)	(21.8)
Accounts payable	(12.3)	(102.6)
Other current liabilities	(46.1)	(38.9)
Other	13.2	8.0
Net cash provided by operating activities	214.7	188.3
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(24.9)	(24.9)
Proceeds from sale of property, plant, and equipment	0.2	—
Acquisition of businesses, net of cash acquired	(302.9)	—
Other investing activities	(1.9)	2.9
Net cash used for investing activities	(329.5)	(22.0)
Cash flows from financing activities:		
Borrowings on credit facility	400.0	86.5
Repayments of borrowings on credit facility	—	(86.5)
Repayments of long-term debt	(350.5)	(0.2)
Repurchases of common stock	—	(48.7)
Proceeds from stock option exercises and other	0.5	0.3
Payments of taxes withheld on net settlement of equity awards	(4.7)	(4.3)
Dividends paid	(10.4)	(10.5)
Net cash provided by (used for) financing activities	34.9	(63.4)
Effect of exchange rate changes on cash and cash equivalents	(0.5)	—
Net change in cash and cash equivalents	(80.4)	102.9
Cash and cash equivalents at beginning of period	461.0	129.1
Cash and cash equivalents at end of period	\$ 380.6	\$ 232.0
Supplemental cash flow information:		
Income taxes paid during the period	\$ 29.9	\$ 63.2
Interest paid during the period	\$ 23.8	\$ 24.5

The accompanying *Notes to Consolidated Financial Statements* are an integral part of these statements.

Note 1 — Description of Business and Basis of Presentation

Acuity Brands, Inc. (“Acuity Brands”) is the parent company of Acuity Brands Lighting, Inc. (“ABL”) and other wholly-owned subsidiaries (Acuity Brands, ABL, and such other subsidiaries are collectively referred to herein as “we,” “our,” “us,” “the Company,” or similar references) and was incorporated in 2001 under the laws of the State of Delaware. We are a market-leading industrial technology company that develops, manufactures, and provides lighting and building management solutions and services for commercial, institutional, industrial, infrastructure, and residential applications throughout North America and select international markets. Our lighting and building management solutions include devices such as luminaires, lighting controls, controls for various building systems, power supplies, prismatic skylights, and drivers, as well as integrated systems designed to optimize energy efficiency and comfort for various indoor and outdoor applications. Additionally, we continue to expand our solutions portfolio, including software and services, to provide a host of other economic benefits resulting from data analytics that enables the Internet of Things (“IoT”), supports the advancement of smart buildings, smart cities, and the smart grid, and allows businesses to develop custom applications to scale their operations. We have one reportable segment serving the North American lighting market and select international markets.

We prepared the *Consolidated Financial Statements* in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) to present the financial position, results of operations, and cash flows of Acuity Brands and its wholly-owned subsidiaries.

These unaudited interim consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary to present fairly our consolidated financial position as of February 29, 2020, our consolidated comprehensive income for the three and six months ended February 29, 2020 and February 28, 2019, and our consolidated cash flows for the six months ended February 29, 2020 and February 28, 2019. Certain information and footnote disclosures normally included in our annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. However, we believe that the disclosures included herein are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the audited consolidated financial statements as of and for the three years ended August 31, 2019 and notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on October 29, 2019 (File No. 001-16583) (“Form 10-K”).

The results of operations for the three and six months ended February 29, 2020 and February 28, 2019 are not necessarily indicative of the results to be expected for the full fiscal year due primarily to seasonality, which results in our net sales and net income generally being higher in the second half of our fiscal year, the impact of any acquisitions, and, among other reasons, the continued uncertainty of general economic conditions that may impact our key end markets for the remainder of fiscal 2020. Additionally, we are uncertain of the impact of the COVID-19 pandemic to our sales channels, supply chain, manufacturing, and distribution as well as overall construction, renovation, and consumer spending.

Note 2 — Significant Accounting Policies***Use of Estimates***

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior-period amounts have been reclassified to conform to the current year presentation. No material reclassifications occurred during the current period.

Note 3 — Acquisitions***Fiscal 2020 Acquisitions*****The Luminaires Group**

On September 17, 2019, using cash on hand and borrowings under available existing credit arrangements, we acquired all of the equity interests of The Luminaires Group (“TLG”), a leading provider of specification-grade luminaires for commercial, institutional, hospitality, and municipal markets, all of which complement our current and dynamic lighting portfolio. TLG’s indoor and outdoor lighting fixtures are marketed to architects, landscape architects, interior designers, and engineers through five niche lighting brands: A-light, Cyclone, Eureka, Luminaire LED, and Luminis.

LocusLabs, Inc.

On November 25, 2019, using cash on hand, we acquired all of the equity interests of LocusLabs, Inc (“LocusLabs”). The LocusLabs software platform supports navigation applications used on mobile devices, web browsers, and digital displays in airports, event centers, multi-floor office buildings, and campuses.

Accounting for Fiscal 2020 Acquisitions

Acquisition-related costs were expensed as incurred. Preliminary amounts related to the acquisition accounting for TLG and LocusLabs are reflected on the *Consolidated Balance Sheets* as of February 29, 2020. The aggregate purchase price of these acquisitions reflects preliminary total goodwill and identified intangible assets of approximately \$125.3 million and \$183.1 million, respectively, as of February 29, 2020. Identified intangible assets consist of indefinite-lived marketing related intangibles as well as definite-lived customer-based and technology-based assets, which have a preliminary weighted average useful life of approximately 16 years. These amounts are deemed to be provisional until disclosed otherwise, as we continue to gather information related to the identification and valuation of intangible and other acquired assets and liabilities. These amounts are expected to change as we finalize the allocations. The operating results of the acquisitions have been included in our consolidated financial statements since the date of acquisition and are not material to our financial condition, results of operations, or cash flows.

Fiscal 2019 Acquisitions**WhiteOptics, LLC**

On June 20, 2019, using cash on hand, we acquired all of the equity interests of WhiteOptics, LLC (“WhiteOptics”). WhiteOptics is headquartered in New Castle, Delaware and manufactures advanced optical components used to reflect, diffuse, and control light for light emitting diode (“LED”) lighting used in commercial and institutional applications. The operating results of WhiteOptics have been included in our consolidated financial statements since the date of acquisition and are not material to our financial condition, results of operations, or cash flows.

Note 4 — New Accounting Pronouncements***Accounting Standards Adopted in Fiscal 2020******Accounting Standards Codification (“ASC”) 842 — Leases (“ASC 842”)***

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases* (“ASU 2016-02”), which requires lessees to include most leases on the balance sheet as lease liabilities with an associated right-of-use (“ROU”) asset. Since the issuance of ASU 2016-02, the FASB released several amendments to improve and clarify the implementation guidance, as well as to change the allowable adoption methods. These standards have been collectively codified within ASC 842, *Leases* (“ASC 842”).

We adopted ASC 842 using the modified retrospective method and applied the standard to all leases existing as of September 1, 2019. Information for prior years presented has not been restated and continues to reflect the authoritative accounting standards in effect for those periods. We elected the package of transition practical expedients that allows us to carryforward our historical assessments of whether existing contracts contain leases, determinations of lease classification, and treatments of initial direct costs.

ACUITY BRANDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

As of September 1, 2019, we recognized total operating lease liabilities of \$64.7 million in our *Consolidated Balance Sheets*, of which \$49.3 million was recorded within *Long-term operating lease liabilities* and \$15.4 million was recorded within *Current operating lease liabilities*. We additionally derecognized \$5.1 million of previously recorded net deferred rent balances and recorded ROU assets of \$59.6 million related to our operating leases, which were reflected within *Operating lease right-of-use assets* in our *Consolidated Balance Sheets*.

Accounting Standards Yet to Be Adopted

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)* ("ASU 2020-04"), which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate ("LIBOR") or by another reference rate expected to be discontinued. The amendments are effective for all entities as of March 12, 2020 through December 31, 2022. We are currently evaluating the impacts of the the provisions of ASU 2020-04 on our financial condition, results of operations, and cash flows.

In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which simplifies the accounting for income taxes, eliminates certain exceptions within ASC 740, *Income Taxes*, and clarifies certain aspects of the current guidance to promote consistency among reporting entities. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020. Most amendments within the standard are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. We are currently evaluating the impacts of the the provisions of ASU 2019-12 on our financial condition, results of operations, and cash flows.

In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* ("ASU 2018-15"), which will require customers to apply internal-use software guidance to determine the implementation costs that are able to be capitalized. Capitalized implementation costs will be required to be amortized over the term of the arrangement, beginning when the cloud computing arrangement is ready for its intended use. ASU 2018-15 is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2019. The standard allows changes to be applied either retrospectively or prospectively. We will adopt the standard as required in fiscal 2021. The provisions of ASU 2018-15 are not expected to have a material effect on our financial condition, results of operations, or cash flows.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which requires an entity to assess impairment of its financial instruments based on its estimate of expected credit losses. Since the issuance of ASU 2016-13, the FASB released several amendments to improve and clarify the implementation guidance. The provisions of ASU 2016-13 and the related amendments are effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2019. Entities are required to apply these changes through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective.

We have an implementation team tasked with reviewing our financial assets and determining the impact of the new standard to our financial statements. The team is also tasked with identifying appropriate changes to our business processes, systems, and controls to support recognition and disclosure under the new standard. The implementation team has begun reviewing our portfolio of financial assets and assessing potential impacts of the new standard. The implementation team reports its findings and progress of the project to management on a frequent basis and to the Audit Committee of the Board of Directors on a quarterly basis. Our current financial asset portfolio consists primarily of trade receivables, and we preliminarily expect ASU 2016-13 to immaterially impact our computation of expected credit losses on trade receivables. We will adopt the amendments as required in fiscal 2021.

All other newly issued accounting pronouncements not yet effective have been deemed either immaterial or not applicable.

ACUITY BRANDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 5 — Fair Value Measurements

We determine fair value measurements based on the assumptions a market participant would use in pricing an asset or liability. ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), establishes a three-level hierarchy that categorizes market participant assumptions based on (i) unadjusted quoted prices for identical assets or liabilities in an active market (Level 1), (ii) quoted prices in markets that are not active or inputs that are observable either directly or indirectly for substantially the full term of the asset or liability (Level 2), and (iii) prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement (Level 3).

We utilize valuation methodologies to determine the fair values of our financial assets and liabilities in conformity with the concepts of "exit price" and the fair value hierarchy as prescribed in ASC 820. All valuation methods and assumptions are validated at least quarterly to ensure the accuracy and relevance of the fair values. There were no material changes to the valuation methods or assumptions used to determine fair values during the current period.

We used quoted market prices to determine the fair value of Level 1 assets and liabilities. No transfers between the levels of the fair value hierarchy occurred during the current fiscal period. In the event of a transfer in or out of a level within the fair value hierarchy, the transfers would be recognized on the date of occurrence.

Our cash and cash equivalents (Level 1), which are required to be carried at fair value and measured on a recurring basis, were \$380.6 million and \$461.0 million as of February 29, 2020 and August 31, 2019, respectively.

Disclosures of fair value information about financial instruments (whether or not recognized in the balance sheet), for which it is practicable to estimate that value, are required each reporting period in addition to any financial instruments carried at fair value on a recurring basis as prescribed by ASC 825, *Financial Instruments* ("ASC 825"). In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows.

The carrying values and estimated fair values of certain of our financial instruments (Level 2) were as follows as of the dates presented (in millions):

	February 29, 2020		August 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Senior unsecured public notes, net of unamortized discount and deferred costs	\$ —	\$ —	\$ 349.9	\$ 352.7
Borrowings under Term Loan Facility	400.0	400.0	—	—
Industrial revenue bond	4.0	4.0	4.0	4.0
Bank loans	2.2	2.4	2.7	2.9

Borrowings under our unsecured delayed draw term loan facility (the "Term Loan Facility") and the industrial revenue bond ("IRB") are carried at the outstanding balance as of the end of the reporting period. The borrowings under the Term Loan Facility and the IRB are variable-rate instruments that reset on a weekly basis; therefore, we estimate that the face amounts of these instruments approximate their fair value as of February 29, 2020 based on instruments of similar terms and maturity (Level 2). See *Note 10 — Debt and Lines of Credit* for further details on our long-term borrowings.

