

Acuity Brands, Inc.(AYI)

\$89.48 (As of 07/03/20)

Price Target (6-12 Months): **\$94.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 03/18/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: F

Summary

Acuity Brands reported impressive results for third-quarter fiscal 2020, wherein earnings and revenues topped the Zacks Consensus Estimate by 0.4% and 0.2%, respectively. Strength in go-to-market channels, product portfolio and supply chain enabled the company to effectively serve customers. Its gross margin improved a notable 170 basis points (bps) backed by acquisitions, favorable channel mix and lower input costs, partly offset by reduced average selling prices. However, earnings and revenues fell from the prior year due to a 20% decline in volume, thanks to muted demand owing to the COVID-19 pandemic. Adjusted operating profit margin also contracted 80 bps year over year. It expects pricing pressure and costs related to tariffs to continue in the fourth quarter.

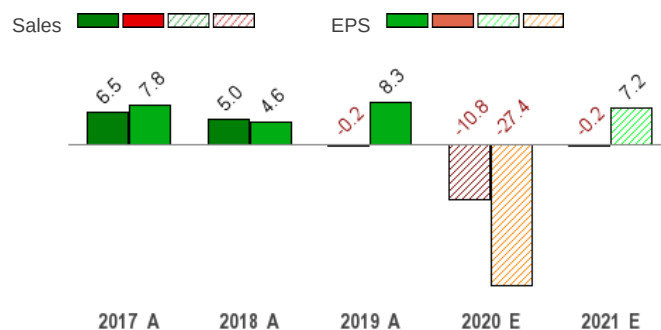
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$143.55 - \$67.46
20 Day Average Volume (sh)	746,430
Market Cap	\$3.5 B
YTD Price Change	-35.2%
Beta	1.39
Dividend / Div Yld	\$0.52 / 0.6%
Industry	Building Products - Lighting
Zacks Industry Rank	Top 9% (22 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	50.4%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	-3.1%
Expected Report Date	NA
Earnings ESP	-3.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	762 E	753 E	828 E	888 E	3,268 E
2020	835 A	824 A	776 A	815 E	3,276 E
2019	933 A	854 A	948 A	938 A	3,673 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.60 E	\$1.57 E	\$1.51 E	\$2.13 E	\$7.45 E
2020	\$2.13 A	\$1.84 A	\$1.94 A	\$1.80 E	\$6.95 E
2019	\$2.32 A	\$1.99 A	\$2.53 A	\$2.75 A	\$9.57 A

*Quarterly figures may not add up to annual.

P/E TTM	10.3
P/E F1	12.9
PEG F1	1.3
P/S TTM	1.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/03/2020. The reports text is as of 07/06/2020.

Overview

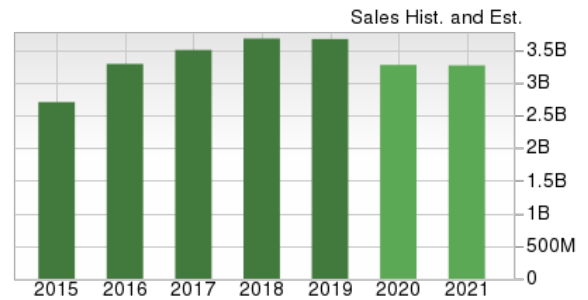
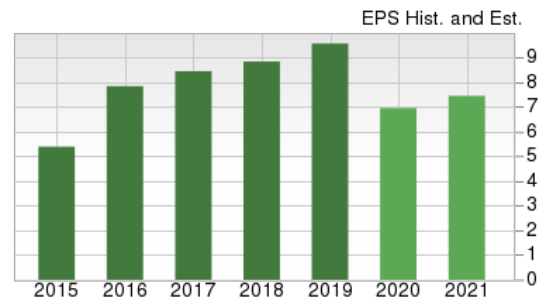
Headquartered in Atlanta, GA, **Acuity Brands, Inc.** is the parent company of Acuity Brands Lighting, Inc. ("ABL") and other subsidiaries. The company manufactures and distributes lighting fixtures and related components that comprise devices such as luminaires, lighting controls, and controllers for 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, it has expanded its solutions portfolio, including software and services, that benefits economy in data analytics that enables the Internet of Things ("IoT"); supports the advancement of smart buildings, cities, and grid; and allows businesses to develop custom applications to scale their operations.

