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AYI.N - Q4 2020 Acuity Brands Inc Earnings Call

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OVERVIEW:

Co. reported 4Q20 net sales of \$891m, reported operating profit of \$106m and diluted EPS of \$1.87.

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PRESENTATION

Operator

Good morning, and welcome to Acuity Brands Fiscal 2020 Fourth Quarter Financial Conference Call. (Operator Instructions) Today's conference is being recorded. If you have any objections, you may disconnect at this time. Now I would like to introduce Mr. Pete Shannin, Vice President, Investor Relations and Corporate Development. Sir, you may begin.

Pete Shannin - *Acuity Brands, Inc. - VP of IR & Corporate Development*

Good morning. With me today to discuss our fiscal 2020 fourth quarter results are Neil Ashe, our President and Chief Executive Officer; Karen Holcom, our Senior Vice President and Chief Financial Officer; and Ricky Reece, our Executive Vice President and President of Acuity Brands Lighting.

We are webcasting today's conference call at acuitybrands.com.

During this call, we will also discuss certain non-GAAP financial measures. Reconciliations to comparable GAAP financial measures can be found in our fourth quarter press release.

I would like to remind everyone that during this call, we may make projections or forward-looking statements regarding future events or future financial performance of the company. Such statements involve risks and uncertainty, such that actual results may differ materially. Further, forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of these statements considering new information or future events. Please refer to our most recent 10-K and 10-Q SEC filings and today's press release, which identify important factors that could cause actual results to differ materially from those contained in our projections or forward-looking statements.

Now let me turn this call over to Neil Ashe.

Neil M. Ashe - *Acuity Brands, Inc. - President, CEO & Director*

Thanks, Pete. Good morning, everyone. Thank you for spending time with us today to talk about Acuity. Our company continued to perform well during the fourth quarter in a market that remained challenging. As I said in the third quarter, the combined strength of our go-to-market channels, product portfolio and supply chain allowed us to effectively serve the needs of customers across many categories. We were able to maintain gross margins in line with prior year and the third quarter and continue to generate a significant amount of cash during the quarter.

Some of the highlights of this quarter included continued strong performance by our supply chain. The health and well-being of our associates remained our top priority, which allowed our supply chain to continue to operate effectively so we could, in turn, service our customers.

Continued new product development. We expanded our product offerings with several new product introductions. We repurchased about 687,000 shares of the company's common stock for \$70 million during the quarter. I will discuss our capital allocation priorities in more detail in a few minutes.

Finally, we continue to make progress on the execution of our digital transformation, and I will also provide more updates later in the call on that.

Most importantly, our performance this quarter has continued to demonstrate the adaptability and durability of our business. While our revenue declined 5%, largely due to the COVID-19 pandemic, we held our gross profit margins and generated \$450 million of free cash flow for the full year.

With that, I'll turn it over to Karen for more detail on the financials. Karen?

Karen J. Holcom - *Acuity Brands, Inc. - Senior VP & CFO*

Thank you, Neil, and good morning, everyone. I will add some further insights to our financial performance for the fourth quarter of 2020. Net sales for the fourth quarter were \$891 million, a decrease of 5% compared with the year ago period. While it is not possible to precisely determine the separate impact of changes in volume, price and mix, we estimate that the decrease in net sales was due primarily to an estimated 4% decrease in volume, largely as a result of the negative impact on demand due to the COVID-19 pandemic as well as an estimated 4% unfavorable impact from the price and mix of products sold. These negative items were partially offset by the benefit from acquisitions of approximately 3%.

From a channel perspective, I would like to highlight a few key items. First, net sales of \$644 million through our independent sales network, which makes up approximately 72% of our total net sales, were about flat with the prior year. Excluding the benefit from acquisitions, sales in this channel declined 4% as compared to the prior year due to the decreased demand due to COVID and unfavorable price/mix. Second, net sales of \$86 million through our direct sales network were down 12% over the prior year fourth quarter, due primarily to weakness in large projects that have been postponed due to COVID. Third, net sales of \$57 million within the retail channel exceeded the prior year by 7% as this channel reflected higher demand primarily for residential-type projects. Lastly, net sales of \$66 million in our corporate accounts channel were down 29% this quarter compared with the year ago period, primarily due to the impact of COVID on retail customers. As we noted last quarter, these customers delayed or possibly canceled retrofit opportunities as they were limiting the activity in their stores. Also, we do expect net sales to be inconsistent based on the nature of the construction cycle of the customers served, primarily big-box retailers.