The bank loans are carried at the outstanding balance as of the end of the reporting period. Fair value is estimated based on discounted future cash flows using rates currently available for debt of similar terms and maturity (Level 2).

ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value to us. In many cases, the fair value estimates cannot be substantiated by comparison to independent markets, nor can the disclosed value be realized in immediate settlement of the instruments. In evaluating our management of liquidity and other risks, the fair values of all assets and liabilities should be taken into consideration, not only those presented above.

ACUITY BRANDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 6 — Inventories

Inventories include materials, labor, inbound freight, and related manufacturing overhead, are stated at the lower of cost (on a first-in, first-out or average cost basis) and net realizable value, and consist of the following as of the dates presented (in millions):

	February 29, 2020	August 31, 2019
Raw materials, supplies, and work in process ⁽¹⁾	\$ 188.8	\$ 179.4
Finished goods	185.3	183.7
Inventories excluding reserves	374.1	363.1
Less: Reserves	(25.5)	(22.3)
Total inventories	<u>\$ 348.6</u>	<u>\$ 340.8</u>

⁽¹⁾ Due to the immaterial amount of estimated work in process and the short lead times for the conversion of raw materials to finished goods, we do not believe the segregation of raw materials and work in process is meaningful information.

Note 7 — Property, Plant, and Equipment

Property, plant, and equipment consisted of the following as of the dates presented (in millions):

	February 29, 2020	August 31, 2019
Land	\$ 22.7	\$ 22.6
Buildings and leasehold improvements	193.6	190.7
Machinery and equipment	571.9	544.4
Total property, plant, and equipment, at cost	788.2	757.7
Less: Accumulated depreciation and amortization	(508.9)	(480.4)
Property, plant, and equipment, net	<u>\$ 279.3</u>	<u>\$ 277.3</u>

Note 8 — Leases

We lease property and equipment under operating lease arrangements, most of which relate to distribution centers and manufacturing facilities in the U.S. and Mexico. We include both the contractual term as well as any renewal option that we are reasonably certain to exercise in the determination of our lease terms. For leases with a term of greater than 12 months, we value lease liabilities and the related assets as the present value of the lease payments over the related term. We apply the short-term lease exception to leases with a term of 12 months or less and exclude such leases from our *Consolidated Balance Sheets*. Payments related to these short-term leases are expensed on a straight-line basis over the lease term and reflected as a component of lease cost within our *Consolidated Statements of Comprehensive Income*. Lease payments generally consist of fixed amounts, and variable amounts based on a market rate or an index are not material to our consolidated lease cost. We have elected to use the practical expedient present in ASC 842 to not separate lease and non-lease components for all significant underlying asset classes and instead account for them together as a single lease component in the measurement of our lease liabilities. Our leases do not contain significant terms and conditions for variable lease payments.

Generally, the rate implicit in our leases is not readily determinable. Therefore, we discount future lease payments using our estimated incremental borrowing rate at lease commencement. We determine this rate based on a credit-adjusted risk-free rate, which approximates a secured rate over the lease term. The weighted average discount rate for operating leases as of February 29, 2020 was 2.2%.

ACUITY BRANDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table presents the future undiscounted payments due on our operating lease liabilities as well as a reconciliation of those payments to our operating lease liabilities recorded as of the date presented (in millions):

Fiscal year	February 29, 2020	
2020	\$	9.3
2021		16.1
2022		11.5
2023		8.5
2024		6.0
Thereafter		17.7
Total undiscounted lease payments		69.1
Less: Discount due to interest		(4.4)
Present value of lease liabilities	\$	64.7

The weighted average remaining lease term for our operating leases was six years as of February 29, 2020.

Lease cost is recorded within *Cost of products sold* or *Selling, distribution, and administrative expenses* in the *Consolidated Statements of Comprehensive Income* based on the primary use of the related ROU asset. The components of total lease cost were as follows for the period presented (in millions):

	Three Months Ended		Six Months Ended	
	February 29, 2020		February 29, 2020	
Operating lease cost	\$	4.4	\$	9.3
Variable lease cost		0.4		1.2
Short-term lease cost		0.9		1.2
Total lease cost	\$	5.7	\$	11.7

Prior to the adoption of ASC 842, we recognized rent expense of \$5.4 million and \$10.9 million during the three and six months ended February 28, 2019, respectively.

Cash paid for operating lease liabilities during the six months ended February 29, 2020 was \$9.3 million. ROU assets obtained in exchange for lease liabilities, including those obtained from recent acquisitions, during the six months ended February 29, 2020 were \$8.8 million.

We do not have material leases that have not yet commenced as of February 29, 2020 that create significant rights and obligations.

We have subleased certain properties. Lease income from these subleases is recognized in income as it is earned and is not material to our consolidated results of operations. We do not have any other significant transactions in which we are the lessor.

Note 9 — Goodwill and Intangible Assets

Through multiple acquisitions, we acquired definite-lived intangible assets consisting primarily of trademarks and trade names associated with specific products, distribution networks, patented technology, non-compete agreements, and customer relationships, which are amortized over their estimated useful lives. Indefinite-lived intangible assets consist of trade names that are expected to generate cash flows indefinitely.

We recorded amortization expense of \$10.4 million and \$7.7 million during the three months ended February 29, 2020 and February 28, 2019, respectively, and \$20.0 million and \$15.4 million during the six months ended February 29, 2020 and February 28, 2019, respectively. Amortization expense is generally recorded on a straight-line basis and is expected to be approximately \$40.9 million in fiscal 2020, \$38.9 million in fiscal 2021, \$38.0 million in fiscal 2022, \$36.8 million in fiscal 2023, and \$36.0 million in fiscal 2024.

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The following table summarizes the changes in the carrying amount of goodwill during the periods presented (in millions):

	Six Months Ended	
	February 29, 2020	February 28, 2019
Beginning balance	\$ 967.3	\$ 970.6
Provisional additions from acquired businesses	147.8	—
Adjustments to provisional amounts from acquired businesses	(23.9)	—
Foreign currency translation adjustments	(1.6)	(2.1)
Ending balance	<u>\$ 1,089.6</u>	<u>\$ 968.5</u>

Further discussion of goodwill and other intangible assets is included within the *Significant Accounting Policies* footnote of the *Notes to Consolidated Financial Statements* within our Form 10-K.

Note 10 — Debt and Lines of Credit

Lines of Credit

On June 29, 2018, we entered into a credit agreement (“Credit Agreement”) with a syndicate of banks that provides us with a \$400.0 million five-year unsecured revolving credit facility (“Revolving Credit Facility”) and a \$400.0 million unsecured delayed draw term loan facility (“Term Loan Facility”). We had no borrowings outstanding under the current Revolving Credit Facility as of February 29, 2020 or August 31, 2019. We had \$400.0 million in borrowings outstanding under the Term Loan Facility as of February 29, 2020 and no borrowings under the Term Loan Facility as of August 31, 2019. Based on the repayment schedule detailed below, \$385.0 million of the borrowings under the Term Loan Facility are reflected within *Long-term debt* on the *Consolidated Balance Sheets* as of February 29, 2020.

Generally, amounts outstanding under the Revolving Credit Facility allow for borrowings to bear interest at either the Eurocurrency Rate or the base rate at our option, plus an applicable margin. Eurocurrency Rate advances can be denominated in a variety of currencies, including U.S. Dollars, and amounts outstanding bear interest at a periodic fixed rate equal to the LIBOR or screen rate for the applicable currency plus an applicable margin. The Eurocurrency applicable margin is based on our leverage ratio, as defined in the Credit Agreement, with such margin ranging from 1.000% to 1.375%. Base rate advances bear interest at an alternate base rate plus an applicable margin. The base rate applicable margin is based on our leverage ratio, as defined in the Credit Agreement, with such margin ranging from 0.000% to 0.375%. The Term Loan Facility allows for borrowings to be drawn over a period ending December 31, 2019, utilizing up to four separate installments, which are U.S. dollar denominated. Borrowings under the Term Loan Facility will amortize in equal quarterly installments of 2.5% per year in year one, 2.5% per year in year two, 5.0% per year in year three, 5.0% per year in year four, and 7.5% per year in year five. Any remaining borrowings under the Term Loan Facility are due and payable in full on June 29, 2023. The Term Loan Facility allowed for borrowings to bear interest at either a Eurocurrency Rate or the base rate, at our option, in each case plus an applicable margin. Eurocurrency Rate advances can be denominated in a variety of currencies, including U.S. Dollars, and amounts outstanding bear interest at a periodic fixed rate equal to the LIBOR or screen rate for the applicable currency plus an applicable margin. The Eurocurrency applicable margin is based on our leverage ratio, as defined in the Credit Agreement, with such margin ranging from 0.875% to 1.250%. Base Rate advances bear interest at an alternate base rate plus an applicable margin. The base rate applicable margin is based on our leverage ratio, as defined in the Credit Agreement, with such margin ranging from 0.0% to 0.25%.

We are required to pay certain fees in connection with the Credit Agreement, including administrative service fees and annual facility fees. The annual facility fee is payable quarterly, in arrears, and is determined by our leverage ratio as defined in the Credit Agreement. The facility fee ranges from 0.125% to 0.25% of the aggregate \$800.0 million commitment of the lenders under the Credit Agreement. The Credit Agreement contains financial covenants, including a minimum interest expense coverage ratio (“Minimum Interest Expense Coverage Ratio”) and a leverage ratio (“Maximum Leverage Ratio”) of total indebtedness to earnings before interest, tax, depreciation, and amortization (“EBITDA”), as such terms are defined in the Credit Agreement. These ratios are computed at the end of each fiscal quarter for the most recent 12-month period. The Credit Agreement generally allows for a Minimum Interest Expense Coverage Ratio of 2.50 and a Maximum Leverage Ratio of 3.50, subject to certain conditions, as such terms are defined in the Credit Agreement.

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We were in compliance with all financial covenants under the Credit Agreement as of February 29, 2020. At February 29, 2020, we had additional borrowing capacity under the Credit Agreement of \$396.2 million under the most restrictive covenant in effect at the time, which represents the full amount of the Revolving Credit Facility less the outstanding letters of credit of \$3.8 million issued under the Revolving Credit Facility. As of February 29, 2020, we had outstanding letters of credit totaling \$8.1 million, primarily for securing collateral requirements under our casualty insurance programs and for providing credit support for our industrial revenue bond, which includes the \$3.8 million issued under the Revolving Credit Facility.

Borrowings and repayments on our Revolving Credit Facility with terms of three months or less are reported on a net basis on our *Consolidated Statements of Cash Flows*.

Long-term Debt

On December 16, 2019, we repaid \$350.0 million of senior unsecured notes in full plus accrued interest with borrowings under our Term Loan Facility.

In addition to the long-term portion of borrowings under the Term Loan Facility, we had \$4.0 million of tax-exempt industrial revenue bonds that are scheduled to mature in 2021 and \$2.2 million outstanding under fixed-rate bank loans outstanding at February 29, 2020. Further discussion of our long-term debt is included within the *Debt and Lines of Credit* footnote of the *Notes to Consolidated Financial Statements* within our Form 10-K.

Interest Expense, net

Interest expense, net, is comprised primarily of interest expense on long-term debt, obligations in connection with non-qualified retirement benefits, and Revolving Credit Facility borrowings, partially offset by interest income earned on cash and cash equivalents.

The following table summarizes the components of interest expense, net for the periods presented (in millions):

	Three Months Ended		Six Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Interest expense	\$ 6.8	\$ 9.1	\$ 15.8	\$ 18.3
Interest income	(1.1)	(0.5)	(1.8)	(1.0)
Interest expense, net	<u>\$ 5.7</u>	<u>\$ 8.6</u>	<u>\$ 14.0</u>	<u>\$ 17.3</u>

Note 11 — Commitments and Contingencies

In the normal course of business, we are subject to the effects of certain contractual stipulations, events, transactions, and laws and regulations that may, at times, require the recognition of liabilities, such as those related to self-insurance estimated liabilities and claims, legal and contractual issues, environmental laws and regulations, guarantees, and indemnities. We establish estimated liabilities when the associated costs related to uncertainties or guarantees become probable and can be reasonably estimated. For the period ended February 29, 2020, no material changes have occurred in our estimated liabilities for self-insurance, litigation, environmental matters, guarantees and indemnities, or relevant events and circumstances, from those disclosed in the *Commitments and Contingencies* footnote of the *Notes to Consolidated Financial Statements* within our Form 10-K.

