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OVERVIEW:

Company Summary

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

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

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Christopher Snyder *Morgan Stanley - Analyst*

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

Christopher Glynn *Oppenheimer & Co Inc - Analyst*

Michael Francis *William Blair Capital Partners - Analyst*

Jeffrey Sprague *Vertical Research Partners LLC - Analyst*

PRESENTATION

Operator

Good morning, and welcome to the Acuity fiscal 2026 first quarter earnings call. (Operator Instructions) Please be advised that today's conference is being recorded.

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

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

Thank you, operator. Good morning, and welcome to the Acuity fiscal 2026 first quarter earnings call. On the call with me this morning are Neil Ashe, our Chairman, President and Chief Executive Officer; and Karen Holcom, our Senior Vice President and Chief Financial Officer.

Today's call will include updates on our strategic progress and on our fiscal 2026 first quarter performance. There will be an opportunity for Q&A at the end of this call.

As a reminder, some of our comments today may be forward-looking statements. We intend these forward-looking statements to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as detailed on slide 2 of the accompanying presentation.

Reconciliations of certain non-GAAP financial metrics with their corresponding GAAP measures are available in our 2026 first quarter earnings release and supplemental presentation, both of which are available on our Investor Relations website. at www.investors.acuityinc.com.

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

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

Thank you, Charlotte, and thank you all for joining us today. We delivered strong performance in our first quarter of fiscal 2026. We grew net sales. We expanded our adjusted operating profit and adjusted operating profit margin, and we increased our adjusted diluted earnings per share.

We generated strong cash flow and allocated capital effectively. Acuity Brands Lighting performed well in a tepid lighting market.

This is the result of the cumulative effect of our strategy to increase product vitality, elevate service levels, use technology to improve and differentiate both our products and how we operate the business and to drive productivity. Our product vitality efforts continue to deliver value for our customers and for us.

This quarter, we launched our new EAX Area Luminaire product family by Lithonia, an outdoor luminaire that can be used in any environment, from walkways to large parking spaces.

EAX is available in our Design Select portfolio and has over 60 configurable options, including an option to embed our light controls. This makes it easier for our agents to choose the right option for our customers and ensures flexibility for multiple types of projects.

ABL is winning in new markets through the combination of our luminaires and electronics. Interestingly, our Nightingale brand won several 2025 Nightingale awards by Healthcare Design Magazine because of our patient-centric approach to product design.

Our Nightingale solutions are engineered with the entire patient journey in mind, creating an environment that supports medical teams while ensuring patient and visitor comfort. For example, the Attend sconce attend and the Assure nightlight deliver functional low-level illumination that supports patient sleep while enabling caregivers to perform essential duties.

In the refuel segment, we continue to expand and upgrade our lighting solutions. We initially entered the market with the development of our Canopy lighting products.

In this quarter, we began delivering a comprehensive offering by incorporating AIS products, including our Atrius software and Distech Controls into the refuel solution. By addressing the Canopy Lights outside to refrigeration controls in the back of the convenience store and everything in between, we are creating value throughout the location.

The industry continues to recognize the strength of our products. This quarter, several products in our portfolio were awarded Grand Prix Design Awards and Lit Lighting Design Awards.

Two products recognized by both include the Cyclone Lupa, a contemporary outdoor luminaire that focuses on pedestrian safety and security in public spaces like campuses, parks and city streets. And the Eureka Segment, a slim minimalist linear LED pendant light designed for a variety of indoor commercial and hospitality environments.

Now switching to Acuity Intelligence Spaces, which continues to deliver strong performance. Through Atrius, Distech and QSC, we have unique and disruptive technologies that are driving productivity for people experiencing spaces and for the people who are providing those spaces.

Spaces that range from amusement parks to theaters, university campuses to health care facilities, sports stadiums to your office. Atrius and Distech control the management of the space and QSC manages the experiences in the space.

Over time, we will use data from both to enhance productivity outcomes through data interoperability. Taken together, this is how we can make spaces autonomous. This quarter, we began to change customer outcomes by combining our Distech Resense Move and our Q-SYS platform.

