

Acuity Brands, Inc.(AYI)

\$115.70 (As of 02/21/20)

Price Target (6-12 Months): **\$128.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 11/27/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: B

Summary

Acuity Brands' shares have underperformed the industry in the past year. The trend will likely continue in future as it started fiscal 2020 on tepid note, thanks to decline in volume and lower adjusted pretax income. Also, higher acquisition-related operating costs dented margins. U.S.-China trade tensions and tariffs along with pull forward sales and sluggish luminaries' market is concerning its performance going forward. It remains cautiously optimistic for fiscal 2020. Estimates for fiscal 2020 have moved south in the past 60 days, reflecting analysts' concern over the company's earnings growth potential. Nonetheless, it expects to perform well going forward, given the execution of growth strategies, a richer mix of products and solutions, and leveraging its fixed-cost infrastructure to improve overall profitability.

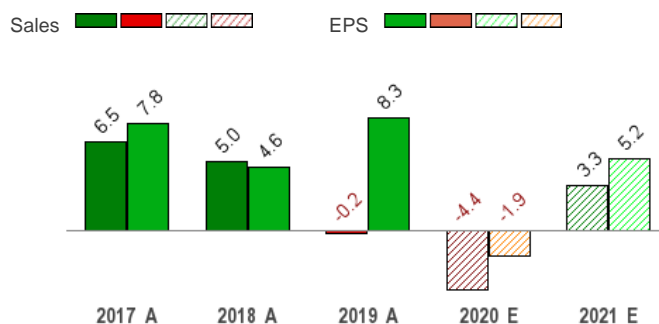
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$147.44 - \$105.95
20 Day Average Volume (sh)	272,079
Market Cap	\$4.6 B
YTD Price Change	-16.2%
Beta	1.64
Dividend / Div Yld	\$0.52 / 0.4%
Industry	Building Products - Lighting
Zacks Industry Rank	Top 44% (111 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.8%
Last Sales Surprise	-4.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/01/2020
Earnings ESP	0.0%
P/E TTM	12.3
P/E F1	12.3
PEG F1	1.2
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	859 E	817 E	910 E	987 E	3,627 E
2020	835 A	803 E	909 E	963 E	3,510 E
2019	933 A	854 A	948 A	938 A	3,673 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.19 E	\$2.04 E	\$2.51 E	\$3.01 E	\$9.88 E
2020	\$2.13 A	\$1.93 E	\$2.46 E	\$2.76 E	\$9.39 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 02/21/2020. The reports text is as of 02/24/2020.

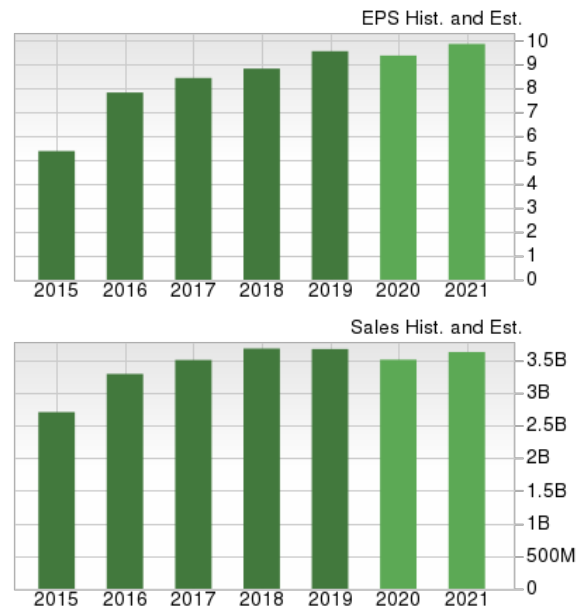
Overview

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.

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

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 quarter. 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. Meanwhile, it projects to introduce more than 100 new products in fiscal 2020 as well.

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 to Boost Bottom Line:** 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 first-quarter 2020, adjusted gross margin increased a significant 330 basis points (bps) year over year, backed by favorable price/mix, lower cost for certain inputs and contribution from the acquisition of TLG.

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.

Reasons To Sell:

▼ **Softness in the Lighting Industry:** Over the last few quarters, Acuity Brands and other industry bellwethers are witnessing weak demand for luminaries in the United States. In first-quarter fiscal 2020, the company reported tepid earnings and revenues. The metrics declined 8.2% and 10.5% year over year, respectively. Notably, volume fell 16% year over year, offsetting all benefits derived from the positive impact of price/mix changes and acquisitions.

