

Acuity Brands, Inc.(AYI)

\$137.84 (As of 12/30/19)

Price Target (6-12 Months): **\$145.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/27/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: D

Summary

Acuity Brands' shares have underperformed the industry in the past year. U.S.-China trade tensions and tariffs along with weakness in margins due to pull forward sales and sluggish luminaries' market is concerning the company's performance going forward. Notably, it remains cautiously optimistic for fiscal 2020. Estimates for current year have been trending downward over the past 30 days, reflecting analyst's concern surrounding the company's earnings prospects. Nonetheless, its leading market position, diversified portfolio of innovative lighting control solutions and energy-efficient luminaries are substantial growth drivers. Moreover, it has been undertaking certain actions that are likely to offset above-mentioned headwinds and boost profitability.

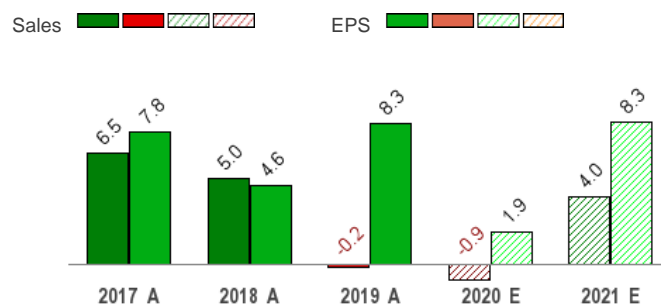
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$147.44 - \$105.95
20 Day Average Volume (sh)	301,589
Market Cap	\$5.5 B
YTD Price Change	19.9%
Beta	1.53
Dividend / Div Yld	\$0.52 / 0.4%
Industry	Building Products - Lighting
Zacks Industry Rank	Top 6% (15 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.1%
Last Sales Surprise	-8.8%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	01/09/2020
Earnings ESP	2.9%
P/E TTM	14.4
P/E F1	14.1
PEG F1	1.4
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	920 E	874 E	943 E	1,023 E	3,786 E
2020	863 E	838 E	940 E	1,000 E	3,641 E
2019	933 A	854 A	948 A	938 A	3,673 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.56 E	\$2.26 E	\$2.65 E	\$3.11 E	\$10.56 E
2020	\$2.22 E	\$2.08 E	\$2.58 E	\$2.95 E	\$9.75 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 12/30/2019. The reports text is as of 12/31/2019.

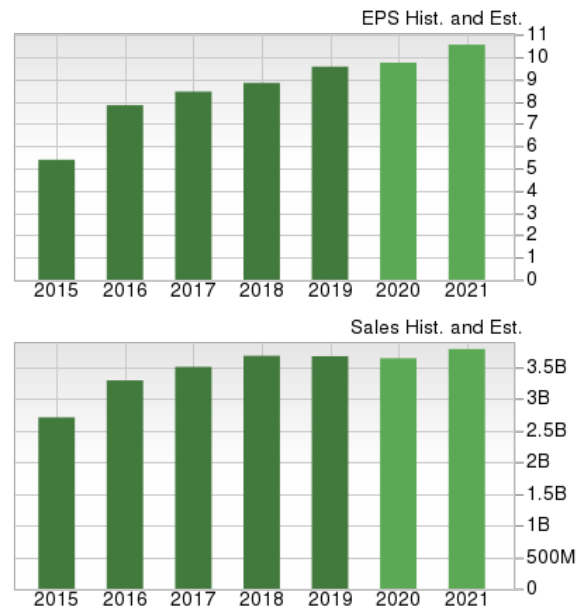
Overview

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 approximately 15%, and contributed nearly 20% to net sales in fiscal 2019. 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. Sales of LED-based luminaires during fiscal 2018 accounted for approximately two-thirds of total net sales. This reflects the significant penetration of LEDs in the lighting market. 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 Sep 17, 2019, the company acquired Canada-based The Luminaires Group ("TLG") — a leading provider of specification-grade lightening solutions. The said buyout will be accretive to its earnings in fiscal 2020.

Again, on Jun 20, 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.

In fiscal 2018, the company spent \$163 million for acquisitions, namely Lucid Design Group and IOTA Engineering. 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.