Product Warranty and Recall Costs

Our products generally have a standard warranty term of five years that assure our products comply with agreed upon specifications. We record an accrual for the estimated amount of future warranty costs when the related revenue is recognized. Estimated costs related to product recalls based on a formal campaign soliciting repair or return of that product are accrued when they are deemed to be probable and can be reasonably estimated. Estimated future warranty and recall costs are primarily based on historical experience of identified warranty and recall claims. However, there can be no assurance that future warranty or recall costs will not exceed historical amounts or that new technology products may not generate unexpected costs. If actual future warranty or recall costs exceed historical amounts, additional increases in the accrual may be required, which could have a material adverse impact on our results of operations and cash flows.

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Estimated liabilities for product warranty and recall costs are included in *Other accrued liabilities* and *Other long-term liabilities* on the *Consolidated Balance Sheets*. The following table summarizes changes in the estimated liabilities for product warranty and recall costs for the periods presented (in millions):

	Six Months Ended	
	February 29, 2020	February 28, 2019
Beginning balance	\$ 11.5	\$ 27.3
Warranty and recall costs	12.5	9.6
Payments and other deductions	(12.5)	(9.2)
Acquired warranty and recall liabilities	0.1	—
ASC 606 adjustments ⁽¹⁾	—	(14.8)
Ending balance	<u>\$ 11.6</u>	<u>\$ 12.9</u>

⁽¹⁾ Certain service-type warranties accounted for as contingent liabilities prior to the adoption of ASC 606, *Revenue from Contracts with Customers* ("ASC 606"), are now reflected as contract liabilities effective September 1, 2018.

Lighting Science Group Patent Litigation

On April 30, 2019 and May 1, 2019, Lighting Science Group Corp. ("LSG") filed complaints in the International Trade Commission and United States District Court for the District of Delaware, respectively, alleging infringement of eight patents by the Company and others. On May 17, 2019, LSG amended both of its complaints and dropped its claims regarding one of the patents. For the remaining seven patents, LSG's infringement allegations relate to certain of our LED luminaires and related systems. LSG seeks orders from the International Trade Commission to preclude the importation and sale of the accused products. LSG seeks unspecified monetary damages, costs, and attorneys' fees in the District of Delaware action. We dispute and have numerous defenses to the allegations, and we intend to vigorously defend against LSG's claims. Estimating an amount or range of possible losses resulting from litigation proceedings is inherently difficult, particularly where the matters involve indeterminate claims for monetary damages and a request for an exclusion order and are in the stages of the proceedings where key factual and legal issues have not been resolved. For these reasons, we currently are unable to predict the ultimate timing or outcome of or reasonably estimate the possible losses or a range of possible losses resulting from these matters.

Securities Class Action

On January 3, 2018, a shareholder filed a class action complaint in the United States District Court for the District of Delaware against us and certain of our officers on behalf of all persons who purchased or otherwise acquired our stock between June 29, 2016 and April 3, 2017. On February 20, 2018, a different shareholder filed a second class action complaint in the same venue against the same parties on behalf of all persons who purchased or otherwise acquired our stock between October 15, 2015 and April 3, 2017. The cases were transferred on April 30, 2018, to the United States District Court for the Northern District of Georgia and subsequently were consolidated as *In re Acuity Brands, Inc. Securities Litigation*, Civil Action No. 1:18-cv-02140-MHC (N.D. Ga.). On October 5, 2018, the court-appointed lead plaintiff filed a consolidated amended class action complaint (the "Consolidated Complaint"), which supersedes the initial complaints. The Consolidated Complaint is brought on behalf of all persons who purchased our common stock between October 7, 2015 and April 3, 2017 and alleges that we and certain of our current officers and one former executive violated the federal securities laws by making false or misleading statements and/or omitting to disclose material adverse facts that (i) concealed known trends negatively impacting sales of our products and (ii) overstated our ability to achieve profitable sales growth. The plaintiffs seek class certification, unspecified monetary damages, costs, and attorneys' fees. We dispute the allegations in the complaints and intend to vigorously defend against the claims. We filed a motion to dismiss the Consolidated Complaint. On August 12, 2019, the court entered an order granting our motion to dismiss in part and dismissing all claims based on 42 of the 47 statements challenged in the Consolidated Complaint but also denying the motion in part and allowing claims based on five challenged statements to proceed to discovery. Estimating an amount or range of possible losses resulting from litigation proceedings is inherently difficult, particularly where the matters involve indeterminate claims for monetary damages and are in the stages of the proceedings where key factual and legal issues have not been resolved. For these reasons, we are currently unable to predict the ultimate timing or outcome of or reasonably estimate the possible losses or a range of possible losses resulting from the matters described above. We are insured, in excess of a self-retention, for Directors and Officers liability.

Trade Compliance Matters

In the course of routine reviews of import and export activity, we previously determined that we misclassified and/or inaccurately valued certain international shipments of products. We are conducting a detailed review of this activity to determine the extent of any liabilities and implementing the appropriate remedial measures. At this time, we are unable to determine the likelihood or amount of loss, if any, associated with these shipments.

Litigation

We are subject to various other legal claims arising in the normal course of business, including patent infringement, employment matters, and product liability claims. Based on information currently available, it is the opinion of management that the ultimate resolution of pending and threatened legal proceedings will not have a material adverse effect on our financial condition, results of operations, or cash flows. However, in the event of unexpected future developments, it is possible that the ultimate resolution of any such matters, if unfavorable, could have a material adverse effect on our financial condition, results of operations, or cash flows in future periods. We establish estimated liabilities for legal claims when associated costs become probable and can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher than the amounts accrued for such claims. However, we cannot make a meaningful estimate of actual costs to be incurred that could possibly be higher or lower than the accrued amounts.

ACUITY BRANDS, INC.
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Note 12 — Changes in Stockholders' Equity

The following tables summarize changes in the components of stockholders' equity for the periods presented (in millions):

	Common Stock Outstanding		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock, at cost	Total
	Shares	Amount					
Balance, August 31, 2019	39.5	\$ 0.5	\$ 930.0	\$ 2,295.8	\$ (151.4)	\$ (1,156.0)	\$ 1,918.9
Net income	—	—	—	57.0	—	—	57.0
Other comprehensive income	—	—	—	—	3.8	—	3.8
Share-based payment amortization, issuances, and cancellations	—	—	12.6	—	—	—	12.6
Employee stock purchase plan issuances	—	—	0.2	—	—	—	0.2
Cash dividends of \$0.13 per share paid on common stock	—	—	—	(5.2)	—	—	(5.2)
Balance, November 30, 2019	39.5	0.5	942.8	2,347.6	(147.6)	(1,156.0)	1,987.3
Net income	—	—	—	57.2	—	—	57.2
Other comprehensive loss	—	—	—	—	(2.0)	—	(2.0)
Share-based payment amortization, issuances, and cancellations	—	—	7.5	—	—	—	7.5
Employee stock purchase plan issuances	—	—	0.2	—	—	—	0.2
Cash dividends of \$0.13 per share paid on common stock	—	—	—	(5.2)	—	—	(5.2)
Stock options exercised	—	—	0.1	—	—	—	0.1
Balance, February 29, 2020	39.5	\$ 0.5	\$ 950.6	\$ 2,399.6	\$ (149.6)	\$ (1,156.0)	\$ 2,045.1

	Common Stock Outstanding		Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock, at cost	Total
	Shares	Amount					
Balance, August 31, 2018	40.0	\$ 0.5	\$ 906.3	\$ 1,999.2	\$ (114.8)	\$ (1,074.4)	\$ 1,716.8
Net income	—	—	—	79.6	—	—	79.6
Other comprehensive loss	—	—	—	—	(6.2)	—	(6.2)
ASC 606 adjustments	—	—	—	(13.0)	—	—	(13.0)
Share-based payment amortization, issuances, and cancellations	0.1	—	3.8	—	—	—	3.8
Employee stock purchase plan issuances	—	—	0.1	—	—	—	0.1
Cash dividends of \$0.13 per share paid on common stock	—	—	—	(5.2)	—	—	(5.2)
Repurchases of common stock	(0.2)	—	—	—	—	(25.0)	(25.0)
Balance, November 30, 2018	39.9	0.5	910.2	2,060.6	(121.0)	(1,099.4)	1,750.9
Net income	—	—	—	66.3	—	—	66.3
Other comprehensive income	—	—	—	—	6.3	—	6.3
Share-based payment amortization, issuances, and cancellations	—	—	7.1	—	—	—	7.1
Employee stock purchase plan issuances	—	—	0.2	—	—	—	0.2
Cash dividends of \$0.13 per share paid on common stock	—	—	—	(5.3)	—	—	(5.3)
Repurchases of common stock	(0.2)	—	—	—	—	(23.7)	(23.7)
Balance, February 28, 2019	39.7	\$ 0.5	\$ 917.5	\$ 2,121.6	\$ (114.7)	\$ (1,123.1)	\$ 1,801.8

Note 13 — Revenue Recognition

We recognize revenue when we transfer control of goods and services to our customers. Revenue is measured as the amount of consideration we expect to receive in exchange for goods and services and is recognized net of allowances for rebates, sales incentives, product returns, and discounts to customers. Further details regarding revenue recognition are included within the *Revenue Recognition* footnote of the *Notes to Consolidated Financial Statements* within our Form 10-K.

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Contract Balances

Our rights related to collections from customers are unconditional and are reflected within *Accounts receivable* on the *Consolidated Balance Sheets*. We do not have any other significant contract assets. Contract liabilities arise when we receive cash or an unconditional right to collect cash prior to the transfer of control of goods or services.

The amount of transaction price from contracts with customers allocated to our contract liabilities consists of the following as of the periods presented (in millions):

	February 29, 2020	August 31, 2019
Current deferred revenues	\$ 7.0	\$ 4.7
Non-current deferred revenues	50.1	46.4

Current deferred revenues primarily consist of software licenses as well as professional service and sales-type warranty fees collected prior to performing the related service. Current deferred revenues are included within *Other current liabilities* on the *Consolidated Balance Sheets*. These services are expected to be performed within one year. Non-current deferred revenues primarily consist of long-term service-type warranties, which are typically recognized ratably as revenue between five and ten years from the date of sale, and are included within *Other long-term liabilities* on the *Consolidated Balance Sheets*. Revenue recognized from beginning balances of contract liabilities during the six months ended February 29, 2020 totaled \$2.4 million.

Unsatisfied performance obligations as of February 29, 2020 that do not represent contract liabilities consist primarily of orders for physical goods that have not yet been shipped, which are typically shipped within a few weeks of order receipt.

Disaggregated Revenues

Our lighting and building management solutions are sold primarily through independent sales agents who cover specific geographic areas and market channels, by internal sales representatives, through consumer retail channels, and directly to large corporate accounts. The following table shows revenue from contracts with customers by sales channel for the periods presented (in millions):

	Three Months Ended		Six Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Independent sales network	\$ 596.9	\$ 572.4	\$ 1,214.9	\$ 1,223.4
Direct sales network	73.3	87.3	157.6	186.3
Retail sales	56.8	73.6	110.2	158.8
Corporate accounts	54.8	74.4	88.3	125.6
Other	42.4	46.7	87.9	92.9
Total	\$ 824.2	\$ 854.4	\$ 1,658.9	\$ 1,787.0

Note 14 — Share-based Payments

We account for share-based payments through the measurement and recognition of compensation expense for share-based payment awards made to employees and directors over the related requisite service period, including stock options, performance share units, and restricted shares (all part of our equity incentive plan), as well as share units representing certain deferrals into our director deferred compensation plan or our supplemental deferred savings plan.

The following table presents share-based payment expense for the periods presented (in millions):

	Three Months Ended		Six Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Share-based payment expense	\$ 8.0	\$ 7.5	\$ 24.7	\$ 15.3

Further details regarding our stock options, restricted shares, and director compensation award programs and our share-based payments are included within the *Share-based Payments* footnote of the *Notes to Consolidated Financial*

ACUITY BRANDS, INC.
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Statements within our Form 10-K.