Importantly, management does not expect a meaningful rebound in the demand for luminaries in the near term. The company remains cautiously optimistic for fiscal 2020 as economic issues including global trade policies and future tariffs remain unresolved.

In second-quarter fiscal 2020, it traditionally posts lowest sales due to inclement weather during December, January and February months.

Acuity Brands' shares have underperformed its industry in the past year. Estimates for fiscal 2020 have declined 3.7% over the past 60 days, reflecting analysts' concern surrounding the company's earnings growth potential.

▼ **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. During first-quarter fiscal 2020, adjusted gross profit declined 11.8% year over year due to lower net sales and higher costs, thanks to tariffs.

Moreover, the company is highly committed to acquisitions and joint venture, owing to which it experience higher costs, which thereby pressurizes margins. The company's adjusted operating margin suffered in first-quarter fiscal 2020 owing to the above-mentioned headwinds. Adjusted operating margin declined 10 bps. The downside was primarily due to 330-bps expansion of adjusted selling, distribution and administrative or SD&A expenses, fueled by acquisition-related operating costs.

A shift in sales among key customers within the retail channel, under absorption of manufacturing costs due to inventory-reduction initiatives and higher material costs mar its prospects.

▼ **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.

Softness in the lighting industry, higher input costs, lack of skilled labor, uncertainty over both infrastructure spending as well as federal regulatory and trade policies are headwinds

Last Earnings Report

Acuity Brands' Q1 Earnings Miss Estimates, Decline Y/Y

Acuity Brands, Inc. reported lower-than-expected first-quarter fiscal 2020 results. Notably, the company believes that overall market conditions will remain sluggish in the rest of fiscal 2020 due to persistent economic uncertainties stemming from global trade issues and tariffs.

Delving Deeper

In the quarter under review, adjusted earnings came in at \$2.13 per share that lagged the Zacks Consensus Estimate of \$2.17 by 1.8%. Earnings also declined 8.2% from the year-ago quarter's reported figure of \$2.32. The downside was primarily caused by lower adjusted pretax income, partially offset by a lower effective tax rate as well as average shares outstanding.

Net sales during the quarter totaled \$834.7 million, which missed the consensus mark of \$881 million by 4.4%. Also, the reported figure declined 10.5% from \$932.6 million in the prior-year quarter. The downside was caused by 16% fall in volumes, partially offset by 3% positive impact of price/mix changes and approximately 2.5% contribution from acquisitions.

Operating Highlights

Adjusted gross margin improved 330 basis points (bps) to 42.8% on a year-over-year basis, highest in the last 12 quarters, despite lower volume. The upside can be attributed to favorable sales channel mix and productivity improvements.

Adjusted selling, distribution and administrative or SD&A expenses — contributing 28.5% to net sales — grew 330 bps from the year-ago quarter's figure. This was caused by increased acquisition-related operating costs. Adjusted operating profit margin came in at 14.3%, down 10 bps year over year.

Financials

As of Nov 30, 2019, Acuity Brands had cash and cash equivalents of \$266.6 million compared with \$461 million at the end of fiscal 2019. In fiscal first quarter, cash provided by operating activities totaled \$129.6 million compared with \$131.8 million in the prior-year quarter.

Special Charge

During the first quarter of fiscal 2020, the company recorded \$6.9 million pre-tax special charge — consisting severance costs and expenses related to consolidation of certain facilities — compared with \$1-million charges reported in the year-ago quarter. Notably, these actions are expected to better align with the cost structure and current market demand, allowing continued investment in growth initiatives. Management expects to achieve fiscal 2020 pre-tax savings in excess of the special charge, with most of the benefit occurring in the second half of the fiscal year.

Fiscal 2020 Outlook

Acuity Brands continues to expect sluggish market demand for lighting products as economic issues including global trade policies and the potential for future tariffs remain unresolved.

Nonetheless, the company is cautiously optimistic for fiscal 2020 as the recent Dodge Momentum Index has shown a positive indicator for lighting market in the latter half of 2020.

Moreover, the company expects to outperform the growth rates of the core markets through execution of its previously announced growth strategies, increased margins by selling a richer mix of products and solutions as well as leveraging its fixed cost infrastructure to improve overall profitability.

Quarter Ending 11/2019

Report Date	Jan 09, 2020
Sales Surprise	-4.43%
EPS Surprise	-1.84%
Quarterly EPS	2.13
Annual EPS (TTM)	9.40

Valuation

Acuity Brands shares are down 16.1% in the year-to-date period, but down 3.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 13.7% but the Zacks Construction sector is up 3.8% in the year-to-date period. Over the past year, the Zacks sub-industry is down 8.9% but sector is up 25.6%.