Notably, in fiscal fourth-quarter 2019, adjusted gross margin increased a significant 320 basis points (bps) year over year, backed by higher price realization, favorable sales channel mix and productivity improvements. Additionally, adjusted selling, distribution and administrative expenses declined 8.5% from the prior-year quarter due to lower freight expense.

The company believes that the positive impact of price increases and other actions will offset the cost pressures going forward, in turn driving margins in a positive direction. The company initiated a review of a small portion of its product portfolio and services offerings, aiming at eliminating items that do not meet its return objectives, in order to boost margins.

Reasons To Sell:

- ▼ **Softness in the Lighting Industry:** Over the past few quarters, the lighting industry is witnessing weak demand for luminaries in the United States.

Management does not expect a meaningful rebound in the demand for luminaries in the near term in many international markets as well as the ones served by the company. The company remains cautiously optimistic for fiscal 2020 due to U.S.-China trade tensions and tariffs.

For fiscal first-quarter 2020, it projects net sales to decline year over year in the mid-to-high single-digit range. The downside is largely owing to the pull forward of orders by customers in advance as a result of announced price increases and its efforts to reduce less profitable products from the portfolio.

Acuity Brands' shares have underperformed its industry in the past year. Estimates for fiscal 2020 have declined 0.1% over the past 30 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. The labor market has tightened with limited availability impairing production growth and impacting margins.

Again, commodity costs, especially steel prices, are increasing owing to the recently enacted tariffs. The company believes that increased tariff could dampen the effect on overall demand due to higher material costs and finished good prices, particularly of those made in China. 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.

The company's adjusted gross and operating margin suffered in fiscal 2019, owing to the above-mentioned headwinds. Adjusted gross margin and operating margin declined nearly 20 bps and 10 bps, respectively, in the said period. The downside was primarily due to a shift in sales among key customers within the retail channel, under absorption of manufacturing costs due to inventory-reduction initiatives and higher materials costs. Higher input cost in electronic and certain oil-based components, along with steel prices are denting its profitability.

- ▼ **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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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' Q4 Earnings & Sales Miss Estimates

Acuity Brands, Inc. reported lower-than-expected results in fourth-quarter fiscal 2019. Notably, the company believes that overall market conditions will remain sluggish in fiscal 2020 due to continuous economic uncertainties caused by global trade issues and import tariffs.

In the quarter under review, adjusted earnings came in at \$2.75 per share, lagging the Zacks Consensus Estimate of \$2.78 by 1.1%. Nonetheless, the said metric grew 2.6% year over year, backed by higher price realization and productivity gains, despite continuing inflationary cost pressures and the impact of tariffs.

Quarter Ending **08/2019**

Report Date	Oct 02, 2019
Sales Surprise	-8.82%
EPS Surprise	-1.08%
Quarterly EPS	2.75
Annual EPS (TTM)	9.59

Delving Deeper

Net sales during the quarter totaled \$938.1 million, missing the consensus mark of \$1,029 million by 8.8%. Also, the reported figure declined 11.6% from \$1,061.2 million in the prior-year quarter, owing to a 16% decrease in volume, partially offset by positive impact of product price/mix changes.

The volume declined mainly resulted from prior year's shift in sales among key customers within the retail channel, elimination of certain products from the portfolio and soft market conditions. The company's sales declined in most of the key channels. In fact, more than half of the sales decline was experienced particularly in the retail channel.

Meanwhile, contribution from acquisitions (net of divestitures), negative impact of foreign currency translation and adoption of ASC 606 contributed less than half of the total sales decline.

Operating Highlights

Adjusted gross profit margin improved 320 basis points (bps) to 42.1% on a year-over-year basis. The upside was mainly attributable to higher price realization, favorable sales channel mix and productivity improvements, partially offset by under-absorption of manufacturing costs due to inventory reduction efforts.

Adjusted selling, distribution and administrative or SD&A expenses — constituting 26.5% of net sales — grew 230 bps from the year-ago quarter. Adjusted operating margin came in at 15.6%, up 90 bps year over year.