The portfolio of lighting solutions comprises lighting products utilizing fluorescent, light emitting diode (LED), organic LED (OLED), high intensity discharge, metal halide, and incandescent light sources to illuminate a number of applications.

Acuity Brands provides lighting solutions for commercial, institutional, industrial, infrastructure, and residential applications throughout North America and as well as Europe and Asia. The company has one reportable segment serving the North American and select international markets.

The company has a wide variety of brands that include Lithonia Lighting, Holophane, Peerless, Gotham, Mark Architectural Lighting, Winona Lighting, Juno, Indy, Aculux, Healthcare Lighting, Hydrel, American Electric Lighting, Antique Street Lamps, Sunoptics, eldoLED, Distech Controls, nLight, ROAM, Sensor Switch, Power Sentry, IOTA, and Atrius.



Reasons To Buy:

▲ **Innovation Continues to Drive Growth:** Acuity Brands' diversified portfolio of innovative lighting control solutions and energy-efficient luminaires bode well for the company. Apart from an attractive business model, the company is working on smart business strategies to achieve consistent growth in sales and earnings. In response to the rapidly changing market trends, Acuity Brands is continually expanding its portfolio of innovative lighting control solutions and energy-efficient luminaires.

Its leading market position along with diversified portfolio of innovative lighting control solutions and energy-efficient luminaires are the driving factors.

In the fiscal second quarter, the company launched Modulus technology — a proprietary and innovative low voltage distributed power and control system for LED luminaires that enables design flexibility, greater connectivity options and lower installation costs. Notably, its independent sales network channel — which represents nearly 75% of sales — has been performing pretty well over the last few quarters.

In fiscal 2019, Acuity Brands introduced almost 100 new product families to its industry-leading portfolio, in turn gaining market share in product categories and sales channels. Its tier 3 and 4 solutions grew more than 15% in the fiscal first and second quarters. Notably, its Atrius-based IoT luminaires and solutions in the retail segment are becoming the industry standard. The company remains focused on expanding these solutions in other channels.

It is important to note that LEDs are ruling the lighting market in a big way. The LED segment is the fastest growing segment for lighting. The company expects that the lighting and lighting-related industry along with building automation systems have the potential to experience solid growth over the next decade, particularly when energy and environmental concerns come to the forefront along with emerging opportunities for digital lighting to play a key role in the IoT.

▲ **Inorganic Moves:** Acuity Brands is committed to expand its geographic borders and product portfolio through acquisitions and joint ventures. On Nov 25, 2019, the company acquired all equity interests of LocusLabs, Inc. — a leading indoor mapping and location platform whose software supports navigation applications used in mobile devices, web browsers or digital displays in airports, event centers, multi-floor buildings and campuses. With the acquisition, Acuity Brands aims to provide venues with an indoor positioning system.

On Sep 17, 2019, the company acquired Canada-based The Luminaires Group ("TLG") — a leading provider of specification-grade lightening solutions. Again, on Jun 20, 2019, it acquired a New Castle, DE-based manufacturer of advanced optical components, WhiteOptics, L.L.C. The acquisition enhances its optical materials offering that will boost the performance of commercial and architectural products. Notably, acquisitions contributed 2% to sales growth in the fiscal third quarter.

▲ **Cost-Saving Initiatives:** The company has been undertaking certain actions that are expected to offset higher input cost as well as the impact of tariffs. These actions include price increases and reduction in other costs. The company has been increasing prices in order to offset the negative impact of higher material cost, which mainly stemmed from inflationary effects and tariffs by the government on Chinese finished goods and components. Also, it eliminated certain products that were less profitable and exposed to tariffs-related risks.