The S&P 500 index is up 3.8% in the year-to-date period and 21.1% in the past year.

The stock is currently trading at 12.02X forward 12-month earnings, which compares to 13.51X for the Zacks sub-industry, 16.3X for the Zacks sector and 19.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 36.42X and as low as 11.53X, with a 5-year median of 19.81X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$128 price target reflects 13.3X 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	12.02	13.51	16.3	19.09
	5-Year High	36.42	134.5	18.86	19.34
	5-Year Low	11.53	11.47	10.71	15.18
	5-Year Median	19.81	20.22	16	17.47
P/B TTM	Current	2.31	1.62	3.94	4.83
	5-Year High	7.72	5.37	7.23	4.9
	5-Year Low	2.31	1.62	2.19	2.85
	5-Year Median	4.32	3.1	3.43	3.62
P/S F12M	Current	1.29	0.99	1.97	3.51
	5-Year High	3.63	2.03	2.23	3.51
	5-Year Low	1.07	0.75	1.25	2.54
	5-Year Median	1.99	1.3	1.65	3

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 255)



Top Peers

Amphenol Corporation (APH)	Neutral
Cree, Inc. (CREE)	Neutral
Eaton Corporation, PLC (ETN)	Neutral
Ingersoll-Rand PLC (Ireland) (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	B	-	-	F	B	A
Market Cap	4.58 B	158.84 M	24.03 B	5.12 B	32.43 B	24.03 B
# of Analysts	5	2	13	6	7	10
Dividend Yield	0.45%	0.00%	1.76%	0.00%	2.45%	1.75%
Value Score	B	-	-	D	C	B
Cash/Price	0.06	0.07	0.04	0.18	0.07	0.01
EV/EBITDA	8.63	3.84	14.08	14.68	19.24	14.40
PEG Ratio	1.20	1.91	2.08	NA	1.72	2.00
Price/Book (P/B)	2.31	1.93	3.29	2.57	1.59	2.63
Price/Cash Flow (P/CF)	10.33	6.02	13.42	12.48	13.31	13.17
P/E (F1)	11.97	12.32	19.00	NA	16.65	17.70
Price/Sales (P/S)	1.28	0.84	2.64	5.08	1.35	1.66
Earnings Yield	8.12%	4.81%	5.26%	-0.78%	6.01%	5.65%
Debt/Equity	0.20	0.14	0.70	0.24	0.29	0.35
Cash Flow (\$/share)	11.20	1.04	7.03	3.80	3.19	12.01
Growth Score	C	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	13.02%	-11.49%	10.84%	35.31%	-0.04%	9.31%
Proj. EPS Growth (F1/F0)	-1.90%	165.35%	7.09%	-150.23%	30.10%	6.31%
Curr. Cash Flow Growth	6.99%	-16.04%	6.72%	2.23%	-26.61%	4.76%
Hist. Cash Flow Growth (3-5 yrs)	15.70%	22.27%	8.25%	3.26%	6.22%	6.13%
Current Ratio	2.11	1.97	1.22	5.20	1.17	1.01
Debt/Capital	16.63%	12.20%	42.37%	19.40%	22.47%	25.78%
Net Margin	8.61%	4.71%	11.56%	-44.86%	22.75%	6.62%
Return on Equity	18.07%	9.25%	16.80%	-2.00%	8.43%	16.15%
Sales/Assets	1.14	1.38	0.55	0.36	0.55	0.68
Proj. Sales Growth (F1/F0)	-4.43%	7.58%	3.90%	-30.32%	2.38%	3.42%
Momentum Score	B	-	-	F	C	A
Daily Price Chg	-0.13%	-0.06%	-0.83%	-3.84%	0.50%	-2.44%
1 Week Price Chg	-0.68%	11.70%	1.65%	2.87%	5.40%	2.40%
4 Week Price Chg	-5.77%	15.53%	-0.37%	-12.10%	1.68%	-6.16%
12 Week Price Chg	-13.14%	39.63%	3.74%	5.26%	-1.53%	-0.44%
52 Week Price Chg	-9.74%	-29.53%	14.14%	-8.48%	19.28%	14.95%
20 Day Average Volume	272,079	178,916	1,992,841	1,557,334	4,706,760	1,017,546
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.02%	-9.07%	0.28%	-0.23%
(F1) EPS Est 12 week change	-5.77%	-2.88%	-0.17%	-8.51%	0.51%	-0.56%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.48%	-0.71%	-2.25%	-19.18%

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	B
Growth Score	C
Momentum Score	B
VGM Score	B

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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