Equity Plan Updates

Beginning in fiscal 2020, the Board of Directors (the "Board") approved grants of performance share units to certain executives and key employees. These shares vest over a three-year period and are valued at the closing stock price on the date of grant. During the second quarter, additional performance shares were issued to certain key employees that vest over a two-year period based on the level of achievement of established performance thresholds and were valued at the closing stock price on the date of grant. The actual number of performance shares earned for these awards will be determined at the end of the related two-year or three-year period based on the level of achievement of established performance thresholds. We recognize compensation expense for these awards proportionately over the requisite service period for each employee when it becomes probable that the performance metric will be satisfied. As of February 29, 2020, we had approximately 67,000 performance share units outstanding.

Additionally, effective for restricted stock and performance share grants awarded in October 2019 and thereafter, the Board reinstated a policy that provides for the continued vesting of stock awards following retirement for all eligible participants who have attained age 60 and have at least 10 years of service with the Company. As such, for awards granted in October 2019 and later, we deem the requisite service period for a participant to be the shorter of either the award's stated vesting period or the time from grant until the participant satisfies the age and service criteria.

Stock Options

As of February 29, 2020, we had approximately 917,000 options outstanding to officers and other key employees. The increase from the prior fiscal year end was due to a grant on January 31, 2020 of 500,000 options that have an exercise price equal to or greater than the fair market value of our stock as of the grant date. Of these options, 400,000 vest and become exercisable over a three year period (the "Service Options"). The remaining 100,000 vest and become exercisable over a four year period and are also subject to a market condition (the "Market Options"). All of these options expire after ten years from the date of grant.

The following weighted average assumptions were used to estimate the fair value of stock options granted in the second quarter fiscal 2020:

Valuation Methodology	Service Options	Market Options
	Black-Scholes	Monte Carlo Simulation
Dividend yield	0.4%	0.4%
Expected volatility	33.7%	33.7%
Risk-free interest rate	1.3%	1.5%
Expected life of options	5 years	7 years
Weighted-average fair value of options	\$34.22	\$44.74

The dividend yield was calculated based on annual dividends paid and the trailing 12-month average closing stock price at the time of grant. Expected volatility was based on historical volatility of our stock, calculated using the most recent time period equal to the expected life of the options. The risk-free interest rate was based on the U.S. Treasury yield for a term equal to the expected life of the options at the time of grant for the Service Options and equal to the contractual term for the Market Options. We used historical exercise behavior data of similar employee groups to determine the expected life of options. All inputs noted above are estimates made at the time of grant. Actual realized value of each option grant could materially differ from these estimates, without impact to future reported net income.

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Stock option activity during the periods presented was as follows:

	Outstanding		Exercisable	
	Number of Shares (in millions)	Weighted Average Exercise Price	Number of Shares (in millions)	Weighted Average Exercise Price
Outstanding at August 31, 2019	0.4	\$146.70	0.3	\$147.51
Granted	0.5	\$121.87		
Exercised	—	*		\$116.36
Canceled	—	*		—
Outstanding at February 29, 2020	0.9	\$133.18	0.4	\$151.07
Range of option exercise prices:				
\$40.01 - \$100.00 (average life - 2.6 years)	0.1	\$62.25	0.1	\$62.25
\$100.01 - \$160.00 (average life - 8.8 years)	0.7	\$123.02	0.2	\$126.16
\$160.01 - \$210.00 (average life - 5.7 years)	0.1	\$207.80	0.1	\$207.80
\$210.01 - \$239.76 (average life - 6.7 years)	—	*	—	*

* Represents shares of less than 0.1 million.

There were 522 shares issued from option exercises during fiscal 2020, and no options were exercised during fiscal 2019. As of February 29, 2020, the total intrinsic value of options outstanding was \$2.6 million, the total intrinsic value of options expected to vest was \$2.6 million, and the total intrinsic value of options exercisable was \$2.6 million. As of February 29, 2020, there was \$18.2 million of total unrecognized compensation cost related to unvested options. That cost is expected to be recognized over a weighted-average period of approximately 2.2 years.

Note 15 — Pension Plans

We have several pension plans, both qualified and non-qualified, covering certain hourly and salaried employees. Benefits paid under these plans are based generally on employees' years of service and/or compensation during the final years of employment. We make at least the minimum annual contributions to the plans to the extent indicated by actuarial valuations and statutory requirements. Plan assets are invested primarily in equity and fixed income securities.

Service cost of net periodic pension cost is allocated between *Cost of products sold* and *Selling, distribution, and administrative expenses* in the *Consolidated Statements of Comprehensive Income* based on the nature of the employee's services. All other components of net periodic pension cost are included within *Miscellaneous expense, net* in the *Consolidated Statements of Comprehensive Income*. Net periodic pension cost included the following components before tax for the periods presented (in millions):

	Three Months Ended		Six Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Service cost	\$ 1.1	\$ 0.8	\$ 2.3	\$ 1.6
Interest cost	1.9	2.3	3.7	4.5
Expected return on plan assets	(3.1)	(3.2)	(6.2)	(6.3)
Amortization of prior service cost	1.0	0.7	2.0	1.5
Settlement loss	—	—	—	0.4
Recognized actuarial loss	1.4	1.0	2.8	2.1
Net periodic pension cost	<u>\$ 2.3</u>	<u>\$ 1.6</u>	<u>\$ 4.6</u>	<u>\$ 3.8</u>

Further details regarding our pension plans are included within the *Pension and Defined Contribution Plans* footnote of the *Notes to Consolidated Financial Statements* within our Form 10-K.

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Note 16 — Special Charges

During fiscal 2020, we recognized pre-tax special charges of \$8.5 million. The fiscal 2020 special charge consisted primarily of severance costs and ROU asset lease impairments related to planned facility closures. Additionally, we recognized charges for relocation costs and ROU lease asset impairment charges associated with the previously announced transfer of activities from planned facility closures. We expect these actions to streamline our business activities and to integrate recent acquisitions will allow us to reduce spending in certain areas while permitting continued investment in future growth initiatives, such as new products, expanded market presence, and technology and innovation. Further details regarding our special charges are included within the *Special Charges* footnote of the *Notes to Consolidated Financial Statements* within our Form 10-K.

The following table summarizes costs reflected within *Special charges* on the *Consolidated Statements of Comprehensive Income* for the periods presented (in millions):

	Three Months Ended		Six Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Severance and employee-related costs	\$ 0.6	\$ (0.3)	\$ 5.7	\$ (0.8)
Other restructuring costs	1.0	0.7	2.8	2.2
Total special charges	\$ 1.6	\$ 0.4	\$ 8.5	\$ 1.4

As of February 29, 2020, remaining restructuring reserves were \$4.0 million and are included in *Accrued compensation* on the *Consolidated Balance Sheets*. The changes in the reserves related to these programs during the period presented are summarized as follows (in millions):

	Fiscal 2020 Actions	Fiscal 2019 Actions	Fiscal 2018 Actions	Total
Balance at August 31, 2019	\$ —	\$ 1.3	\$ 0.6	1.9
Severance costs	5.8	0.1	(0.2)	5.7
Payments made during the period	(2.1)	(1.1)	(0.4)	(3.6)
Balance at February 29, 2020	\$ 3.7	\$ 0.3	\$ —	\$ 4.0

Note 17 — Earnings Per Share

Basic earnings per share is computed by dividing net earnings available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed similarly but reflects the potential dilution that would occur if dilutive options were exercised, all unvested share-based payment awards were vested, and other distributions related to deferred stock agreements were incurred.

The following table calculates basic earnings per common share and diluted earnings per common share for the periods presented (in millions, except per share data):

	Three Months Ended		Six Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Net income	\$ 57.2	\$ 66.3	\$ 114.2	\$ 145.9
Basic weighted average shares outstanding	39.5	39.5	39.5	39.7
Common stock equivalents	0.2	0.1	0.2	0.1
Diluted weighted average shares outstanding	39.7	39.6	39.7	39.8
Basic earnings per share	\$ 1.45	\$ 1.68	\$ 2.89	\$ 3.67
Diluted earnings per share	\$ 1.44	\$ 1.67	\$ 2.88	\$ 3.66

ACUITY BRANDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table presents stock options and restricted stock awards that were excluded from the diluted earnings per share calculation for the periods presented as the effect of inclusion would have been antidilutive:

	Three Months Ended		Six Months Ended	
	February 29, 2020	February 28, 2019	February 29, 2020	February 28, 2019
Stock options	443,595	314,673	361,283	290,360
Performance stock awards	—	—	7,569	—
Restricted stock awards	102,210	189,683	116,962	194,232

Further discussion of our stock options and restricted stock awards is included within the *Common Stock and Related Matters* and *Share-based Payments* footnotes of the *Notes to Consolidated Financial Statements* within our Form 10-K.

Note 18 — Comprehensive Income

Comprehensive income represents a measure of all changes in equity that result from recognized transactions and other economic events other than transactions with owners in their capacity as owners. *Other comprehensive income (loss) items* includes foreign currency translation and pension adjustments.

The following tables summarize the changes in each component of accumulated other comprehensive loss during the periods presented (in millions):

	Foreign Currency Items	Defined Benefit Pension Plans	Accumulated Other Comprehensive Loss Items
Balance at August 31, 2019	\$ (65.4)	\$ (86.0)	\$ (151.4)
Other comprehensive loss before reclassifications	(1.8)	—	(1.8)
Amounts reclassified from accumulated other comprehensive loss ⁽¹⁾	—	3.6	3.6
Net current period other comprehensive (loss) income	(1.8)	3.6	1.8
Balance at February 29, 2020	<u>\$ (67.2)</u>	<u>\$ (82.4)</u>	<u>\$ (149.6)</u>

	Foreign Currency Items	Defined Benefit Pension Plans	Accumulated Other Comprehensive Loss Items
Balance at August 31, 2018	\$ (53.9)	\$ (60.9)	\$ (114.8)
Other comprehensive (loss) income before reclassifications	(3.9)	0.9	(3.0)
Amounts reclassified from accumulated other comprehensive loss ⁽¹⁾	—	3.1	3.1
Net current period other comprehensive (loss) income	(3.9)	4.0	0.1
Balance at February 28, 2019	<u>\$ (57.8)</u>	<u>\$ (56.9)</u>	<u>\$ (114.7)</u>

⁽¹⁾ The before tax amounts of the defined benefit pension plan items are included in net periodic pension cost. See the *Pension and Defined Contribution Plans* footnote for additional details.

ACUITY BRANDS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table summarizes the tax expense or benefit allocated to each component of other comprehensive income (loss) for the periods presented (in millions):

	Three Months Ended					
	February 29, 2020			February 28, 2019		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Foreign currency translation adjustments	\$ (3.7)	\$ —	\$ (3.7)	\$ 4.9	\$ —	\$ 4.9
Defined benefit pension plans:						
Amortization of defined benefit pension items:						
Prior service cost	1.0	(0.3)	0.7	0.7	(0.1)	0.6
Actuarial losses	1.4	(0.4)	1.0	1.0	(0.2)	0.8
Total defined benefit pension plans, net	2.4	(0.7)	1.7	1.7	(0.3)	1.4
Other comprehensive (loss) income	<u>\$ (1.3)</u>	<u>\$ (0.7)</u>	<u>\$ (2.0)</u>	<u>\$ 6.6</u>	<u>\$ (0.3)</u>	<u>\$ 6.3</u>

	Six Months Ended					
	February 29, 2020			February 28, 2019		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Foreign currency translation adjustments	\$ (1.8)	\$ —	\$ (1.8)	\$ (3.9)	\$ —	\$ (3.9)
Defined benefit pension plans:						
Actuarial gain or loss	—	—	—	1.3	(0.4)	0.9
Amortization of defined benefit pension items:						
Prior service cost	2.0	(0.5)	1.5	1.5	(0.3)	1.2
Actuarial losses	2.8	(0.7)	2.1	2.1	(0.5)	1.6
Settlement losses	—	—	—	0.4	(0.1)	0.3
Total defined benefit pension plans, net	4.8	(1.2)	3.6	5.3	(1.3)	4.0
Other comprehensive income	<u>\$ 3.0</u>	<u>\$ (1.2)</u>	<u>\$ 1.8</u>	<u>\$ 1.4</u>	<u>\$ (1.3)</u>	<u>\$ 0.1</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The purpose of this discussion and analysis is to enhance the understanding and evaluation of the results of operations, financial position, cash flows, indebtedness, and other key financial information of Acuity Brands, Inc. ("Acuity Brands") and its subsidiaries as of February 29, 2020 and for the three and six months ended February 29, 2020 and February 28, 2019. The following discussion should be read in conjunction with the *Consolidated Financial Statements* and *Notes to Consolidated Financial Statements* included within this report. Also, please refer to Acuity Brands' Annual Report on Form 10-K for the fiscal year ended August 31, 2019, filed with the Securities and Exchange Commission (the "SEC") on October 29, 2019 ("Form 10-K").