In first nine months of fiscal 2020, adjusted gross margin increased a significant 250 bps year over year backed by acquisitions, a favorable channel mix and lower input costs. The company believes that efforts to prune product portfolio and reduce channel exposure to less profitable products will offset cost pressures, in turn driving margins.

▲ **Strong Liquidity Position:** Acuity Brands has been maintaining a strong liquidity position to navigate through the current environment due to the COVID-19 pandemic. The company ended the fiscal third quarter with solid liquidity, including \$520.6 million cash and cash equivalents, along with \$396 million of available capacity on the \$400-million revolving credit facility. Its current cash level is sufficient to meet the short-term obligation of \$34 million.

Long-term debt obligations totaled \$432.2 million, slightly down from \$439 million at fiscal second quarter-end. Moreover, the company has no significant debt maturity until June 2023.

Reasons To Sell:

- ▼ **Coronavirus-Led Slowdown:** The company's fiscal third-quarter volume declined 20% year over year due to the coronavirus pandemic, in turn resulting in 18% fall in total net sales. During the fiscal third quarter, net sales through independent network (contributing approximately 75% of total net sales) was down 10% year over year, largely due to low demand due to the COVID-19 outbreak.

Again, net sales through direct network declined 31% from the prior year in the fiscal third-quarter due to weakness in large projects that have been postponed due to COVID-19 woes, as well as the absence of some large projects. Sales in its corporate accounts channel were also down 59% from the year-ago period, as retail customers delayed many retrofit opportunities to limit activity in their stores.

The company's near-term prospects cannot be determined right now as uncertainty surrounding demand and the timing of economic recovery persists. Meanwhile, the company expects pricing pressure and continued costs related to tariffs to continue in fourth-quarter fiscal 2020.

- ▼ **Softness in the Lighting Industry Propels Lower Sales:** Over the last few quarters, Acuity Brands and other industry bellwethers are witnessing weak demand for luminaries in the United States. In the first nine months of fiscal 2020, the company's revenues declined 11% year over year. Consequently, adjusted operating margin contracted 60 bps from the prior year. In addition to the COVID-19 pandemic, unfavorable pricing, absence of some large projects, and its plans to exit and phase out of certain products that have poor financial returns — largely due to the impact of additional tariffs — are hurting the company.

Importantly, management expects these headwinds to prevail in the near term.

- ▼ **Higher Costs, Denting Margins:** Energy efficient lighting products like LED fixtures need extensive research and development and hence involve costs. Higher spending on research and development may dent margins and thereby the bottom line of the company. Again, a shortage of skilled labor may limit production.

Again, higher tariff could dampen its overall results. Moreover, labor shortages in the construction industry, and uncertainty related to infrastructure spending, federal regulatory and trade policies will remain concerns in the upcoming quarters as well.

Moreover, the company is highly committed to acquisitions and joint venture, owing to which it experience higher costs, which thereby pressurizes margins. Adjusted selling, distribution and administrative or SD&A expenses — contributing 28.7% to net sales — grew 250 bps from the year-ago figure. The increase was due to higher acquisition-related costs that include increase in employee expenses and amortization of intangibles, more commissions, increased professional fees, as well as high variable incentive compensations.

- ▼ **Vulnerable to Economic Volatility:** Acuity Brands operates in a highly competitive industry that is affected by volatility owing to a number of general business and economic factors, such as gross domestic product growth, employment levels, credit availability, energy costs, and commodity costs. The company thrives on residential and non-residential construction, covering new, reconstruction and retrofit activity, which is sensitive to volatility induced by economic factors.
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Coronavirus-led slowdown, softness in the lighting industry, uncertainty surrounding infrastructure spending, and federal regulatory and trade policies are headwinds.

