

Acuity Brands, Inc.(AYI)

\$86.36 (As of 04/17/20)

Price Target (6-12 Months): **\$89.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 03/18/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: C

Summary

Acuity Brands' shares have underperformed the industry in the year-to-date period. The trend is likely to continue, given tepid second-quarter fiscal 2020 results. Its SD&A expenses grew 340 basis points 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. Notably, it suspended its fiscal 2020 guidance owing to lower demand and uncertainties arising from coronavirus outbreak. Also, global trade issues and tariffs added to the woes. Yet, its leading market position, diversified portfolio of innovative lighting control solutions and energy-efficient luminaries are expected overcome the uncertainties.

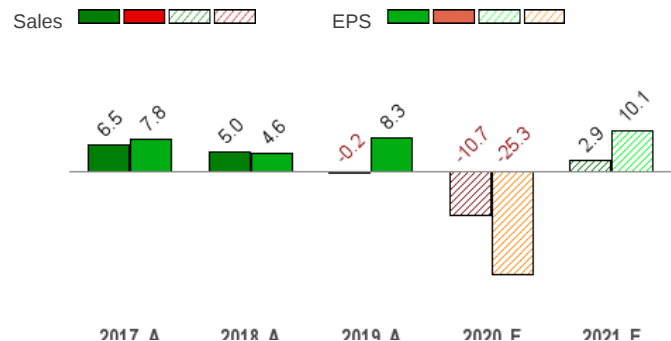
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$147.44 - \$67.46
20 Day Average Volume (sh)	405,161
Market Cap	\$3.4 B
YTD Price Change	-37.4%
Beta	1.58
Dividend / Div Yld	\$0.52 / 0.6%
Industry	Building Products - Lighting
Zacks Industry Rank	Top 34% (86 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.1%
Last Sales Surprise	3.4%
EPS F1 Est- 4 week change	-23.7%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	9.3
P/E F1	12.1
PEG F1	1.2
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	714 E	722 E	813 E	885 E	3,375 E
2020	835 A	824 A	809 E	811 E	3,279 E
2019	933 A	854 A	948 A	938 A	3,673 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.57 E	\$1.51 E	\$2.04 E	\$2.43 E	\$7.87 E
2020	\$2.13 A	\$1.84 A	\$1.45 E	\$1.85 E	\$7.15 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/17/2020. The reports text is as of 04/20/2020.

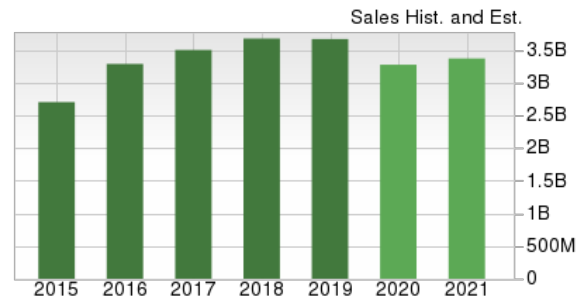
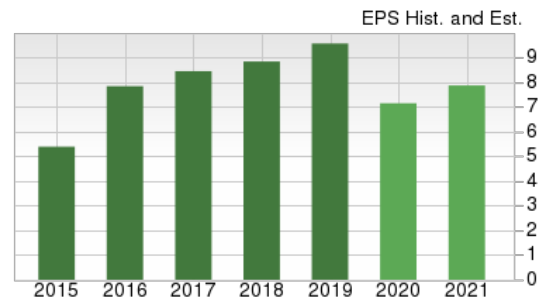
Overview

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.

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, Healthcare Lighting, Hydrel, American Electric Lighting, Carandini, Antique Street Lamps, Sunoptics, RELOC Wiring Solutions, eldoLED and Distech Controls.



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.

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 more than two-thirds of sales — was up more than 4% year over year in the fiscal second quarter.

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 will enhance its optical materials offering to boost the performance of commercial and architectural products in fiscal 2020.

Apart from acquisitions, the company follows a systematic divestiture plan to streamline its portfolio. During the fourth quarter of fiscal 2018, it offloaded the Spanish lighting business, Carandini, considering the challenging lighting market.

▲ **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 fiscal second-quarter 2020, adjusted gross margin increased a significant 250 basis points (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.

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

Reasons To Sell:

- ▼ **Coronavirus-Led Slowdown:** The coronavirus pandemic has caused shutdown of production units, retail stores and infrastructure activities. Although the company can still manage to supply products adequately, general economic slowdown raises a concern.

According to the company, the near-term economic impact of COVID-19 cannot be judged right now due to demand and other uncertainties, and its impact on fiscal 2020 results and beyond are therefore uncertain. The company has currently refrained from providing fiscal 2020 guidance.