In the fourth quarter of fiscal 2020 and 2019, we had some adjustments to the GAAP results, which we find useful to add back in order for the results to be comparable. In our earnings release, we provide a detailed reconciliation of non-GAAP measures. Adjusted results exclude amortization expense for acquired intangible assets, share-based payment expense, special charges for streamlining activities and the impact of acquisition-related items. We believe adjusting for these items and providing these non-GAAP measures provide greater comparability and enhanced visibility into our results of operations. We think you will find this transparency very helpful in your analysis of our performance.

Gross profit was \$375 million, down approximately \$20 million from the year ago period. This decrease in gross profit was due primarily to the decline in volume due to the impact of the COVID-19 pandemic and unfavorable price/mix, partially offset by the benefit of acquisitions, lower cost for certain inputs and actions taken to reduce labor costs in response to decreased demand.

Gross profit margin for the fourth quarter was 42.1%, which was flat with the year ago period. Lower cost for certain inputs and contributions from acquisitions were offset by unfavorable price/mix and the decline in volume.

Our SD&A expenses decreased approximately \$3 million compared to the year ago period. The decrease in SD&A expense was primarily due to the reduction of cost in response to the lower sales, partially offset by the addition of costs from acquired businesses. During the fourth quarter, we recognized \$8 million of special charges, primarily related to leased asset impairment costs associated with planned reductions in our real estate footprint as well as severance related to actions we took to streamline the organization and rightsize to the current demand.

Reported operating profit was \$106 million compared with \$130 million in the year ago period, while adjusted operating profit for the fourth quarter of 2020 was \$131 million compared with adjusted operating profit of \$146 million in the year ago period. Reported operating profit margin was 11.9%, a decrease of 200 basis points compared to the prior year. Adjusted operating profit margin was 14.7%, a decrease of 90 basis points compared with the margin in the prior year.

The effective tax rate for the fourth quarter of fiscal 2020 was 24.5% compared with 20.2% in the prior year quarter. The increase in the effective tax rate was due primarily to the recognition in fiscal 2019 of certain research and development cost tax credits, including claims for prior periods that did not recur in the current fiscal year. We currently estimate that our blended effective income tax rate before discrete items will be approximately 23% for fiscal 2021.

Our diluted earnings per share for the fourth quarter of \$1.87 was \$0.55 lower than the prior year. Our adjusted diluted EPS this quarter of \$2.35 was \$0.40 lower than the prior year. The decrease was primarily due to lower pretax income.

We continued to have positive cash flow from operations despite the decline in sales and ended the quarter with a strong balance sheet. We generated \$505 million of net cash provided by operating activities for the year ended August 31, 2020, which was up \$10 million compared to the prior year. At August 31, 2020, we had a cash and cash equivalents balance of \$561 million, an increase of \$100 million since August 31, 2019, even after investing \$303 million in acquisitions and \$90 million returning money to shareholders by repurchasing stock and paying dividends during the fiscal year.

During the fourth quarter of fiscal 2020, we repurchased approximately 687,000 shares for approximately \$70 million or an average price of about \$103.65 per share. We have almost 3.9 million shares remaining under our current share repurchase Board authorization.

Our investment in capital expenditures was \$55 million for fiscal 2020, an increase of almost \$2 million compared with the prior year period. We currently expect to invest approximately 1.5% of net sales in capital expenditures in fiscal 2021.

Our total debt outstanding was \$401 million at August 31, 2020, and we currently have additional borrowing availability of approximately \$396 million under our revolving credit facility. The revolving credit facility and term loan mature in June 2023.

We have demonstrated significant financial strength and flexibility during this challenging economic environment, and we will continue to seek the best use of our strong cash generation to enhance shareholder value.

Thank you, and I will turn it back to Neil.