Resense Move is a multisensor device that uses thermal, light, sound, air quality, temperature and humidity sensors with AI at the edge to help users understand how their space is being used. The data collected by the Resense Move drives changes in the room, including the ability to adjust the screens, cameras and microphones from our Q-SYS platform.

Q-SYS Reflect is then able to monitor outcomes and performances of the devices within the room. We are then able to further layer lighting controls and shade controls into the solution for an autonomous room experience.

We demonstrated this solution to a large multinational technology company in our experience center, and they chose to implement it throughout their headquarters. AIS is also being recognized for the strength of their product portfolios.

During the quarter, Atrius Facilities was named a winner in the smart buildings category of the 2025 Facilities Net Vision Awards.

Our Q-SYS full stack AV platform won the National Systems Contractors Association's Excellence in Product Innovation Award in the category of Best Centralized AV Platform for Command and Control. And our Q-SYS Core 24F processor was recognized with the ProAV Best in Market 2025 Award.

Before I turn the call over to Karen, I want to reiterate that both ABL and AIS are performing well in a challenging market. In Acuity Brands Lighting, we continue to experience a tepid lighting market. The market appears to be waiting for clarity around interest rates, inflation and policy.

In Acuity Intelligent Spaces, Atrius, Distech and QSC are working well together, both from a customer perspective and an operational perspective. Our AIS business is strategically differentiated and positioned for value creation.

We continue to control what we can control, and we are confident in the long-term performance of both the Lighting and Spaces businesses. Now I'll turn the call over to Karen, who will update you on our first quarter performance.

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

Thank you, Neil, and good morning, everyone. We had a strong start to fiscal 2026. We grew net sales, improved adjusted operating profit and adjusted operating profit margin and increased our adjusted diluted earnings per share.

For total Acuity, we generated net sales of $1.1 billion, which was $192 million or 20% above the prior year. This was driven by growth in both business segments and includes three months of QSC sales. During the quarter, our adjusted operating profit was $196 million, up $38 million or 24% from last year.

Adjusted operating profit margin during the quarter expanded to 17.2%, an increase of 50 basis points from the prior year. Our adjusted diluted earnings per share was $4.69, which was an increase of $0.72 or 18% over the prior year.

ABL delivered sales of $895 million, an increase of $9 million or 1% versus the prior year, primarily as a result of growth in the independent sales network. As we mentioned last quarter, the independent sales network benefited from an elevated backlog that resulted from orders that were accelerated in advance of price increases in the back half of fiscal 2025.

The higher backlog favorably impacted the fourth quarter of last year and the first quarter of this year. Adjusted operating profit increased $6 million to $160 million. This improvement was driven by our efforts to lower operating expenses.

We delivered adjusted operating profit margin of 17.9%, which was up 60 basis points compared to the prior year. Now moving to Acuity Intelligence Spaces. Sales for the first quarter were $257 million, an increase of $184 million with the inclusion of three months of QSC.

Both Atrius and Distech combined and QSC grew in the mid-teens this quarter. Our AIS business also benefited from an elevated backlog that resulted from orders that were accelerated in advance of price increases in the back half of fiscal 2025.

The higher backlog favorably impacted the fourth quarter of last year and the first quarter of this year. Adjusted operating profit in Intelligent Spaces was $57 million with an adjusted operating profit margin of 22%, which was up 100 basis points compared to the prior year.

Now turning to our cash flow performance. In the first three months of fiscal 2026, we generated $141 million of cash flow from operations, which was $9 million higher than the same period in fiscal 2025, primarily due to higher profitability.

During the quarter, we allocated $28 million to repurchase over 77,000 shares at an average price of around $357. We additionally repaid another $100 million of our term loan during the quarter and have now repaid half of the $600 million of debt used to finance the QSC acquisition.

In summary, we started the year with strong performance. We grew net sales, improved margins and increased adjusted diluted earnings per share. We generated strong cash flow from operations and allocated capital effectively.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Chris Snyder, Morgan Stanley.

Christopher Snyder - *Morgan Stanley - Analyst*

I wanted to ask on gross margin. Typically, every year, I think gross margin peaks in Q3 and then steps down in Q4 and again sequentially into Q1 on the volume declines.