Last Earnings Report

Acuity Brands Q3 Earnings Top Estimates, Declines Y/Y

Acuity Brands, Inc. reported impressive results in third-quarter fiscal 2020. Earnings and revenues surpassed the Zacks Consensus Estimate but declined year over year. Strength in go-to-market channels, product portfolio and supply chain allowed the company to effectively serve customers.

Neil Ashe, president and chief executive officer of Acuity Brands, said, "We are demonstrating the durability of our business and our continued ability to generate cash. However, there is still great uncertainty around demand and the timing of any economic recovery. Also, we expect pricing pressure and continued costs related to tariffs in the fourth quarter of fiscal 2020. As we look forward, we plan to continue to balance the management of our costs with the investment in our transformation and we have a robust new product portfolio that is positioned to benefit from a recovery in demand."

Quarter Ending 05/2020

Report Date	Jun 30, 2020
Sales Surprise	0.20%
EPS Surprise	50.39%
Quarterly EPS	1.94
Annual EPS (TTM)	8.66

Delving Deeper

The company reported adjusted earnings of \$1.94 per share that comfortably surpassed the Zacks Consensus Estimate of \$1.29 by 50.4%. However, the said metric declined 23.3% from the year-ago reported figure, primarily due to lower pre-tax income.

Net sales during the quarter totaled \$776.2 million, which marginally topped the consensus mark of \$774.63 million. However, the reported figure declined 18.1% from \$947.6 million in the prior-year quarter. The downside was caused by a 20% decline in volume, mainly due to lower demand owing to the COVID-19 pandemic, partially offset by 2% contribution from acquisitions.

Operating Highlights

Gross margin improved 170 basis points (bps) on a year-over-year basis to 42.2% despite lower volume. The improvement can be attributed to benefits from acquisitions, favorable channel mix and lower input costs, partly offset by reduced average selling prices.

Adjusted selling, distribution and administrative or SD&A expenses — contributing 28.7% to net sales — grew 250 bps from the year-ago figure. The increase was due to higher acquisition-related costs. Adjusted operating profit margin came in at 13.5%, down 80 bps year over year.

Financials

As of May 31, 2020, Acuity Brands had cash and cash equivalents of \$520.6 million compared with \$461 million at the end of fiscal 2019. In the first nine months of fiscal 2020, cash provided by operating activities totaled \$378.3 million, reflecting an increase from \$312 million in the prior-year period.

Valuation

Acuity Brands shares are down 35.2% in the year-to-date period and 31.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 33.2% and 8.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 30% but sector is up 3.4%.

The S&P 500 index is down 2.7% in the year-to-date period but up 5.7% in the past year.

The stock is currently trading at 12.14X forward 12-month earnings, which compares to 13.89X for the Zacks sub-industry, 18.77X for the Zacks sector and 22.38X for the S&P 500 index.

Over the past five years, the stock has traded as high as 36.42X and as low as 8.18X, with a 5-year median of 18.45X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$94 price target reflects 12.75X forward 12-month earnings.

The table below shows summary valuation data for AYI

Valuation Multiples - AYI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.14	13.89	18.77	22.38
	5-Year High	36.42	134.1	18.77	22.38
	5-Year Low	8.18	11.47	10.63	15.15
	5-Year Median	18.45	20.08	15.87	17.42
P/B TTM	Current	1.69	1.6	3.45	4.38
	5-Year High	7.72	5.87	7.15	4.52
	5-Year Low	1.38	1.6	2.17	2.82
	5-Year Median	4.02	3.29	3.45	3.63
P/S F12M	Current	1.09	0.86	1.9	3.48
	5-Year High	3.63	2.03	2.23	3.48
	5-Year Low	0.8	0.75	1.25	2.54
	5-Year Median	1.82	1.2	1.65	3.01