Neil M. Ashe - Acuity Brands, Inc. - President, CEO & Director

Thanks, Karen. As we embark on our new fiscal year, I'd like to take a minute to reiterate our strategy. We are demonstrating that our core lighting business is a durable performer in all markets, including the current market. We are executing on the transformation of this business. We're in the process of making it better, smarter and faster to transform the service levels to our customers and our new product development cycles.

With Distech and Atrius, we have attractive, strategically impactful technology assets that we believe we can build into a very valuable business over time.

Finally, we are demonstrating consistent cash generation, and we have the opportunity to use that cash to grow our current businesses and invest in new businesses while managing our capital structure as we have begun to do with our share repurchases this quarter.

As Karen described, net sales of \$891 million were 5% below the prior year and 8% below the prior year excluding acquisitions. During the quarter, we made the decision to be aggressive in the marketplace. Thanks to a myriad of actions across the company, we were able to make strategic investments in price while also maintaining our gross profit margins. As the market has changed, our business is flexing to where we see opportunity. This quarter, we grew sales through the retail channel and in infrastructure and industrial markets.

While we were able to grow in those areas, many of the end markets we serve continue to be negatively impacted by the impacts of COVID. There is no better illustration of this than the geographic inconsistency that we saw across the country. Our sales have fluctuated widely depending on the health and economic situation in different regions of the country, with sales up in some territories and down in others.

I would also like to take a minute to acknowledge that while COVID is no longer new, it also has not gone away, and it is no less dangerous to our associates and our operations. We are and need to continue to be just as diligent about our processes to protect the health and well-being of our associates and to ensure the continuity of our operations.

Turning to product development. Our complementary strength in product development, go-to-market and supply chain have allowed us to continue to change the market. We have a broad offering of products positioned to compete in multiple end markets. Our product development activity remains strong in this challenging environment, and we continue to invest in innovative product solutions. We are expanding our support for germicidal UV products by developing a portfolio of products that serve a variety of needs.

We previously announced a partnership with Ushio related to the Care222 technology. And I am pleased to announce we have entered into a strategic agreement with Puro Lighting and Violet Defense related to broad-spectrum UV technology. While the size of the market remains to be determined and our initial expectations are modest, we believe we have the right combination of product development, go-to-market and supply chain that allows us to scale as the market develops. We are uniquely positioned to support customers with our luminaire, controls and building management portfolio.

Our controls portfolio also continued to expand. This quarter, we launched the SensorSwitch Just One Touch, or JOT, wireless control solution, a contractor-friendly room control system, which allows simple wireless dimming and local control. This technology enables pairing of a JOT-enabled devices and luminaires without the need for additional 0- to 10-volt dimming wires, mobile apps or additional software. JOT-enabled products feature a Bluetooth radio, which wirelessly interfaces with other enabled devices to provide switching, dimming, daylight harvesting and presence detection.

Finally, we continue to have strong traction with our Contractor Select portfolio, which, on a comparable basis, was up 11% over the prior year as we were able to respond to discretionary opportunities and support additional home center business.

As I mentioned, we have also continued to make progress on the execution of our digital transformation, which we are calling Better, Smarter, Faster. Simple examples of this include shortening our lead times and allowing all of our ecosystem partners, including contractors, distributors and agencies, to know the status of their orders in real-time. You are already starting to see the impacts of this in higher service levels. We are having great success recruiting talented and engaged technologists to help drive this forward. We are pleased with the progress and excited about the possibilities.

Turning to capital allocation. Our priorities remain to: first, grow our current businesses; second, to grow through M&A; and third, to return cash to shareholders by maintaining our dividend and repurchasing shares. In the last year, we have invested in people and capital related to our digital transformation and product innovation. We completed 2 acquisitions, TLG and LocusLabs, and continue to look for other opportunities to extend our capabilities, particularly in the technology space. We paid dividends of \$20 million, and we repurchased almost 2% of our shares outstanding in the fourth quarter. We are demonstrating both our ability to generate cash as well as our ability to deploy that cash for long-term value creation.