Overview

Company

Acuity Brands is the parent company of Acuity Brands Lighting, Inc. ("ABL") and other subsidiaries (Acuity Brands, ABL, and such other subsidiaries are collectively referred to herein as "we," "our," "us," "the Company," or similar references). Our principal office is located in Atlanta, Georgia.

We are a market-leading industrial technology company that develops, manufactures, and provides lighting and building management solutions and services for commercial, institutional, industrial, infrastructure, and residential applications throughout North America and select international markets. Our lighting and building management solutions include devices such as luminaires, lighting controls, controls for various building systems, power supplies, prismatic skylights, and drivers, as well as integrated systems designed to optimize energy efficiency and comfort for various indoor and outdoor applications. Additionally, we continue to expand our solutions portfolio, including software and services, to provide a host of other economic benefits resulting from data analytics that enables the Internet of Things ("IoT"),

supports the advancement of smart buildings, smart cities, and the smart grid, and allows businesses to develop custom applications to scale their operations. As of February 29, 2020, we operate 22 manufacturing facilities and eight distribution facilities along with four warehouses to serve our extensive customer base.

We do not consider acquisitions a critical element of our strategy but seek opportunities to expand and enhance our portfolio of solutions, including the following transactions:

On September 17, 2019, using cash on hand and borrowings under available existing credit arrangements, we acquired all of the equity interests of The Luminaires Group (“TLG”), a leading provider of specification-grade luminaires for commercial, institutional, hospitality, and municipal markets, all of which complement our current and dynamic lighting portfolio. TLG’s indoor and outdoor lighting fixtures are marketed to architects, landscape architects, interior designers, and engineers through five niche lighting brands: A-light, Cyclone, Eureka, Luminaire LED, and Luminis.

On November 25, 2019, using cash on hand, we acquired all of the equity interests of LocusLabs, Inc (“LocusLabs”). The LocusLabs software platform supports navigation applications used on mobile devices, web browsers, and digital displays in airports, event centers, multi-floor office buildings, and campuses.

The results of operations for the three and six months ended February 29, 2020 and February 28, 2019 are not necessarily indicative of the results to be expected for the full fiscal year due primarily to seasonality, which results in our net sales and net income generally being higher in the second half of our fiscal year, the impact of any acquisitions, and, among other reasons, the continued uncertainty of general economic conditions that may impact our key end markets for the remainder of fiscal 2020. Additionally, we are uncertain of the impact of the COVID-19 pandemic to our sales channels, supply chain, manufacturing, and distribution as well as overall construction, renovation, and consumer spending.

Liquidity and Capital Resources

Our principal sources of liquidity are operating cash flows generated primarily from our business operations, cash on hand, and various sources of borrowings. Our ability to generate sufficient cash flow from operations or to access certain capital markets, including banks, is necessary to fund our operations and capital expenditures, pay dividends, repurchase shares, meet obligations as they become due, and maintain compliance with covenants contained in our financing agreements.

For the first six months of fiscal 2020, we paid \$24.9 million for property, plant, and equipment, primarily for equipment, tooling, new and enhanced information technology capabilities, and facility enhancements. We currently expect to spend a similar amount on capital expenditures throughout the second half of fiscal 2020.

In March 2018, the Board of Directors (the “Board”) authorized the repurchase of up to six million shares of the Company’s common stock. As of February 29, 2020, 1.45 million shares had been repurchased under this authorization. No shares were repurchased in fiscal 2020. We expect to repurchase the remaining shares available for repurchase on an opportunistic basis subject to various factors including stock price, Company performance, market conditions, and other possible uses of cash.

Our short-term cash needs are expected to include funding operations as currently planned; making capital investments as currently anticipated; paying quarterly stockholder dividends as currently anticipated; paying principal and interest on debt as currently scheduled, including our borrowings under our unsecured delayed draw term loan facility (the “Term Loan Facility”); making required contributions to our employee benefit plans; funding possible acquisitions; and potentially repurchasing shares of our outstanding common stock. We believe that we will be able to meet our liquidity needs over the next 12 months based on our cash on hand, current projections of cash flow from operations, and borrowing availability under financing arrangements. Additionally, we believe that our cash flows from operations and sources of funding, including, but not limited to, future borrowings and capacity, will sufficiently support our long-term liquidity needs. However, as the impact of the COVID-19 pandemic on the economy and our operations evolves, we will continue to assess our liquidity needs. A continued worldwide disruption could materially affect our future access to our sources of liquidity, particularly our cash flows from operations, financial condition, capitalization, and capital investments. In the event of a sustained market deterioration, we may need additional liquidity, which would require us to evaluate available alternatives and take appropriate actions.

Cash Flow

We use available cash and cash flow from operations, borrowings on credit arrangements, and proceeds from the exercise of stock options to fund operations, capital expenditures, and acquisitions if any; to repurchase Company stock; and to pay dividends.

Our cash position at February 29, 2020 was \$380.6 million, a decrease of \$80.4 million from August 31, 2019. During the six months ended February 29, 2020, we generated net cash flows from operations of \$214.7 million. Cash generated from operating activities, cash on-hand, and additional long-term debt borrowings were used during the six months ended February 29, 2020 primarily to repay our long term debt obligations due of \$350.5 million, to fund acquisitions of \$302.9 million, to fund capital expenditures of \$24.9 million, to pay dividends to stockholders of \$10.4 million, and to pay withholding taxes on the net settlement of equity awards of \$4.7 million.

We generated \$214.7 million of cash flow from operating activities during the six months ended February 29, 2020 compared with \$188.3 million in the prior-year period, an increase of \$26.4 million, due primarily to lower working capital requirements, partially offset by lower net income.

We believe that investing in assets and programs that will over time increase the overall return on our invested capital is a key factor in driving stockholder value. We paid \$24.9 million during the first six months of fiscal 2020 and 2019 for property, plant, and equipment, primarily related to investments in equipment, tooling, new and enhanced information technology capabilities, and facility enhancements.

Capitalization

As of February 29, 2020, our capital structure was comprised principally of borrowings on the Term Loan Facility and equity of our stockholders. Total debt outstanding was \$406.2 million at February 29, 2020 and consisted primarily of variable-rate obligations. At August 31, 2019, total debt outstanding was \$356.6 million, which consisted primarily of fixed-rate obligations.

On June 29, 2018, we entered into a credit agreement ("Credit Agreement") with a syndicate of banks that provides us with a \$400.0 million five-year unsecured revolving credit facility ("Revolving Credit Facility") and a \$400.0 million Term Loan Facility. We had no borrowings outstanding under the current Revolving Credit Facility as of February 29, 2020 or August 31, 2019. We had \$400.0 million in borrowings outstanding under the Term Loan Facility as of February 29, 2020 and no borrowings outstanding under the Term Loan Facility as of August 31, 2019. Based on the repayment schedule, \$385.0 million of the borrowings under the Term Loan Facility are reflected within *Long-term debt* on the *Consolidated Balance Sheets* as of February 29, 2020.

In December 2019, we borrowed the full \$400.0 million available under our Term Loan Facility. The proceeds were primarily used to repay the \$350.0 million of senior unsecured notes, which matured on December 15, 2019, and the related accrued interest in full. Borrowings under the Term Loan Facility amortize in equal quarterly installments per year as described in the *Debt and Lines of Credit* footnote of the *Notes to Consolidated Financial Statements*. Any remaining borrowings under the Term Loan Facility are due and payable in full on June 29, 2023. Additionally, see *Debt and Lines of Credit* footnote for interest rates related to the Term Loan Facility. There have been no other material changes outside of the ordinary course of business in our contractual obligations since August 31, 2019.

We were in compliance with all financial covenants under the Credit Agreement as of February 29, 2020. At February 29, 2020, we had additional borrowing capacity under the Credit Agreement of \$396.2 million under the most restrictive covenant in effect at the time, which represents the full amount of the Revolving Credit Facility less the outstanding letters of credit of \$3.8 million issued under the Revolving Credit Facility. As of February 29, 2020, we had outstanding letters of credit totaling \$8.1 million, primarily for securing collateral requirements under our casualty insurance programs and for providing credit support for our industrial revenue bond, which includes the \$3.8 million issued under the Revolving Credit Facility. See the *Debt and Lines of Credit* footnote of the *Notes to Consolidated Financial Statements* for more information.

During the first six months of fiscal 2020, our consolidated stockholders' equity increased \$126.2 million to \$2.05 billion at February 29, 2020, from \$1.92 billion at August 31, 2019. The increase was due primarily to comprehensive income, partially offset by the payment of dividends. Our debt to total capitalization ratio (calculated by dividing total debt by the sum of total debt and total stockholders' equity) was 16.6% and 15.7% at February 29, 2020 and August 31, 2019, respectively. The ratio of debt, net of cash, to total capitalization, net of cash, was 1.2% and (5.8)% at February 29, 2020 and August 31, 2019, respectively.

Dividends

We paid dividends on our common stock of \$10.4 million and \$10.5 million (\$0.26 per share) during the six months ended February 29, 2020 and February 28, 2019, respectively. All decisions regarding the declaration and payment of dividends are at the discretion of the Board and are evaluated regularly in light of our financial condition, earnings, growth prospects, funding requirements, applicable law, and any other factors the Board deems relevant.

Results of Operations

Second Quarter of Fiscal 2020 Compared with Second Quarter of Fiscal 2019

The following table sets forth information comparing the components of net income for the three months ended February 29, 2020 and February 28, 2019 (in millions except per share data):

	Three Months Ended		Increase (Decrease)	Percent Change
	February 29, 2020	February 28, 2019		
Net sales	\$ 824.2	\$ 854.4	\$ (30.2)	(3.5)%
Cost of products sold	480.3	520.5	(40.2)	(7.7)%
Gross profit	343.9	333.9	10.0	3.0 %
<i>Percent of net sales</i>	41.7%	39.1%	260 bps	
Selling, distribution, and administrative expenses	260.9	237.6	23.3	9.8 %
Special charges	1.6	0.4	1.2	NM
Operating profit	81.4	95.9	(14.5)	(15.1)%
<i>Percent of net sales</i>	9.9%	11.2%	(130) bps	
Other expense:				
Interest expense, net	5.7	8.6	(2.9)	(33.7)%
Miscellaneous expense, net	1.0	1.1	(0.1)	(9.1)%
Total other expense	6.7	9.7	(3.0)	(30.9)%
Income before income taxes	74.7	86.2	(11.5)	(13.3)%
<i>Percent of net sales</i>	9.1%	10.1%	(100) bps	
Income tax expense	17.5	19.9	(2.4)	(12.1)%
<i>Effective tax rate</i>	23.4%	23.1%		
Net income	\$ 57.2	\$ 66.3	\$ (9.1)	(13.7)%
Diluted earnings per share	\$ 1.44	\$ 1.67	\$ (0.23)	(13.8)%

NM - not meaningful

Net sales were \$824.2 million for the three months ended February 29, 2020 compared with \$854.4 million reported for the three months ended February 28, 2019, a decrease of \$30.2 million, or 3.5%. For the three months ended February 29, 2020, we reported net income of \$57.2 million, a decrease of \$9.1 million, or 13.7%, compared with \$66.3 million for the three months ended February 28, 2019. For the second quarter of fiscal 2020, diluted earnings per share decreased 13.8% to \$1.44 compared with \$1.67 reported in the year-ago period.