The last couple, those step-downs have been more significant, I guess, on a six month basis than typical, which I assume is the result of tariffs coming in and pressuring that margin rate.

But I guess as we look forward, and it seems like that's now in the base, do you think the business is positioned to kind of deliver typical gross margin seasonality, including the step-up into the back half of the year? Any color on that would be helpful.

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

Chris, I'll start and then Karen, please fill in. So first of all, I think you're really referring to ABL when you talk about that kind of gross margin profile. There is so much noise, I think, in the last, call it, nine months, and that will work its way through the system over the next several.

So I think a couple of things are going on. First of all, obviously, the tariffs, as you mentioned, those have been inconsistent. So I think the headline is they all happen on April 2, but that's not really what's happened.

So there's been a series of different, the 232 tariffs, the steel, those sorts of things that have come in and out at different times. So we have then reacted to that by driving and accelerating productivity efforts, number one; and then number two, taking price strategically in different parts of the portfolio.

That's what you see kind of cascading through the income statement today. As we look forward, and I say this not on a quarter basis, but on a longer-term basis, we're confident in our ability to continue to drive the margins at ABL.

So as we've said, we're targeting, as we've said, we're targeting 50 to 100 basis points of operating profit margin improvement per year. We're kind of right in that range now. It just so happened this quarter that was the, we benefited more from OpEx than we did from gross profit margin.

But we feel really good about where we're going. It doesn't mean that everything is going to go up every quarter, but we feel good about where we are.

Christopher Snyder - *Morgan Stanley - Analyst*

I appreciate that. And then maybe just a follow-up on some of the ABL commentary. I think typically, we would see a pretty material step down in ABL SG&A from Q4 to Q1 as the volumes drop. I know the OpEx there did come down, but it was pretty muted step down Q4 to Q1.

Is that a function of some of these productivity investments you just referenced? Or are there other things that are kind of going on, on the OpEx line within SG&A?

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

Karen, do you want to take that?

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

Yeah. I think, Chris, overall, when we look at OpEx and you see what ABL did in the third quarter of last year, we started to take costs out. So when you look at the fourth quarter and the third quarter, that really is reflective of a lot of those realigning the work and taking some of the costs out of the business.

So that's probably why it was a little bit more muted as we had already taken a good chunk of those costs out.

But overall, we were focused on driving that operating profit margin improvement year-over-year, and they improved by 60 basis points despite the decline in gross profit that we talked about. So we feel really good about their performance this quarter.

Operator

Tim Wojs, Baird.

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

Maybe just my first question, Neil, you talked about some, however you want to call them, cross-sell deployments between ABL and AIS and both the fueling market and in some office markets.

As you're kind of going through those types of sales and those types of RFPs and things, are there any sort of gaps in terms of the product portfolio that you're kind of finding that you need? Or do you feel like the products that you have in both of those spaces is kind of good for what you're trying to do in those verticals?

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

Yeah. Great question, Tim. And let me start philosophically first, which is that it's our view, it's my view that cross-sell opportunities should be driven by customer. So if the customer realizes the benefit that we're providing across an entire solution than that will get pulled through the channel as opposed to us trying to push it.

So that's our philosophy. So as a result, when we start to talk about these things, it will be because customers have pulled them through not because we're aggressively pushing them. So net-net, it might take a little bit longer, but we'll have a much more durable relationship with those customers.

We chose to highlight the two that we highlighted. So first, within AIS, the cross-sell opportunity between the Distech portfolio and the CUSYS portfolio, because it really was the first coming together of the basically inside the space and the management of the space.

So that for the benefit of autonomous room experience. So there are things we can add to that experience for sure, but they're not required to provide the solution that we provided. I think the refuel is even at least as interesting in that, that now spans the entire company.

So obviously, the refuel effort was one that was started in the lighting business. But quickly, you realize that the two most important things for the convenience store to get people into the store and then from a cost management perspective inside the store to manage the refrigeration inside the store.

So Distech can provide that. I am super pleased by how our teams have worked together to provide those solutions. So there are other things in that store, for example, that we don't provide like digital signage, but basically, they're coming together.

Now where we go from here are there are continued opportunities to expand those product lines. So maybe not for those specific examples, but for others that provide us both organic and inorganic opportunities to add to the portfolio of AIS over the next two years or so. And we're pretty enthusiastic about what those opportunities are.