As of 07/02/2020

Industry Analysis Zacks Industry Rank: Top 9% (22 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Amphenol Corporation (APH)	Neutral	3
Cree, Inc. (CREE)	Neutral	3
Eaton Corporation, PLC (ETN)	Neutral	3
Ingersoll Rand Inc. (IR)	Neutral	2
Johnson Controls International plc (JCI)	Neutral	3
Rockwell Automation, Inc. (ROK)	Neutral	3
Stanley BlackDecker, Inc. (SWK)	Neutral	3
TE Connectivity Ltd. (TEL)	Neutral	3

Industry Comparison Industry: Building Products - Lighting				Industry Peers		
	AYI	X Industry	S&P 500	CREE	JCI	SWK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	F	B	D
Market Cap	3.55 B	110.73 M	21.98 B	6.36 B	25.54 B	21.29 B
# of Analysts	5	2	14	7	8	10
Dividend Yield	0.58%	0.00%	1.91%	0.00%	3.03%	2.00%
Value Score	A	-	-	F	B	D
Cash/Price	0.11	0.13	0.07	0.14	0.04	0.05
EV/EBITDA	6.58	6.42	12.74	18.93	16.04	13.35
PEG Ratio	1.35	1.60	2.89	NA	2.23	4.75
Price/Book (P/B)	1.69	2.51	2.98	3.27	1.34	2.85
Price/Cash Flow (P/CF)	7.99	6.42	11.75	15.49	10.77	11.46
P/E (F1)	13.53	35.23	21.41	NA	17.87	25.45
Price/Sales (P/S)	1.05	0.89	2.30	6.70	1.08	1.50
Earnings Yield	7.77%	2.42%	4.42%	-0.61%	5.59%	3.93%
Debt/Equity	0.21	0.18	0.76	0.25	0.30	0.63
Cash Flow (\$/share)	11.20	1.04	6.94	3.80	3.19	12.06
Growth Score	B	-	-	F	D	D
Hist. EPS Growth (3-5 yrs)	10.79%	-14.44%	10.93%	64.46%	-1.07%	8.77%
Proj. EPS Growth (F1/F0)	-27.38%	19.26%	-9.56%	23.88%	-1.97%	-35.38%
Curr. Cash Flow Growth	6.99%	-23.16%	5.51%	2.23%	-26.61%	4.61%
Hist. Cash Flow Growth (3-5 yrs)	15.70%	27.25%	8.62%	3.26%	6.22%	6.22%
Current Ratio	2.40	2.21	1.30	4.89	1.05	1.06
Debt/Capital	17.10%	14.91%	44.46%	20.07%	22.81%	34.23%
Net Margin	8.02%	5.39%	10.62%	-30.11%	21.80%	6.46%
Return on Equity	15.57%	8.44%	15.75%	-3.75%	8.81%	16.40%
Sales/Assets	1.01	1.35	0.55	0.34	0.56	0.66
Proj. Sales Growth (F1/F0)	-10.81%	-2.36%	-2.54%	-1.45%	-10.35%	-14.86%
Momentum Score	F	-	-	D	C	B
Daily Price Chg	-2.80%	0.00%	0.47%	2.26%	1.33%	1.87%
1 Week Price Chg	-6.66%	-7.44%	-3.90%	-4.58%	-2.80%	1.75%
4 Week Price Chg	-10.30%	0.99%	-3.77%	2.49%	-0.20%	-3.06%
12 Week Price Chg	-2.89%	175.35%	8.02%	52.83%	12.22%	15.72%
52 Week Price Chg	-33.80%	59.05%	-7.59%	-0.31%	-17.91%	-6.04%
20 Day Average Volume	746,430	230,907	2,649,865	1,350,060	6,513,078	1,632,256
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.09%	-1.55%	0.00%	0.00%	0.00%	1.93%
(F1) EPS Est 12 week change	-6.06%	-33.03%	-9.53%	-84.52%	-15.63%	-34.52%
(Q1) EPS Est Mthly Chg	-2.94%	-1.47%	0.00%	0.00%	0.00%	2.42%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	F
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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