Coronavirus-led slowdown, softness in the lighting industry, uncertainty over infrastructure spending and federal regulatory and trade policies are headwinds.

- ▼ **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 second-quarter fiscal 2020, the company reported tepid earnings and revenues. The metrics declined 7.5% and 3.5% year over year, respectively. Notably, volume fell 7% year over year, offsetting the benefits derived from the positive impact of price/mix changes and acquisitions.

Particularly in retail, sales declined due to changes in the home center strategy and corporate accounts as a result of the timing of re-light projects at several large retailers. The company witnessed revenue decline of 16% in direct sales of industry and infrastructure accounts, primarily owing to the absence of large projects.

Demand for private nonresidential construction, specifically lighting, was down in the low single-digit range year over year in the fiscal second quarter. The decline was caused by continued global trade and economic issues, as well as impact from coronavirus.

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 29.4% to net sales — grew 340 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. Adjusted operating margin declined 90 bps year over year.

- ▼ **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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Last Earnings Report

Acuity Brands Q2 Earnings Miss, Revenues Top Estimates

Acuity Brands, Inc. reported second-quarter fiscal 2020 results, wherein earnings missed the Zacks Consensus Estimate but revenues beat the same. Owing to lower demand and uncertainties arising from coronavirus outbreak, it refrained from providing fiscal 2020 guidance. Persistent economic uncertainties stemming from global trade issues and tariffs also remain a cause of concern.

Quarter Ending **02/2020**

Report Date	Apr 02, 2020
Sales Surprise	3.43%
EPS Surprise	-2.13%
Quarterly EPS	1.84
Annual EPS (TTM)	9.25

Delving Deeper

In the quarter under review, adjusted earnings came in at \$1.84 per share that lagged the Zacks Consensus Estimate of \$1.88 by 2.1%. Earnings also declined 7.5% from the year-ago reported figure of \$1.99 per share. The downside was primarily caused by lower pre-tax income.

Net sales during the quarter totaled \$824.2 million, which topped the consensus mark of \$796.9 million by 3.4%. However, the reported figure declined 3.5% from \$854.4 million in the prior-year quarter. The downside was caused by 7% decline in volumes, partially offset by 1% positive impact of price/mix changes and approximately 3% contribution from acquisitions.

Operating Highlights

Adjusted gross margin improved 250 basis points (bps) on a year-over-year basis to 41.7%, despite lower volume. The improvement can be attributed to benefits from acquisitions, favorable channel mix and lower input costs. These were partly offset by the impact of lower net sales and higher cost due to the enacted tariffs.

Adjusted selling, distribution and administrative or SD&A expenses — contributing 29.4% to net sales — grew 340 bps from the year-ago figure. The increase was due to higher acquisition-related costs that include increase in employee costs and amortization of intangibles, more commissions, increased professional fees, as well as high variable incentive compensations.

Adjusted operating profit margin came in at 12.3%, down 90 bps year over year.

Financials

As of Feb 29, 2020, Acuity Brands had cash and cash equivalents of \$381 million compared with \$461 million at the end of fiscal 2019. In the first half of fiscal 2020, cash provided by operating activities totaled \$214.7 million, reflecting an increase of 14% from \$188.3 million in the prior-year period.

Fiscal 2020 Outlook

The company has been aggressively adapting the business to current market dynamics and responding to the COVID-19 pandemic. According to the company, the near-term economic impact of COVID-19 cannot be judged right now due to demand and other uncertainties, and its impact on fiscal 2020 results and beyond are therefore uncertain.

The company highlighted the fact that Acuity Brands continues to witness year-over-year revenue declines in retail. This is due to change in its home center strategy and corporate accounts as a result of the timing of relight projects at several large retailers. It expects these dynamics to continue in the near term.

Valuation

Acuity Brands shares are down 39.2% in the year-to-date period, and 41.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 37.5% and Zacks Construction sector is down 26.5% in the year-to-date period. Over the past year, the Zacks sub-industry is down 39.6% and sector is down 15.8%.

The S&P 500 index is down 10.9% in the year-to-date period and 1.7% in the past year.