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

Okay. Super. And then I guess just a modeling question. Karen, I guess, in both of the segments, you talked about kind of executing on an elevated backlog over the last two quarters.

I guess is the insinuation that, that is kind of behind you and maybe there's a little bit of slower growth over the next couple of quarters as you kind of, the market, the company kind of grows closer to the market versus the market plus backlog?

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

Yeah, Tim, I think that's right. Historical seasonality is going to be a little bit skewed as we look ahead to Q2 based on those accelerated orders and coming into the first quarter with a little bit of a higher backlog. So as we said in the prepared remarks, both ABL and AIS were favorably impacted from that higher backlog.

And so the first half, I would say, is going to be more representative of normal seasonality, but Q2 could be down a little bit more than normal.

Operator

Christopher Glynn, Oppenheimer.

Christopher Glynn - *Oppenheimer & Co Inc - Analyst*

Just wanted to talk about some of the divergence with ISN and DSN. They kind of diverged a little more than normal in the quarter. I know you called out the backlog strength really impacting the ISN space, but maybe some other factors beyond that, it was pretty wide divergence.

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

Yeah, Chris, I think that's a good call out and thanks for the opportunity to talk about them. When I look at the business, I tend to combine them. So if you look at them on a combined basis, basic exactly where we expect it to be.

Accounts move between the two of them. So that's a little bit of the noise that exists there. But if you take them together, we're kind of exactly where we're expected to be.

Christopher Glynn - *Oppenheimer & Co Inc - Analyst*

Okay. I'll think about that and follow up later. But I appreciate that. And then a lot of talk about the gas station under Canopy the in-store opportunity there today and combining Q-SYS. You also acknowledge some things you don't have like the signage.

And there is a player there that's pretty established with that broad channel strategy. So it was interesting you called out some of the differentiating factors and some of the lack. Where are you in terms of meeting your penetration goals there? Is this a bit of a dog fight? Or are you availing some clear runway?

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

I would say that we're really pleased with our entrance into the market. And taking a step back, this is what I wanted our company to demonstrate to itself first and to everyone else second is that we can identify an organic opportunity that has some size, and we can develop the product portfolio, the go-to-market strategy and the entrepreneurial spirit to go attack a new vertical like that.

So by all metrics, we're succeeding in that effort. So we're not going to be the only player in that market, and that market is a comparatively small part of our company. It's decidedly not our whole company.

But this is a muscle that we want to build so that we can apply it here where we're doing really, really well. And in other areas like health care, where we're doing well, like sport lighting, where we're starting to come in and others as we go along.

So I think the real read here is our ability to attack an area that was not initially in our purview or not historically in our purview and to build both the business model, the product portfolio, the go-to-market that's necessary to be successful there, and that's kind of what's happening.

Operator

Michael Francis, William Blair.

Michael Francis - *William Blair Capital Partners - Analyst*

This is Mike on for Ryan. I wanted to start with just a cleanup. I saw there wasn't the guidance in the PowerPoint. Is there anything that's changed in the outlook?

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

Yeah. And Michael, in the presentation that Charlotte will post after the call, you will see just the same slide with the sales and EPS guidance that we provided in the fourth quarter. So no, nothing changed there.

Michael Francis - *William Blair Capital Partners - Analyst*

Okay. Understood. And then I wanted to talk about gross margins on the AIS side. Would 60% were to be considered a ceiling? Or do you think there's more you can do there?

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

I think we're good, Mike, I think we feel good about 60%. So as we continue to grow, we will focus on two things. One is that the level of margin in that business demonstrates the strategic value of the controls that we provide.

So that's a recognition, I think, of the strategic importance of the business there. As we add products to that portfolio, we may choose to add some additional business models that maybe are slightly lower margin, which will balance it out a little bit. But net-net, we feel really good about kind of where that is.

Michael Francis - *William Blair Capital Partners - Analyst*

Okay. And then I wanted to hear, it seems like end markets haven't changed at all. I wanted to hear if anything has changed in the quoting environment with that backdrop? And any color from the channel would be helpful.