The following table reconciles certain U.S. generally accepted accounting principles ("U.S. GAAP") financial measures to the corresponding non-U.S. GAAP measures referred to in the discussion of our results of operations, which exclude the impact of manufacturing inefficiencies, acquisition-related items, amortization of acquired intangible assets, share-based payment expense, and special charges associated primarily with continued efforts to streamline the organization and integrate recent acquisitions. Although the impacts of some of these items have been recognized in prior periods and could recur in future periods, we typically exclude these charges during internal reviews of performance and use these non-U.S. GAAP measures for baseline comparative operational analysis, decision making, and other activities. These non-U.S. GAAP financial measures, including adjusted gross profit and margin, adjusted selling, distribution, and administrative ("SD&A") expenses and adjusted SD&A expenses as a percent of net sales, adjusted operating profit and margin, adjusted net income, and adjusted diluted earnings per share, are provided to enhance the user's overall understanding of our current financial performance. Specifically, we believe these non-U.S. GAAP measures provide greater comparability and enhanced visibility into our results of operations. The non-U.S. GAAP financial

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measures should be considered in addition to, and not as a substitute for or superior to, results prepared in accordance with U.S. GAAP.

(In millions, except per share data)

	Three Months Ended		Increase (Decrease)	Percent Change
	February 29, 2020	February 28, 2019		
Gross profit	\$ 343.9	\$ 333.9	\$ 10.0	3.0 %
<i>Percent of net sales</i>		41.7%	39.1%	260 bps
Add-back: Manufacturing inefficiencies ⁽¹⁾	—	0.9		
Add-back: Acquisition-related items ⁽²⁾	0.1	—		
Adjusted gross profit	\$ 344.0	\$ 334.8	\$ 9.2	2.7 %
<i>Percent of net sales</i>		41.7%	39.2%	250 bps
Selling, distribution, and administrative expenses	\$ 260.9	\$ 237.6	\$ 23.3	9.8 %
<i>Percent of net sales</i>		31.7%	27.8%	390 bps
Less: Amortization of acquired intangible assets	(10.4)	(7.7)		
Less: Share-based payment expense	(8.0)	(7.5)		
Less: Acquisition-related items ⁽²⁾	(0.2)	—		
Adjusted selling, distribution, and administrative expenses	\$ 242.3	\$ 222.4	\$ 19.9	8.9 %
<i>Percent of net sales</i>		29.4%	26.0%	340 bps
Operating profit	\$ 81.4	\$ 95.9	\$ (14.5)	(15.1)%
<i>Percent of net sales</i>		9.9%	11.2%	(130) bps
Add-back: Amortization of acquired intangible assets	10.4	7.7		
Add-back: Share-based payment expense	8.0	7.5		
Add-back: Manufacturing inefficiencies ⁽¹⁾	—	0.9		
Add-back: Acquisition-related items ⁽²⁾	0.3	—		
Add-back: Special charges	1.6	0.4		
Adjusted operating profit	\$ 101.7	\$ 112.4	\$ (10.7)	(9.5)%
<i>Percent of net sales</i>		12.3%	13.2%	(90) bps
Net income	\$ 57.2	\$ 66.3	\$ (9.1)	(13.7)%
Add-back: Amortization of acquired intangible assets	10.4	7.7		
Add-back: Share-based payment expense	8.0	7.5		
Add-back: Manufacturing inefficiencies ⁽¹⁾	—	0.9		
Add-back: Acquisition-related items ⁽²⁾	0.3	—		
Add-back: Special charges	1.6	0.4		
Total pre-tax adjustments to net income	20.3	16.5		
Income tax effects	(4.4)	(3.8)		
Adjusted net income	\$ 73.1	\$ 79.0	\$ (5.9)	(7.5)%
Diluted earnings per share	\$ 1.44	\$ 1.67	\$ (0.23)	(13.8)%
Adjusted diluted earnings per share	\$ 1.84	\$ 1.99	\$ (0.15)	(7.5)%

⁽¹⁾ Incremental costs incurred due to manufacturing inefficiencies directly related to the closure of a facility.

⁽²⁾ Acquisition-related items include profit in inventory and professional fees.

Net Sales

Net sales for the three months ended February 29, 2020 decreased 3.5% compared with the prior-year period due primarily to a 7% decrease in sales volumes, partially offset by a contribution from acquired businesses of approximately 3% and a 1% net favorable change in product prices and mix of products sold ("price/mix"). Changes in foreign currency rates did not have a meaningful impact on second quarter net sales. Fiscal 2020 second quarter net sales reflected a decline across all key sales channels compared with the prior year except the independent sales network, which increased due primarily to the benefits from acquisitions. The overall volume decline from the prior year was a result

of several factors including an estimated market decline in the low single digits; the elimination of certain products in our portfolio negatively impacted by the increases in tariffs sold primarily through the retail sales channel that did not meet our return objectives; and lower activity of relight projects for certain large corporate accounts customers.

Gross Profit

Gross profit for the second quarter of fiscal 2020 increased \$10.0 million, or 3.0%, to \$343.9 million compared with \$333.9 million in the prior-year period, due primarily to the contribution from acquisitions, lower costs for certain inputs, and favorable price/mix. These increases were partially offset by lower sales volume and increased tariffs. Gross profit margin increased 260 basis points to 41.7% for the three months ended February 29, 2020 compared with 39.1% in the prior-year period. The improvement in gross profit margin was due primarily to favorable sales channel mix and contribution from acquisitions, partially offset by the mix of products sold and lower net sales volume. Adjusted gross profit margin for the three months ended February 29, 2020 increased 250 basis points to 41.7% compared with 39.2% in the prior year period.

Operating Profit

SD&A expenses for the three months ended February 29, 2020 were \$260.9 million compared with \$237.6 million in the prior-year period, an increase of \$23.3 million, or 9.8%. The increase in SD&A expenses was due primarily to the addition of acquisitions, including higher employee costs and amortization of acquired intangibles, increased commissions, higher professional fees, and increased variable incentive compensation. SD&A expenses for the second quarter of fiscal 2020 were 31.7% of net sales compared with 27.8% for the prior-year period. Adjusted SD&A expenses for the three months ended February 29, 2020 were \$242.3 million (29.4% of net sales) compared with \$222.4 million (26.0% of net sales) in the prior-year period.

We recognized pre-tax special charges of \$1.6 million during the second quarter of fiscal 2020 compared with pre-tax special charges of \$0.4 million recorded during the second quarter of fiscal 2019. Further details regarding our special charges are included in the *Special Charges* footnote of the *Notes to Consolidated Financial Statements*.

Operating profit for the second quarter of fiscal 2020 was \$81.4 million (9.9% of net sales) compared with \$95.9 million (11.2% of net sales) for the prior-year period, a decrease of \$14.5 million, or 15.1%. The decrease in operating profit was due to higher SD&A expenses and increased special charges, partially offset by increased gross profit. Adjusted operating profit decreased \$10.7 million, or 9.5%, to \$101.7 million for the second quarter of fiscal 2020 compared with \$112.4 million for the second quarter of fiscal 2019. Adjusted operating profit margin decreased to 12.3% for the second quarter of fiscal 2020 compared with 13.2% for the year-ago period.

Other Expense

Other expense consists of net interest expense and net miscellaneous expense, which includes non-service related components of net periodic pension cost, gains and losses associated with foreign currency-related transactions, and non-operating gains and losses. Interest expense, net, was \$5.7 million and \$8.6 million for the three months ended February 29, 2020 and February 28, 2019, respectively. The decrease in interest expense is due primarily to the interest savings associated with refinancing the previously outstanding 6% senior unsecured notes with funds under the term loan, which are subject to lower short-term borrowing rates. We reported net miscellaneous expense of \$1.0 million and \$1.1 million for the three months ended February 29, 2020 and February 28, 2019, respectively.

Income Taxes and Net Income

Our effective income tax rate was 23.4% and 23.1% for the three months ended February 29, 2020 and February 28, 2019, respectively. We currently estimate that our blended consolidated effective income tax rate, before any discrete items, will be approximately 23% for fiscal 2020, assuming the rates in our taxing jurisdictions remain generally consistent throughout the year.

Net income for the second quarter of fiscal 2020 decreased \$9.1 million to \$57.2 million from \$66.3 million reported for the prior-year period. The decrease in net income resulted primarily from a decreased operating profit compared to the prior-year period partially offset by lower interest expense and income tax expense. Diluted earnings per share for the three months ended February 29, 2020 decreased \$0.23 to \$1.44 compared with diluted earnings per share of \$1.67 for the prior-year period. This decrease reflects lower net income. Adjusted net income for the second quarter of fiscal 2020 was \$73.1 million, compared with \$79.0 million in the prior-year period, a decrease of \$5.9 million, or 7.5%. Adjusted diluted earnings per share for the three months ended February 29, 2020 decreased \$0.15, or 7.5%, to \$1.84 compared with \$1.99 for the prior-year period.

First Six Months of Fiscal 2020 Compared with First Six Months of Fiscal 2019

The following table sets forth information comparing the components of net income for the six months ended February 29, 2020 and February 28, 2019 (in millions except per share data):

	Six Months Ended		Increase (Decrease)	Percent Change
	February 29, 2020	February 28, 2019		
Net sales	\$ 1,658.9	\$ 1,787.0	\$ (128.1)	(7.2)%
Cost of products sold	959.2	1,085.6	(126.4)	(11.6)%
Gross profit	699.7	701.4	(1.7)	(0.2)%
<i>Percent of net sales</i>	42.2%	39.3%	290 bps	
Selling, distribution, and administrative expenses	526.2	487.7	38.5	7.9 %
Special charges	8.5	1.4	7.1	NM
Operating profit	165.0	212.3	(47.3)	(22.3)%
<i>Percent of net sales</i>	9.9%	11.9%	(200) bps	
Other expense (income)				
Interest expense, net	14.0	17.3	(3.3)	(19.1)%
Miscellaneous expense, net	2.4	2.4	—	— %
Total other expense	16.4	19.7	(3.3)	(16.8)%
Income before income taxes	148.6	192.6	(44.0)	(22.8)%
<i>Percent of net sales</i>	9.0%	10.8%	(180) bps	
Income tax expense	34.4	46.7	(12.3)	(26.3)%
<i>Effective tax rate</i>	23.1%	24.2%		
Net income	\$ 114.2	\$ 145.9	\$ (31.7)	(21.7)%
Diluted earnings per share	\$ 2.88	\$ 3.66	\$ (0.78)	(21.3)%
NM - not meaningful				

Net sales were \$1.66 billion for the six months ended February 29, 2020 compared with \$1.79 billion reported for the six months ended February 28, 2019, a decrease of \$128.1 million, or 7.2%. For the six months ended February 29, 2020, we reported net income of \$114.2 million, a decrease of \$31.7 million, or 21.7%, compared with \$145.9 million for the six months ended February 28, 2019. For the first six months of fiscal 2020, diluted earnings per share decreased 21.3% to \$2.88 compared with \$3.66 reported in the year-ago period.

The following table reconciles certain U.S. GAAP financial measures to the corresponding non-U.S. GAAP measures referred to in the discussion of our results of operations, which exclude the impact of manufacturing inefficiencies, acquisition-related items, amortization of acquired intangible assets, share-based payment expense, and special charges associated primarily with continued efforts to streamline the organization. These non-U.S. GAAP financial measures, including adjusted gross profit and margin, adjusted SD&A expenses and adjusted SD&A expenses as a percent of net sales, adjusted operating profit and margin, adjusted net income, and adjusted diluted earnings per share, are provided to enhance the user's overall understanding of our current financial performance. Specifically, we believe these non-U.S. GAAP measures provide greater comparability and enhanced visibility into our results of operations. The non-U.S. GAAP financial measures should be considered in addition to, and not as a substitute for or superior to, results prepared in accordance with U.S. GAAP.