Financials

Cash and cash equivalents at the end of fiscal 2019 were \$461 million compared with \$129.1 million a year ago. Net cash provided by operating activities was \$494.7 million in fiscal 2019 compared with \$351.5 million in the comparable prior-year period.

In fiscal 2019, the company repurchased 650,000 shares of common stock for approximately \$81.6 million under the previously authorized stock repurchase program and paid \$20.8 million dividends to its shareholders.

Fiscal 2019 Review

In fiscal 2019, the company generated adjusted earnings of \$9.57 per share, up 8.3% from \$8.84 a year ago. Revenues of \$3.67 billion declined marginally from \$3.68 billion reported in fiscal 2018.

Adjusted gross margin contracted 20 bps during fiscal 2019. Also, adjusted operating margin declined 10 bps.

Fiscal 2020 Outlook

Despite reporting year-over-year improved earnings in the fiscal fourth quarter, the company remains cautiously optimistic for fiscal 2020 due to U.S.-China trade tensions and tariffs. Acuity Brands continues to expect sluggish market demand for lighting products.

For fiscal first-quarter 2020, it projects net sales to decline in the mid-to-high single-digit range compared with fiscal first-quarter 2019. The downside is largely owing to the pull forward of orders by customers in advance as a result of announced price increases and its efforts to reduce less profitable products from the portfolio.

Nonetheless, it anticipates The Luminaires Group — its recent acquisition — to mitigate the above-mentioned headwinds to some extent. Moreover, capital expenditure is expected to be around 1.7% of net sales.

Recent News

Acuity Brands Unveils Versatile & Compact Modulus System - Dec 9, 2019

Acuity Brands, Inc. has launched the Modulus low-voltage distributed power and control system for LED luminaires.

The Modulus system is versatile in nature. It uses a single unit for powering a luminaire run of up to 32 feet compared with conventional technology that uses a unit every eight feet. Also, it has an ability to fit in small luminaire form factors that provide buyers with flexible lighting design. The system utilizes an eldoLED driver, an IOTA power pack for emergency back-up power and nLight firmware. Notably, this innovative technique not only satisfies homeowners with various lighting options but also reduces cost.

Acuity Brands & CIRCADIAN to Commercialize Zirc Technology - Dec 3, 2019

Acuity Brands, Inc. teams up with CIRCADIAN ZircLight, Inc. to enhance the commercialization of the circadian lighting technology.

Over the past five years, CIRCADIAN ZircLight has developed various lighting solutions to address the need for circadian lighting. Through this partnership, CIRCADIAN ZircLight intends to accelerate the commercialization of the Zirc branded technology through Acuity Brands' portfolio of indoor luminaires, across North America.

Acuity Brands Boosts Product Offering With LocusLabs Buyout - Nov 26, 2019

Acuity Brands, Inc. acquired LocusLabs, Inc., a leading indoor mapping and location platform. With the acquisition, Acuity Brands aims to provide venues with an indoor positioning system. However, the financial details of the transaction were kept under wraps. The buyout is not expected to materially impact Acuity Brands' fiscal 2020 performance.

Acuity Brands Unveils Smart Home Automation Juno AI - Nov 20, 2019

Acuity Brands, Inc. has recently unveiled the innovative portfolio of Juno AI intelligent LED Downlights, featuring built-in Alexa and integrated JBL speakers, to enhance smart home automation. The simple and innovative downlights can be easily connected with other smart home devices, which will deliver voice-service through an ecosystem located out of sight.

Valuation

Acuity Brands shares are up 20% in trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 20.8% and 39.3% in the past year.

The S&P 500 index is up 28% in the past year.

The stock is currently trading at 13.76X forward 12-month price to earnings, which compares to 14.8X for the Zacks sub-industry, 15.69X for the Zacks sector and 18.76X for the S&P 500 index.

Over the past five years, the stock has traded as high as 36.43X and as low as 11.53X, with a 5-year median of 20.69X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$145 price target reflects 14.47X forward 12-month earnings.