The stock is currently trading at 12.33X forward 12-month earnings, which compares to 12.71X for the Zacks sub-industry, 13.53X for the Zacks sector and 19.53X 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 19.25X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$89 price target reflects 12.95X 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	12.33	12.71	13.52	19.53
	5-Year High	36.42	134.1	17.94	19.53
	5-Year Low	8.18	11.03	10.76	15.19
	5-Year Median	19.25	19.96	15.87	17.53
P/B TTM	Current	1.67	1.32	2.24	3.8
	5-Year High	7.72	5.37	6.73	4.55
	5-Year Low	1.38	1.1	1.7	2.84
	5-Year Median	4.19	3.01	3.28	3.64
P/S F12M	Current	1.03	0.78	1.45	3.2
	5-Year High	3.63	2.03	2.12	3.44
	5-Year Low	0.8	0.75	1.17	2.54
	5-Year Median	1.93	1.19	1.59	3.01

As of 04/17/2020

Industry Analysis Zacks Industry Rank: Top 34% (86 out of 253)



Top Peers

Amphenol Corporation (APH)	Neutral
Cree, Inc. (CREE)	Neutral
Eaton Corporation, PLC (ETN)	Neutral
Ingersoll Rand Inc. (IR)	Neutral
Johnson Controls International plc (JCI)	Neutral
Rockwell Automation, Inc. (ROK)	Neutral
Stanley Black & Decker, Inc. (SWK)	Neutral
TE Connectivity Ltd. (TEL)	Neutral

Industry Comparison Industry: Building Products - Lighting				Industry Peers		
	AYI Neutral	X Industry	S&P 500	CREE Neutral	JCI Neutral	SWK Neutral
VGM Score	A	-	-	D	C	B
Market Cap	3.42 B	130.74 M	19.60 B	3.83 B	22.57 B	17.33 B
# of Analysts	5	2.5	14	7	8	10
Dividend Yield	0.60%	0.00%	2.17%	0.00%	3.52%	2.45%
Value Score	A	-	-	D	B	B
Cash/Price	0.10	0.09	0.06	0.23	0.09	0.02
EV/EBITDA	6.37	2.67	11.73	10.59	14.00	10.96
PEG Ratio	1.18	1.56	2.19	NA	1.63	1.95
Price/Book (P/B)	1.67	1.42	2.67	1.92	1.10	2.24
Price/Cash Flow (P/CF)	7.71	4.48	10.55	9.32	9.26	9.33
P/E (F1)	11.79	12.08	18.18	NA	13.83	14.50
Price/Sales (P/S)	0.97	0.68	2.08	3.80	0.94	1.20
Earnings Yield	8.28%	5.15%	5.38%	-1.30%	7.24%	6.90%
Debt/Equity	0.21	0.15	0.70	0.24	0.29	0.42
Cash Flow (\$/share)	11.20	1.04	7.01	3.80	3.19	12.06
Growth Score	C	-	-	F	C	B
Hist. EPS Growth (3-5 yrs)	10.79%	-12.61%	10.92%	35.31%	-0.04%	9.31%
Proj. EPS Growth (F1/F0)	-25.29%	19.67%	-3.36%	-162.74%	8.99%	-7.60%
Curr. Cash Flow Growth	6.99%	-23.16%	5.93%	2.23%	-26.61%	4.61%
Hist. Cash Flow Growth (3-5 yrs)	15.70%	28.84%	8.55%	3.26%	6.22%	6.22%
Current Ratio	2.29	2.04	1.24	5.20	1.17	1.01
Debt/Capital	17.67%	12.72%	42.78%	19.40%	22.47%	25.78%
Net Margin	8.43%	4.71%	11.64%	-44.86%	22.75%	6.62%
Return on Equity	17.18%	8.80%	16.74%	-2.00%	8.43%	16.97%
Sales/Assets	1.09	1.36	0.54	0.36	0.55	0.68
Proj. Sales Growth (F1/F0)	-10.73%	-2.61%	-0.14%	-31.85%	-3.47%	-0.04%
Momentum Score	C	-	-	A	F	D
Daily Price Chg	6.47%	2.55%	4.04%	-0.87%	3.65%	5.46%
1 Week Price Chg	22.71%	21.42%	16.01%	14.39%	20.14%	25.30%
4 Week Price Chg	11.36%	33.58%	18.93%	-6.30%	13.27%	34.34%
12 Week Price Chg	-29.66%	-21.27%	-19.39%	-34.34%	-29.25%	-33.20%
52 Week Price Chg	-39.37%	7.30%	-11.34%	-47.30%	-19.62%	-22.78%
20 Day Average Volume	405,161	196,383	3,220,598	1,462,106	7,767,768	2,093,921
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-4.84%	0.20%
(F1) EPS Est 4 week change	-23.71%	-1.54%	-7.09%	-14.73%	-15.52%	-6.51%
(F1) EPS Est 12 week change	-24.19%	-12.09%	-9.32%	-27.11%	-15.99%	-10.04%
(Q1) EPS Est Mthly Chg	-43.13%	-6.25%	-10.68%	-17.90%	-25.10%	-10.42%

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	C
Momentum Score	C
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.

Disclosures

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