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(In millions, except per share data)

	Six Months Ended		Increase (Decrease)	Percent Change
	February 29, 2020	February 28, 2019		
Gross profit	\$ 699.7	\$ 701.4	\$ (1.7)	(0.2)%
<i>Percent of net sales</i>		42.2%	39.3%	290 bps
Add-back: Manufacturing inefficiencies ⁽¹⁾	—	0.9		
Add-back: Acquisition-related items ⁽²⁾	1.2	1.2		
Adjusted gross profit	<u>\$ 700.9</u>	<u>\$ 703.5</u>	\$ (2.6)	(0.4)%
<i>Percent of net sales</i>		42.3%	39.4%	290 bps
Selling, distribution, and administrative expenses	\$ 526.2	\$ 487.7	\$ 38.5	7.9%
<i>Percent of net sales</i>		31.7%	27.3%	440 bps
Less: Amortization of acquired intangible assets	(20.0)	(15.4)		
Less: Share-based payment expense	(24.7)	(15.3)		
Less: Acquisition-related items ⁽²⁾	(1.3)	—		
Adjusted selling, distribution, and administrative expenses	<u>\$ 480.2</u>	<u>\$ 457.0</u>	\$ 23.2	5.1%
<i>Percent of net sales</i>		28.9%	25.6%	330 bps
Operating profit	\$ 165.0	\$ 212.3	\$ (47.3)	(22.3)%
<i>Percent of net sales</i>		9.9%	11.9%	(200) bps
Add-back: Amortization of acquired intangible assets	20.0	15.4		
Add-back: Share-based payment expense	24.7	15.3		
Add-back: Manufacturing inefficiencies ⁽¹⁾	—	0.9		
Add-back: Acquisition-related items ⁽²⁾	2.5	1.2		
Add-back: Special charges	8.5	1.4		
Adjusted operating profit	<u>\$ 220.7</u>	<u>\$ 246.5</u>	\$ (25.8)	(10.5)%
<i>Percent of net sales</i>		13.3%	13.8%	(50) bps
Net income	\$ 114.2	\$ 145.9	\$ (31.7)	(21.7)%
Add-back: Amortization of acquired intangible assets	20.0	15.4		
Add-back: Share-based payment expense	24.7	15.3		
Add-back: Manufacturing inefficiencies ⁽¹⁾	—	0.9		
Add-back: Acquisition-related items ⁽²⁾	2.5	1.2		
Add-back: Special charges	8.5	1.4		
Total pre-tax adjustments to net income	55.7	34.2		
Income tax effect	(12.6)	(8.3)		
Adjusted net income	<u>\$ 157.3</u>	<u>\$ 171.8</u>	\$ (14.5)	(8.4)%
Diluted earnings per share	\$ 2.88	\$ 3.66	\$ (0.78)	(21.3)%
Adjusted diluted earnings per share	\$ 3.97	\$ 4.31	\$ (0.34)	(7.9)%

⁽¹⁾ Incremental costs incurred due to manufacturing inefficiencies directly related to the closure of a facility.

⁽²⁾ Acquisition-related items include profit in inventory and professional fees.

Net Sales

Net sales for the six months ended February 29, 2020 decreased \$128.1 million, or 7.2%, compared with the prior-year period due primarily to a decrease in sales volume of approximately 12%, partially offset by a contribution from acquired businesses of approximately 3% as well as net favorable change in price/mix of 2%. Changes in foreign currency rates did not have a meaningful impact on the current period's net sales. Fiscal 2020 net sales reflected a decline across all key sales channels compared with the prior year. The overall volume decline from the prior year was a result of several factors including an estimated market decline in the low single digits; the elimination of certain products in our portfolio negatively impacted by the increases in tariffs sold primarily through the retail sales channel that did not meet our return objectives; and lower activity of large projects. Price/mix was impacted by a favorable shift in sales channel mix and, to a lesser extent, realization from price increases implemented in fiscal 2019 partially offset by an unfavorable mix of products sold.

Gross Profit

Gross profit for the first six months of fiscal 2020 decreased \$1.7 million compared to the prior-year period, while gross profit margin increased to 42.2% for the six months ended February 29, 2020 compared with 39.3% in the prior-year period. The improvement in gross profit margin was due primarily to favorable sales channel mix, lower costs for certain inputs, and contribution from acquisitions, partially offset by the mix of products sold and lower net sales volume. Adjusted gross profit for the six months ended February 29, 2020 was \$700.9 million (42.3% of net sales) compared with \$703.5 million (39.4% of net sales) in the prior-year period.

Operating Profit

SD&A expenses for the six months ended February 29, 2020 were \$526.2 million compared with \$487.7 million in the prior-year period, an increase of \$38.5 million, or 7.9%. The increase in SD&A expenses was due primarily to higher share-based payment expense, the addition of acquisitions, including employee costs and amortization of acquired intangibles, and higher professional fees. Share-based payment expense increased due to changes made to the equity incentive program as part of the Company's comprehensive review of its compensation programs, which resulted in the acceleration of share-based payment expense in the first quarter of fiscal 2020.

SD&A expenses for the first six months of fiscal 2020 were 31.7% of net sales compared with 27.3% for the prior-year period. Adjusted SD&A expenses for the six months ended February 29, 2020 were \$480.2 million (28.9% of net sales) compared with \$457.0 million (25.6% of net sales) in the prior-year period.

We recognized pre-tax special charges of \$8.5 million during the first six months of fiscal 2020, compared with pre-tax special charges of \$1.4 million during the first six months of fiscal 2019. Further details regarding our special charges are included in the *Special Charge* footnote of the *Notes to Consolidated Financial Statements*.

Operating profit for the first six months of fiscal 2020 was \$165.0 million compared with \$212.3 million for the prior-year period, a decrease of \$47.3 million, or 22.3%. The decrease in operating profit was due primarily to an increase in SD&A expenses as well as higher pre-tax special charges. Adjusted operating profit decreased by \$25.8 million, or 10.5%, to \$220.7 million for the first six months of fiscal 2020 compared with \$246.5 million for the first six months of fiscal 2019. Adjusted operating profit margin for the first six months of fiscal 2020 decreased 50 basis points to 13.3% compared with 13.8% in the year-ago period.

Other Expense

Other expense consists of net interest expense and net miscellaneous expense, which includes non-service related components of net periodic pension cost, gains and losses associated with foreign currency-related transactions, and non-operating gains and losses. Interest expense, net, was \$14.0 million and \$17.3 million for the six months ended February 29, 2020 and February 28, 2019, respectively. The decrease in interest expense is due primarily to the interest savings associated with refinancing the previously outstanding 6% senior unsecured notes with funds under the term loan, which are subject to lower short-term borrowing rates. We reported net miscellaneous expense of \$2.4 million for the six months ended February 29, 2020 and February 28, 2019.

Income Taxes and Net Income

Our effective income tax rate was 23.1% and 24.2% for the six months ended February 29, 2020 and February 28, 2019, respectively. We currently estimate that our blended consolidated effective income tax rate, before any discrete items, will approximate 23% for fiscal 2020, assuming the rates in our taxing jurisdictions remain generally consistent throughout the year.

Net income for the first six months of fiscal 2020 decreased \$31.7 million to \$114.2 million from \$145.9 million reported for the prior-year period. The decrease in net income resulted primarily from a decreased operating profit compared to the prior-year period partially offset by lower income tax expense. Diluted earnings per share for the six months ended February 29, 2020 decreased \$0.78 to \$2.88 compared with diluted earnings per share of \$3.66 for the prior-year period. This decrease reflects lower net income. Adjusted net income for the first six months of fiscal 2020 was \$157.3 million compared with \$171.8 million in the prior-year period, a decrease of \$14.5 million, or 8.4%. Adjusted diluted earnings per share for the six months ended February 29, 2020 decreased \$0.34, or 7.9%, to \$3.97 compared with \$4.31 for the prior-year period.

Outlook

We believe the execution of our strategy will provide attractive opportunities for profitable growth over the long term. Although we are aggressively managing our response to the recent COVID-19 pandemic, its impact on our full year fiscal 2020 results and beyond is uncertain. We believe that the most significant elements of uncertainty are the intensity and duration of the impact on construction, renovation, and consumer spending as well as the ability of our sales channels, supply chain, manufacturing, and distribution to continue to operate with minimal disruption for the remainder of fiscal 2020 and beyond, all of which could negatively impact our financial position, results of operations, cash flows, and outlook.

Critical Accounting Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations addresses the financial condition and results of operations as reflected in our *Consolidated Financial Statements*, which have been prepared in accordance with U.S. GAAP. As discussed in the *Description of Business and Basis of Presentation* footnote of the *Notes to Consolidated Financial Statements*, the preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expense during the reporting period. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition; inventory valuation; amortization and the recoverability of long-lived assets, including goodwill and intangible assets; share-based payment expense; medical, product warranty and recall, and other estimated liabilities; retirement benefits; and litigation. We base our estimates and judgments on our substantial historical experience and other relevant factors, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. We discuss the development of accounting estimates with the Audit Committee of the Board.

There have been no material changes in our critical accounting estimates during the current period. For a detailed discussion of other significant accounting policies that may involve a higher degree of judgment, refer to our Form 10-K.

Cautionary Statement Regarding Forward-Looking Information

This filing contains forward-looking statements within the meaning of the federal securities laws. Statements made herein that may be considered forward-looking include statements incorporating terms such as "expects," "believes," "intends," "anticipates," and similar terms that relate to future events, performance, or results of the Company. In addition, the Company, or the executive officers on the Company's behalf, may from time to time make forward-looking statements in reports and other documents we file with the U.S. Securities and Exchange Commission or in connection with oral statements made to the press, current and potential investors, or others. Forward-looking statements include, without limitation: (a) our projections regarding financial performance, liquidity, capital structure, capital expenditures, investments, share repurchases, and dividends; (b) expectations about the impact of any changes in demand as well as volatility and uncertainty in general economic conditions; (c) our ability to execute and realize benefits from initiatives related to streamlining our operations, capitalize on growth opportunities, and introduce new lighting and building management solutions; (d) our estimate of our fiscal 2020 effective income tax rate, results of operations, and cash flows; (e) our estimate of future amortization expense; (f) our ability to achieve our long-term financial goals and measures and outperform the markets we serve; (g) the impact of changes in the political landscape and related policy changes, including monetary, regulatory, and trade policies; (h) our expectations related to mitigating efforts around recently imposed tariffs; (i) our expectations about the resolution of patent litigation, securities class action, trade compliance, and/or other legal matters; and (j) our expectations of the impact of the recent COVID-19 pandemic. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this quarterly report. Except as required by law, we undertake no obligation to publicly update or release any revisions to these forward-looking statements to reflect any events or circumstances after the date of this quarterly report or to

reflect the occurrence of unanticipated events. Our forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and management's present expectations or projections. These risks and uncertainties that could cause our actual results to differ materially from those expressed in our forward-looking statements are discussed in *Part II, Item 1a. Risk Factors below* and *Part I, Item 1a. Risk Factors* of our Form 10-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

General. We are exposed to market risks that may impact our *Consolidated Balance Sheets, Consolidated Statements of Comprehensive Income, and Consolidated Statements of Cash Flows* due primarily to fluctuations in interest rates, foreign exchange rates, and commodity prices. Our long-term debt as of August 31, 2019 consisted primarily of fixed rate obligations, whereas we had \$404 million of variable-rate obligations outstanding as of February 29, 2020, consisting primarily of borrowings under our unsecured delayed draw term loan facility. A 10% increase in market rates at February 29, 2020 would have resulted in \$0.2 million of additional after-tax interest tax interest expense for the three and six months ended February 29, 2020. Except for the change in our long-term debt from primarily fixed to variable rate obligations and the broad effects of the COVID-19 pandemic as a result of its negative impact on the global economy and major financial markets there have been no other material changes to our exposure from market risks from those disclosed in *Part II, Item 7a. Quantitative and Qualitative Disclosures About Market Risk* of our Form 10-K.

Item 4. Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to reasonably ensure that information required to be disclosed in the reports filed or submitted by us under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission (the "SEC") rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to reasonably ensure that information required to be disclosed by us in the reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

As required by SEC rules, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of February 29, 2020. This evaluation was carried out under the supervision and with the participation of management, including the principal executive officer and principal financial officer. Based on this evaluation, these officers have concluded that the design and operation of our disclosure controls and procedures are effective at a reasonable assurance level as of February 29, 2020. However, because all disclosure procedures must rely to a significant degree on actions or decisions made by employees throughout the organization, such as reporting of material events, the Company and its reporting officers believe that they cannot provide absolute assurance that all control issues and instances of fraud or errors and omissions, if any, within the Company will be detected. Limitations within any control system, including our control system, include faulty judgments in decision-making or simple errors or mistakes. In addition, controls can be circumvented by an individual, by collusion between two or more people, or by management override of the control. Because of these limitations, misstatements due to error or fraud may occur and may not be detected.