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

Yeah. First, on the lighting side, I would say that as we've said for, what, the last Karen three quarters, it's kind of a tepid lighting environment. We would like the lighting market to be a little bit stronger. All indications we have are that we are at least holding, if not accelerating our position in the market.

So it is where it is. And as I'll point out, I'd like to point out, you can't build a space or touch a space without touching the lighting. So kind of lighting is all spaces at this point, and we are obviously the best performing player in those spaces.

So yeah, would we like the lighting market to be a little bit stronger? We would. And at some point, it will, and we'll benefit from that. On the AIS side, we've got disruptive businesses there that are effectively growing through market environments because of their ability to take share from others.

So there, they continue to perform despite the environment. And that doesn't mean they're going to be up as much as they are this quarter, every quarter, but we feel good about kind of the trajectory that we're on in AIS.

Operator

Jeffrey Sprague, Vertical Research.

Jeffrey Sprague - *Vertical Research Partners LLC - Analyst*

I wanted to get your thought on tariffs. We have the Supreme Court ruling coming up on Friday, who knows what we get. But if tariffs would somehow ruled illegal, do you think you'd have to roll back price as tariffs came back?

How do you think the channel would respond to that? Or is there a possibility to sort of get some spread there if we have a dramatic change in tariff regime?

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

Yeah. Good question, Jeff. So let's take a step back, and I'll tell you what our working kind of hypothesis is and then what I think the practical implications of that are. Our working hypothesis is that things will stay mostly the same.

So however it plays out, I'm not a legal expert, so I can't predict what the ruling will be or how they will rule. But it just feels like if there were a completely adverse ruling that there would be some counterbalance that would keep things roughly the same.

The administration would have an alternative or that would be written in some way that things are mostly the same. But let's go down the path of their ruled they are disabout in some way and then we're there.

The question then becomes, okay, as the practical matter, we sell our product to a distributor. The distributor sells that product to the contractor, the contractor effectively sells that to the owner of the project.

That's not the sales process, but that is the flow of revenue. So if we were to somehow kind of realize a benefit from a tariff like refund, who would we give it to?

So as you push that down the slide, then the distributor, we would have to assume that if we did, the distributor would give it to the contractor and that the contractor would give it to the building owner. I just don't think that seems reasonable.

So now if you look forward, the second half of our expectation is that there would be a new market that everyone was adapting to, and we would need to adapt to that market from that point forward just like everybody else was. And we feel good about the dexterity we've demonstrated and our ability to kind of respond to that versus the rest of the industry.

Jeffrey Sprague - *Vertical Research Partners LLC - Analyst*

Yeah. No, it could be quite interesting if that happens. And then just sort of a quick one back on sort of the backlog normalization. Obviously, not a big backlog business in the grand scheme of things.

But are backlog sort of in a normal spot now relative to what your top line guide is? Are we below normal around this kind of tepid outlook that you're talking about?

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

Yeah. Jeff, now, like you and I have been having this conversation for now five years. And when I said five years ago, I wasn't, what was normal was not normal, and then we've changed through that.

I would say that, the industry and we got accustomed to higher backlog levels through the post-COVID period through kind of tariffs, price increases and whatnot. So we're now at backlog levels, which are more consistent with what they were before all of those things happened.

And therefore, our order rate is more consistent with our quarterly performance. And that's what Karen was indicating.

So there's still some noise from the price markets in the third quarter and the fourth quarter, which affected this, which is why she said we probably will see more seasonality in the second quarter, especially in the lighting business than we have historically. We're comfortable operating in both environments and, but we would like the lighting market to be a little bit stronger.

Operator

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

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

So I think we had a really good first quarter. So both of our businesses continue to perform. ABL is clearly the best-performing lighting business in the world.

We've demonstrated through our growth algorithm that we can separate ourselves from the market, and we feel good about kind of the long-term opportunity there to, a, continue to grow, and b, continue to improve margins.

With AIS at both Atrius Distech and QSC, we have disruptive technologies, which are taking share in their marketplaces. Over the long term, we have great organic and inorganic opportunities there.

So we're excited about those. So thank you for spending time with us this morning, and we'll look forward to talking to you again in another quarter.

Operator

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