Before I turn the call over to you for questions, I want to say that I am pleased with our performance this quarter and our ability to generate cash in this challenging environment. Looking ahead, there is still great uncertainty around demand and the timing of any economic recovery. Therefore, we expect this new fiscal year will present us with challenges, some continuing and, no doubt, some new. We will continue to manage through this uncertainty, and it is our intention to be aggressive where we believe we need to be, including taking any actions that we deem necessary around price. We believe that we have the financial strength and the resolve to manage the effects of the pandemic and to emerge stronger. Over the long term, we have the opportunity to more broadly adapt the company to expanding opportunities in our core businesses and to develop new ones. We have the market position, the people and the cash flow to become a larger, more dynamic company that delivers for our customers, our associates and our shareholders.

With that, I'll turn it over for questions, and we welcome Ricky Reece, our President, to join Karen and me for the question-and-answer period.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Tim Wojs from Baird.

Timothy Ronald Wojs - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Thanks for all the details. Maybe just -- maybe starting just on the end market, Neil. If you could just give us a little bit of a sense of maybe what you're hearing from agents around backlogs and project activity. And if you could just maybe remind us what's the lag between kind of leading indicators that we see on residential and maybe how that influences your business.

Neil M. Ashe - *Acuity Brands, Inc. - President, CEO & Director*

Sure. I'll start, and then I'll ask Ricky to provide some context as well. I'd say that, first, Tim, the last quarter is probably predictive of the future in that we flexed the business to where there was opportunity. So we saw strength in markets which are growing like residential through home center, the Contractor Select portfolio for discretionary and then around industrial as well and infrastructure. So we feel like the portfolio is pretty broad.

As you dive in specifically to C&I, we do see the project as we look forward, the project portfolio to be mixed. We're not -- I don't think that anyone has visibility in this market to exactly how it's going to play out. And Ricky, maybe you can provide some context to that.

Richard K. Reece - *Acuity Brands, Inc. - Executive VP & President of Acuity Brands Lighting*

Yes, I would. Thank you, Neil. I'd have to first say in the 15 years I've been in the industry, this is probably the highest degree of uncertainty that we -- that I've ever experienced in trying to forecast where this market's going, and that's indicative when you look at The Economist and the range of their forecast, everywhere from very low single-digit down to double-digit down. So we're all trying to determine where it's going.

But specific to the question of what we're hearing from our channel partners, agents, distributors and others is it's uneven. And Neil mentioned earlier, it's very uneven by geography. There are certain areas of the country that we are encouraged, that we are seeing a bit of a V-shaped recovery and things are coming back and projects that may have gotten postponed during the summer are appearing to come back. But there are other areas of the country that are still shut down and aren't seeing a recovery. And then some that may be a W, where it's came up a little bit but may go back down. So it's a bit inconsistent. But we are encouraged that there is a recovery that appears to be going on, but it's going to be very uneven, I think, both geographically and by verticals.

As Neil highlighted, we are seeing some good activity in warehouse and logistic areas, as you might imagine, with all of the online purchasing and so forth that's going on. Some of the infrastructure, we're seeing some good outdoor and good activity in that. That's pretty universal. And then the school season was pretty good. We saw some good activity in schools and think we performed fairly well.

But then on the other side, the hospitality industry, obviously, is extremely slow. Retail, they're not wanting anybody in their stores right now because of COVID and so forth. And so that's slowing down in some of those areas. And then heavy industrial has been pretty soft for us.

So I agree with Neil. I think this quarter is likely to continue kind of in this range for a period of time. But I think we're well positioned. We have some of the strongest access to market of anyone in the industry. Our agents, our strategic distributors are open and doing extremely well, and we're benefiting from that strength as well as our product portfolio.

Timothy Ronald Wojs - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay, okay. That's all really helpful. I appreciate all the color there. And then I guess, just for my second question, there's been a lot of moving pieces in COGS and SG&A the past couple of years. As you look forward, I mean, do you think it's kind of a reasonable assumption or base-case framework that you can keep gross margins flat on -- we're on this kind of 42%, 41%-type level? Or is there something else we should maybe think about there?

Neil M. Ashe - *Acuity Brands, Inc. - President, CEO & Director*

Yes. Tim, as we said last quarter, it was our intention to manage to this level. And so we were able to invest strategically in price, as I mentioned, because of a lot of activities across the country to manage those.