The table below shows summary valuation data for AY1

Valuation Multiples - AY1					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	13.76	14.8	15.69	18.76
	5-Year High	36.43	134.1	18.83	19.34
	5-Year Low	11.53	11.47	10.63	15.17
	5-Year Median	20.69	20.36	16.1	17.44
P/B TTM	Current	4.69	2.19	3.8	4.42
	5-Year High	7.72	5.37	7.22	4.42
	5-Year Low	2.39	1.82	2.19	2.85
	5-Year Median	4.69	3.3	3.39	3.6
P/S F12M	Current	1.48	1.07	1.88	3.41
	5-Year High	3.63	2.03	2.23	3.41
	5-Year Low	1.75	0.75	1.25	2.54
	5-Year Median	2.09	1.31	1.63	3

As of 12/30/2019

Industry Analysis Zacks Industry Rank: Top 6% (15 out of 253)



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)	Underperform

Industry Comparison Industry: Building Products - Lighting				Industry Peers		
	AYI Neutral	X Industry	S&P 500	CREE Neutral	JCI Neutral	SWK Neutral
VGM Score	A	-	-	F	B	D
Market Cap	5.46 B	105.20 M	23.75 B	5.00 B	31.36 B	25.18 B
# of Analysts	6	2	13	6	7	
Dividend Yield	0.38%	0.00%	1.79%	0.00%	2.56%	1.67%
Value Score	B	-	-	F	B	C
Cash/Price	0.08	0.10	0.04	0.20	0.09	0.01
EV/EBITDA	9.79	4.52	13.92	14.16	18.75	16.35
PEG Ratio	1.42	1.16	2.12	NA	1.66	2.30
Price/Book (P/B)	2.87	1.27	3.32	2.47	1.55	3.35
Price/Cash Flow (P/CF)	12.31	4.97	13.73	12.24	12.75	14.36
P/E (F1)	14.21	14.14	19.56	NA	16.02	19.75
Price/Sales (P/S)	1.49	0.64	2.67	4.24	1.31	1.75
Earnings Yield	7.07%	5.62%	5.10%	-0.54%	6.25%	5.06%
Debt/Equity	0.18	0.18	0.72	0.23	0.32	0.52
Cash Flow (\$/share)	11.20	0.48	6.94	3.80	3.19	11.53
Growth Score	A	-	-	F	C	D
Hist. EPS Growth (3-5 yrs)	15.22%	-4.08%	10.53%	14.99%	1.57%	9.55%
Proj. EPS Growth (F1/F0)	1.86%	131.18%	6.30%	-133.56%	29.44%	2.94%
Curr. Cash Flow Growth	6.99%	-3.49%	14.83%	2.23%	-26.61%	9.16%
Hist. Cash Flow Growth (3-5 yrs)	15.70%	15.70%	9.00%	3.26%	6.22%	7.27%
Current Ratio	2.42	2.03	1.23	5.57	1.37	0.98
Debt/Capital	15.33%	15.59%	42.99%	18.99%	24.36%	32.10%
Net Margin	9.00%	1.49%	11.08%	-34.02%	23.67%	4.80%
Return on Equity	19.50%	9.67%	17.10%	-0.20%	8.04%	17.10%
Sales/Assets	1.19	1.39	0.55	0.41	0.53	0.69
Proj. Sales Growth (F1/F0)	-0.87%	1.14%	2.86%	-28.08%	2.41%	3.78%
Momentum Score	D	-	-	A	C	B
Daily Price Chg	0.09%	0.04%	-0.43%	-0.96%	-1.00%	-0.14%
1 Week Price Chg	0.91%	-0.37%	0.13%	-2.64%	-0.39%	0.16%
4 Week Price Chg	5.49%	6.89%	2.78%	8.27%	-3.83%	8.08%
12 Week Price Chg	15.38%	5.61%	8.67%	-6.05%	-3.76%	19.33%
52 Week Price Chg	19.91%	-2.73%	27.07%	8.61%	37.10%	38.36%
20 Day Average Volume	301,589	98,890	1,731,328	997,648	4,712,671	995,411
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.15%	0.00%	0.00%	2.06%	0.00%	0.00%
(F1) EPS Est 12 week change	-3.95%	7.37%	0.14%	-375.00%	-1.80%	-1.98%
(Q1) EPS Est Mthly Chg	-0.52%	0.00%	0.00%	0.00%	0.00%	0.00%

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	B
Growth Score	A
Momentum Score	D
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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