During the six months ended February 29, 2020, we completed our acquisitions of The Luminaires Group ("TLG") and LocusLabs, Inc ("LocusLabs"). SEC guidance permits management to omit an assessment of an acquired business' internal control over financial reporting from management's assessment of internal control over financial reporting for a period not to exceed one year from the date of the acquisition. Accordingly, management has not assessed TLG's or LocusLab's internal control over financial reporting as of February 29, 2020. Excluding the acquisitions, there have been no changes in our internal control over financial reporting that occurred during our most recent completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We began integrating TLG and LocusLabs into our existing control procedures from their respective dates of acquisition. We do not anticipate the integration of the acquired companies to result in changes that would materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

Lighting Science Group Patent Litigation

On April 30, 2019 and May 1, 2019, Lighting Science Group Corp. (“LSG”) filed complaints in the International Trade Commission and United States District Court for the District of Delaware, respectively, alleging infringement of eight patents by the Company and others. On May 17, 2019, LSG amended both of its complaints and dropped its claims regarding one of the patents. For the remaining seven patents, LSG’s infringement allegations relate to certain of our LED luminaires and related systems. LSG seeks orders from the International Trade Commission to preclude the importation and sale of the accused products. LSG seeks unspecified monetary damages, costs, and attorneys’ fees in the District of Delaware action. We dispute and have numerous defenses to the allegations, and we intend to vigorously defend against LSG’s claims. Estimating an amount or range of possible losses resulting from litigation proceedings is inherently difficult, particularly where the matters involve indeterminate claims for monetary damages and a request for an exclusion order and are in the stages of the proceedings where key factual and legal issues have not been resolved. For these reasons, we currently are unable to predict the ultimate timing or outcome of or reasonably estimate the possible losses or a range of possible losses resulting from these matters.

Securities Class Action

On January 3, 2018, a shareholder filed a class action complaint in the United States District Court for the District of Delaware against us and certain of our officers on behalf of all persons who purchased or otherwise acquired our stock between June 29, 2016 and April 3, 2017. On February 20, 2018, a different shareholder filed a second class action complaint in the same venue against the same parties on behalf of all persons who purchased or otherwise acquired our stock between October 15, 2015 and April 3, 2017. The cases were transferred on April 30, 2018, to the United States District Court for the Northern District of Georgia and subsequently were consolidated as *In re Acuity Brands, Inc. Securities Litigation*, Civil Action No. 1:18-cv-02140-MHC (N.D. Ga.). On October 5, 2018, the court-appointed lead plaintiff filed a consolidated amended class action complaint (the “Consolidated Complaint”), which supersedes the initial complaints. The Consolidated Complaint is brought on behalf of all persons who purchased our common stock between October 7, 2015 and April 3, 2017 and alleges that we and certain of our current officers and one former executive violated the federal securities laws by making false or misleading statements and/or omitting to disclose material adverse facts that (i) concealed known trends negatively impacting sales of our products and (ii) overstated our ability to achieve profitable sales growth. The plaintiffs seek class certification, unspecified monetary damages, costs, and attorneys’ fees. We dispute the allegations in the complaints and intend to vigorously defend against the claims. We filed a motion to dismiss the Consolidated Complaint. On August 12, 2019, the court entered an order granting our motion to dismiss in part and dismissing all claims based on 42 of the 47 statements challenged in the Consolidated Complaint but also denying the motion in part and allowing claims based on five challenged statements to proceed to discovery. Estimating an amount or range of possible losses resulting from litigation proceedings is inherently difficult, particularly where the matters involve indeterminate claims for monetary damages and are in the stages of the proceedings where key factual and legal issues have not been resolved. For these reasons, we are currently unable to predict the ultimate timing or outcome of or reasonably estimate the possible losses or a range of possible losses resulting from the matters described above. We are insured, in excess of a self-retention, for Directors and Officers liability.

Trade Compliance Matters

In the course of routine reviews of import and export activity, we previously determined that we misclassified and/or inaccurately valued certain international shipments of products. We are conducting a detailed review of this activity to determine the extent of any liabilities and implementing the appropriate remedial measures. At this time, we are unable to determine the likelihood or amount of loss, if any, associated with these shipments.

Litigation

We are subject to various other legal claims arising in the normal course of business, including patent infringement, employment matters, and product liability claims. Based on information currently available, it is the opinion of management that the ultimate resolution of pending and threatened legal proceedings will not have a material adverse effect on our financial condition, results of operations, or cash flows. However, in the event of unexpected future developments, it is possible that the ultimate resolution of any such matters, if unfavorable, could have a material adverse effect on our financial condition, results of operations, or cash flows in future periods. We establish estimated

liabilities for legal claims when associated costs become probable and can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher than the amounts accrued for such claims. However, we cannot make a meaningful estimate of actual costs to be incurred that could possibly be higher or lower than the accrued amounts.

Information regarding reportable legal proceedings is contained in *Part I, Item 3. Legal Proceedings* in our Form 10-K. Information set forth in this report's *Commitments and Contingencies* footnote of the *Notes to Consolidated Financial Statements* describes any legal proceedings that became reportable during the quarter ended February 29, 2020, and updates any descriptions of previously reported legal proceedings in which there have been material developments during such quarter. The discussion of legal proceedings included within the *Commitments and Contingencies* footnote of the *Notes to Consolidated Financial Statements* is incorporated into this Item 1 by reference.

Item 1a. Risk Factors

The COVID-19 pandemic could have a material adverse effect our ability to operate, results of operations, financial condition, liquidity, and capital investments.

The World Health Organization has declared the COVID-19 outbreak a pandemic, and the virus continues to spread in areas where we operate and sell our products and services. The COVID-19 pandemic and similar issues in the future could have a material adverse effect on our ability to operate, results of operations, financial condition, liquidity, and capital investments. Several public health organizations have recommended, and some local governments have implemented, certain measures to slow and limit the transmission of the virus, including shelter in place and social distancing ordinances. Such preventive measures, or others we may voluntarily put in place, may have a material adverse effect on our business for an indefinite period of time, such as the potential shut down of certain locations, decreased employee availability, potential border closures, disruptions to the businesses of our channel partners, and others. Our suppliers and customers may also face these and other challenges, which could lead to a disruption in our supply chain as well as decreased construction and renovation spending and consumer demand for our products and services. These issues may also materially affect our future access to our sources of liquidity, particularly our cash flows from operations, financial condition, capitalization, and capital investments. Although these disruptions may continue to occur, the long-term economic impact and near-term financial impacts of the COVID-19 pandemic, including but not limited to, possible impairment, restructuring, and other charges, cannot be reliably quantified or estimated at this time due to the uncertainty of future developments.

Other than the item listed above, there have been no material changes in our risk factors from those disclosed in *Part I, Item 1a. Risk Factors* of our Form 10-K.

Item 5. Other Information

Declaration of Dividend

On March 27, 2020, the the Board of Directors (the “Board”) declared a quarterly dividend of \$0.13 per share. The dividend is payable on May 1, 2020 to stockholders of record on April 17, 2020.

Item 6. Exhibits

Exhibits are listed on the [Index to Exhibits](#).

INDEX TO EXHIBITS

EXHIBIT 3	(a) Restated Certificate of Incorporation of Acuity Brands, Inc. (formerly Acuity Brands Holdings, Inc.), dated as of September 26, 2007.	Reference is made to Exhibit 3.1 of registrant's Form 8-K as filed with the Commission on September 26, 2007, which is incorporated herein by reference.
	(b) Certificate of Amendment of Restated Certification of Incorporation of Acuity Brands, Inc. (formerly Acuity Brands Holdings, Inc.), dated as of September 26, 2007.	Reference is made to Exhibit 3.2 of registrant's Form 8-K as filed with the Commission on September 26, 2007, which is incorporated herein by reference.
	(c) Certificate of Amendment to the Restated Certificate of Incorporation of Acuity Brands, Inc., dated as of January 6, 2017.	Reference is made to Exhibit 3.C of registrant's Form 10-Q as filed with the Commission on January 9, 2017, which is incorporated herein by reference.
	(d) Amended and Restated Bylaws of Acuity Brands, Inc., dated as of January 6, 2017.	Reference is made to Exhibit 3.D of registrant's Form 10-Q as filed with the Commission on January 9, 2017, which is incorporated herein by reference.
EXHIBIT 10	(a) Employment Letter between Acuity Brands, Inc. and Neil M. Ashe, dated January 9, 2020	Reference is made to Exhibit 10.1 of registrant's Form 8-K as filed with the Commission on January 9, 2020, which is incorporated herein by reference.
	(b) Form of Nonqualified Stock Option Award Agreement (options subject only to time-based conditions)	Reference is made to Exhibit 10.2 of registrant's Form 8-K as filed with the Commission on January 9, 2020, which is incorporated herein by reference.
	(c) Form of Nonqualified Stock Option Award Agreement (options subject to time-based and share price performance conditions)	Reference is made to Exhibit 10.3 of registrant's Form 8-K as filed with the Commission on January 9, 2020, which is incorporated herein by reference.
	(d) Form of Severance Agreement	Reference is made to Exhibit 10.4 of registrant's Form 8-K as filed with the Commission on January 9, 2020, which is incorporated herein by reference.
	(e) Form of Change in Control Agreement	Reference is made to Exhibit 10.5 of registrant's Form 8-K as filed with the Commission on January 9, 2020, which is incorporated herein by reference.
EXHIBIT 31	(a) Certification of the Chief Executive Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed with the Commission as part of this Form 10-Q.
	(b) Certification of the Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed with the Commission as part of this Form 10-Q.
EXHIBIT 32	(a) Certification of the Chief Executive Officer of the Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed with the Commission as part of this Form 10-Q.
	(b) Certification of the Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed with the Commission as part of this Form 10-Q.
EXHIBIT 101	.INS XBRL Instance Document	The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
	.SCH XBRL Taxonomy Extension Schema Document.	Filed with the Commission as part of this Form 10-Q.
	.CAL XBRL Taxonomy Extension Calculation Linkbase Document.	Filed with the Commission as part of this Form 10-Q.
	.DEF XBRL Taxonomy Extension Definition Linkbase Document.	Filed with the Commission as part of this Form 10-Q.
	.LAB XBRL Taxonomy Extension Label Linkbase Document.	Filed with the Commission as part of this Form 10-Q.

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	.PRE XBRL Taxonomy Extension Presentation Linkbase Document.	Filed with the Commission as part of this Form 10-Q.
EXHIBIT 104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)	Filed with the Commission as part of this Form 10-Q

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACUITY BRANDS, INC.

Date: April 2, 2020

By:

/S/ NEIL M. ASHE

NEIL M. ASHE
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Date: April 2, 2020

By:

/S/ KAREN J. HOLCOM

KAREN J. HOLCOM
SENIOR VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER (Principal Financial and
Accounting Officer)

I, Neil M. Ashe, certify that:

1. I have reviewed this report on Form 10-Q of Acuity Brands, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's second fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 2, 2020

/s/ Neil M. Ashe

Neil M. Ashe

President and Chief Executive Officer

[A signed original of this written statement required by Section 302 of the Sarbanes-Oxley Act has been provided to Acuity Brands, Inc., and will be retained by Acuity Brands, Inc., and furnished to the Securities and Exchange Commission or its staff upon request.]

I, Karen J. Holcom, certify that:

1. I have reviewed this report on Form 10-Q of Acuity Brands, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's second fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 2, 2020

/s/ Karen J. Holcom

Karen J. Holcom

Senior Vice President and Chief Financial Officer

[A signed original of this written statement required by Section 302 of the Sarbanes-Oxley Act has been provided to Acuity Brands, Inc., and will be retained by Acuity Brands, Inc., and furnished to the Securities and Exchange Commission or its staff upon request.]

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Quarterly Report on Form 10-Q of Acuity Brands, Inc. (the "Corporation") for the quarter ended February 29, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the President and Chief Executive Officer of the Corporation, certifies that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ Neil M. Ashe

Neil M. Ashe

President and Chief Executive Officer

April 2, 2020

[A signed original of this written statement required by Section 906 has been provided to Acuity Brands, Inc., and will be retained by Acuity Brands, Inc., and furnished to the Securities and Exchange Commission or its staff upon request.]

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Quarterly Report on Form 10-Q of Acuity Brands, Inc. (the "Corporation") for the quarter ended February 29, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Senior Vice President and Chief Financial Officer of the Corporation, certifies that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ Karen J. Holcom

Karen J. Holcom

Senior Vice President and Chief Financial Officer

April 2, 2020

[A signed original of this written statement required by Section 906 has been provided to Acuity Brands, Inc., and will be retained by Acuity Brands, Inc., and furnished to the Securities and Exchange Commission or its staff upon request.]