It's our desire to continue to manage into that range, as you described, kind of the 41%, 42% range. That may vary on a quarter here and there as we take specific actions, but that's our target.

Operator

Our next question comes from the line of Ryan Merkel from William Blair.

Ryan James Merkel - *William Blair & Company L.L.C., Research Division - Research Analyst*

So first off, Neil, it sounds like the plan is to continue to invest in price. Can you just talk about why this is the right strategy today? And I'm wondering if there might be some competitive response from the channel?

Neil M. Ashe - *Acuity Brands, Inc. - President, CEO & Director*

Yes. I mean, look, big picture, let's -- I mean, just kind of state the obvious, which is that the end markets are under significant economic pressure, and there's still a bunch of supply in the marketplace. So we're managing our share gains with our gross margin to ensure that we take our -- at least our share, if not a disproportionate share of what those markets are.

So we also mentioned that we were strategic about our investments in price. So we're -- this is not a blanket activity we're taking. We're being strategic about areas where we want to balance out supply and demand and make sure that we are investing in long-term relationships and opportunities with our end-user markets.

So I'm pleased that we were able to do that and maintain the gross margin. To Tim's question, that's kind of the plan going forward. There were definitely activities by other players in the market, both the majors and smaller players. And you can see the impact of the -- you can see the -- how that netted out in our performance in the quarter.

Ryan James Merkel - *William Blair & Company L.L.C., Research Division - Research Analyst*

Okay. Yes. That's helpful. And then secondly, have bigger jobs that were on hold been broadly released? Or is it just sector-specific? I'm just trying to gauge if confidence is rising among commercial property owners.

Neil M. Ashe - *Acuity Brands, Inc. - President, CEO & Director*

Ricky, you want to take that one?

Richard K. Reece - *Acuity Brands, Inc. - Executive VP & President of Acuity Brands Lighting*

Sure. I would say, Ryan, it's interesting. The larger jobs, call them, hundreds of thousands of dollars up into the millions, have gone forward. Some obviously were postponed when you couldn't get the contractors on the job site and so forth. But the very large jobs are going forward, and we're seeing them come back. As you might imagine, a lot was invested in those, and they were at various levels of construction. And lighting is one of the last to come in.

Where we have seen the postponement continue is in the smaller jobs. That area hasn't come back as strong as the larger jobs. We're not hearing the jobs are canceled, although there certainly could be some that ultimately get canceled, but it appears to still be postponed as we talk to our agents and distributors, their backlog. And therefore, the whole backlog in the smaller projects is good. Again, it's uneven around the country but is good.

So we have seen a continuation in coming back on the postponement on larger, but not as much so on the small or medium-sized jobs.

Operator

Our next question comes from Christopher Glynn from Oppenheimer.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

I was curious around the strategic price initiatives, the extent in those areas you had kind of a strong volume correlation and resiliency around share pickup in those specific areas.

Neil M. Ashe - *Acuity Brands, Inc. - President, CEO & Director*

Yes. Chris, in the -- I would say that whenever you make strategic investments in price, it's -- you try and be, as I said, as strategic as you possibly can and to correlate those to share gains. I'd just highlight a couple of things. Obviously, you saw the performance in Contractor Select on a comparable basis. It was up 11%. We also introduced some new products. So the absolute number was even higher than that. And obviously, that's an area where we are intentionally aggressive to meet the marketplace. And you can see the benefits of that happening.

Beyond that, we're, as we said, strategic. So it's -- the investment was around specific product portfolios and around specific end uses and customers to try and balance out the supply and demand and make sure, as I said, we hopefully can get at least our share, if not a disproportionate share, of the new activity.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Okay. And for my follow-up, considering the cash balance and the net cash position, the share repurchase activity was arguably modest, given where the shares were, but maybe have -- still looking at a great acquisition pipeline, just curious about kind of those short-term trade-offs and capital allocation independent of your long-term kind of permanent prioritization, just given the immediate cash balance.

Neil M. Ashe - *Acuity Brands, Inc. - President, CEO & Director*

Yes. No, it's a great question, and it's exactly the way the conversations that we've been having about the balance sheet. Obviously, we want to reiterate the priorities that we're going to -- our primary objective is to grow both our current businesses and through the addition of new ones. And beyond that, we will manage the capital structure for value creation. We were pleased with the amount we were able to repurchase. We ran into, in the fourth quarter, some volume restrictions on our abilities, and so we'll continue to kind of look at it through that lens, which is, first, to focus on growing our businesses, making -- and grow through acquisition, making sure that we have the necessary capacity to do the things we want to do. And we'll be responsible with the rest of the cash that we generate.

Christopher D. Glynn - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

And actionability of pipeline as it stands?

Neil M. Ashe - *Acuity Brands, Inc. - President, CEO & Director*

We -- I would say that's intermediate term at this point. So we're focused on the current business right now and improving the current business both through the digital transformation as well as the work we're doing around Atrius and Distech, and then we'll roll in through the acquisition process in the intermediate term.

Operator

Our next question comes from Deepa Raghavan from Wells Fargo Securities.

Deepa Bhargavi Narasimhapuram Raghavan - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Good quarter. Neil, you mentioned the current construction indicators are weak. We get that. Your revenue mix is 50-50, new construction and renovation. Just given your comments, it definitely appears you're assuming new construction will be down in 2021. But how are you thinking about the remodeling portion of revenues helping? Can that be materially up? And if you can provide us any lessons from past recoveries, that will be helpful, too. And I have a follow-up.

Neil M. Ashe - *Acuity Brands, Inc. - President, CEO & Director*

Okay. Well, thanks, Deepa. I'll start. Ricky, just dive in kind of on the historical perspective there first. I would say, taking a step back, and obviously, I still am relatively new to this business, so I -- our company and these cycles, so I've been doing a lot of research myself as well. And I would say that there's a consistent theme, which is, for us, change is good.

So some folks said, "Hey, are you worried about the fact that there won't be a new office tower in fill-in-the-blank place?" And the reality is those office towers are already built. So we don't have a lot of opportunity there. But as everyone rethinks where they're going to, how and where they're going to house their folks and how they're going to do business, ourselves included, you realize there's going to need to be a lot of change. And that change should be good for us.

The question is when. And Ricky, that's -- obviously, we can participate pretty aggressively. You highlighted the size of jobs in the last answer, but maybe you could pick up on kind of what we've seen in the past and how you think that might play out here.

Richard K. Reece - *Acuity Brands, Inc. - Executive VP & President of Acuity Brands Lighting*

Yes. Deepa, you're right. Now we are much more participating in the renovation side than we have going back 5 or 6 years ago with it probably a bit more than half of our business here in the last year or 2 because of the great opportunity for energy savings and quality of light that the new technologies are bringing. So we do see that as an opportunity to help offset the slowness that we may see in new construction.

And to echo a bit of what Neil is saying, I believe in this post-COVID era, we are going to see real opportunity for renovations, whether it's in office space, whether it's how we shop, whether it's how restaurants and hospitality need to arrange and manage their buildings. We've got the terminal side or UV opportunity that may be out there. So there's clearly opportunity in the traditional renovation we've had, but I think evolving into a broader renovation than just energy savings. How can we make the space safer? How can we address the opportunities, the controls and so forth bring in?

So it is a bit of an opportunity around what may be a soft new construction market. But I wouldn't want to be so negative on the new construction. There are aspects of new construction that we are seeing some good activity. I talked about what we're seeing in the warehouse and logistics space, some just major opportunities that we're seeing in that area. And I think we're going to continue to see opportunities in infrastructure. And then resi, our participation in resi through the home center channel and the C&I channel is an opportunity for us. That area has been pretty strong, certainly, the do-it-yourselfers, people that are at home and trying to fill their time while they're sheltering in place is -- has been a big opportunity for us and other home do-it-yourself-type projects. And we see opportunity there for us to expand our participation in that resi area on renovation as well as new construction. You're seeing home starts holding up pretty well as well as selling of existing homes that also present opportunity for renovation. So you point a good one. I do think there are opportunities out there even in a soft new construction area, but there are headwinds for certain. But we like where we're positioned with our broad portfolio, not only in luminaires, but in controls, to be able to seize on these opportunities.

Neil M. Ashe - *Acuity Brands, Inc. - President, CEO & Director*

And after spending countless hours with you on Teams calls, Ricky, I can attest to your contribution to the renovation of multiple spaces over the last couple of months. Deepa, you had a second question?

Deepa Bhargavi Narasimhapuram Raghavan - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Yes, I did. That was helpful, Ricky and Neil. So Karen, how much of the pricing, the negative 4% year-on-year or price/mix negative 4% year-on-year is a function of stiff comps? I mean, last August, I think you had price/mix up 5%, one of the highest in your history. And how much of that versus how much of that pricing is from a fundamental deterioration?

I think where I'm going with this is, if you can talk about sequential pricing trends, I think that will be better for us to understand that negative 4% year-on-year print.

Karen J. Holcom - *Acuity Brands, Inc. - Senior VP & CFO*

Yes, yes. Thank you, Deepa. And I think you're spot on. If you look back of where we were with pricing in the first quarter, in the first quarter, we had a 3% favorable price and mix impact, and it really started in the prior year. If you recall last year's fourth quarter, we had announced a price increase. So in the first quarter, we had a 3% impact of favorable price/mix. In the second quarter, we had about a 1% favorable impact of price/mix. And then in the third quarter, it was about flat. So you're correct. It really just is -- over the full year, it's about a flat impact of price, but it did come down sequentially quarter -- each quarter during this fiscal year.

Operator

Our next question comes from Jeff Osborne from Cowen & Company.

Jeffrey David Osborne - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Most of the questions have been asked. But I just wanted to get your perspective on the UV audience. Can you just touch on when they'll be available? I think you mentioned 2 new partnerships. And then how we should think about the addressable market and margin impact as you start selling this?

Neil M. Ashe - *Acuity Brands, Inc. - President, CEO & Director*

Sure. I'll start. And Ricky, dive in if I leave anything out. So as -- we've taken, Jeff, the view that this is a longer-term opportunity as opposed to a short-burst opportunity. I think the initial thought in the marketplace was race into the marketplace with any solution you can in order to try and address an immediate need. We are -- we've taken a slightly different approach, which is that we want to cover what we think are the most impactful technologies, and we want to then provide the opportunity for those to become part of our product families going forward so that as enterprises start to make this a strategic decision about how they want to invest in mitigation for asymmetric risks like the ones that we have come in contact with, how will they start to do that?

We don't think that these will lead to broad relighting projects. So this wouldn't be like the LED revolution, but we do think that it is a very effective strategic investment for the mitigation of these asymmetric risks. So high-volume areas -- things like high-volume areas, ways to incorporate them effectively into your existing relight projects, ways to add them to existing spaces through others.

So in the combination of our Care222 technology, which is -- which when it finishes all of its certification is expected to be safe for constant use while people are in a specific space, paired with the broad-spectrum xenon pulsed technology that we announced today, we provide different alternatives for different uses that can be in the marketplace.

As I mentioned, we don't expect a huge bump in the next quarter or 2. We expect to be in the market with these in the beginning -- in the first half of -- in a meaningful way in the first half of next calendar year. And then hopefully, we will grow that business and make it a permanent part of our portfolio, an impactful part of our portfolio going forward.

Operator

Our next question comes from Brian Lee from Goldman Sachs.

Brian K. Lee - *Goldman Sachs Group, Inc., Research Division - VP & Senior Clean Energy Analyst*

Maybe just first question on the sort of volume outlook and market outlook here. You guys have done quite well over the past couple of quarters kind of navigating this unprecedented pandemic. Are you comfortable sort of given the progression that heading into fiscal '21, you can get back to sort of parity on a year-on-year growth rate basis? I mean, you're down 5% here this quarter year-on-year. Heading into fiscal '21, should we anticipate that in the near term, you can get back to parity? I'm just trying to square that up with some of the comments around the ongoing weakness in non-resi and you guys kind of sounding a bit more cautious there, even though the actual results seem to suggest you're picking up a good deal of momentum.

Neil M. Ashe - *Acuity Brands, Inc. - President, CEO & Director*

Yes, Brian, I mean, obviously, we don't give guidance. And as Ricky indicated, this is as choppy an outlook from an economic perspective, a market demand perspective, as he's seen in his 15 years. And so the way we're managing through this is to position ourselves to perform however the market shakes out. So we've demonstrated over the last, I believe, since the pandemic started over the last 2 quarters that we will be very dexterous in how we respond to the market conditions so that we can, as I said earlier, hopefully, take a disproportionate share or more disproportionate than our current share. And you've seen the evidence of that in the current market and the current performance.

As you look forward, people are all over the map on when there will be a recovery from a calendar perspective. And Ricky indicated that, from a geographic perspective, it's also very -- it also varies pretty widely.

So you take all that together and you say that we're positioned to -- we're positioned for the market staying like it is, the market going down further and the market rebounding. We have a strong new product portfolio that is available to take share when that happens.

The last piece, I would say, just from a technical perspective, is we will be lapping the impact of the TLG acquisition starting -- it closed, Karen, September of last year. So you'll start to see whereas in the fourth quarter, that was an -- it's been about a 3% contributor. So that's the major difference we would see in trend going forward.

But look, we're trying to -- like everyone else, we're trying to guess what the market is going to do, but we've positioned ourselves to execute not on that guess but to be successful wherever it does go. And that's what we're holding ourselves accountable to.

Brian K. Lee - *Goldman Sachs Group, Inc., Research Division - VP & Senior Clean Energy Analyst*

Okay. Fair enough. Appreciate that. And then sort of maybe just 2 follow-up questions, more related to the model. Maybe these are for Karen.

On the first one, price/mix, down 4%. You guys kind of telegraphed that last quarter or so. I suppose not too surprising, but you're also talking about being strategic on pricing going forward. And I don't know if that's a tone shift or that's something different in terms of how you're thinking strategically about price. But does that infer we should expect sort of price/mix to continue to be a bit of a negative headwind for the upcoming quarters here as we think about modeling? That would be the first question.

And then second question is on SD&A. You guys were down about 5% on sales. SD&A was down a couple of million bucks if we exclude the special charges year-on-year. So can you give us a sense of kind of how much fixed cost is embedded in the SD&A? And is there anything year-on-year? Maybe it's variable comp that is reverting higher and keeping the SD&A line a little bit more flattish, whereas revenue is not quite back up there?

Karen J. Holcom - *Acuity Brands, Inc. - Senior VP & CFO*

Yes. Thank you, Brian. On the price/mix question that you had for the model, I think, given the comments that we've had around the strategic price investments that we made and will continue to make, given this difficult market environment that probably you could see some of the similar trends in the first quarter when you look year-over-year, given that in the first quarter of last year we were favorable price/mix 3%. So I would -- I think that that's a reasonable assumption.

When you look at the SD&A, about 12% to 13% of that is fixed -- excuse me, is variable with freight and commissions included in that number. And then don't forget, year-over-year, you're also having a bit of the acquisition impact that will minimize when we go into the first quarter of the year.

Operator

Our next question comes from the line of John Walsh from Crédit Suisse.

John Fred Walsh - *Crédit Suisse AG, Research Division - Director*

Congrats on solid execution around the gross profit line. Wanted to come back to a couple of questions that were already asked. I was listening to your response to Chris' question around the balance sheet. And I'm just kind of curious, what did you see this quarter that gave you confidence to actually turn back on the share repurchase? It sounded like you actually even wanted to do a little bit more and just because your net cash, why wouldn't we think that you would kind of just keep buying back at steady bites here, given how much is left on your authorization?

Neil M. Ashe - *Acuity Brands, Inc. - President, CEO & Director*

Yes. So well, let's go back in time, and we'll kind of reset the time line, the tick-tock for you, John, which is that the -- I'm new. We have a pandemic. No one knows where the market is going to -- the end market is going to go. We positioned ourselves for what I think everyone believed would be -- could be a dramatic shift. We outperformed from a revenue perspective expectations in the second quarter, ours and the market's, and we executed very well on the ability to turn that into cash. And so we were husbanding cash into -- on our way into the pandemic with the expectation that we might have challenges with our end users and the customer base, and we wanted to make sure we were in a good position.

And as we've started to normalize around the current performance, we realized we didn't need to husband that cash for those reasons, and so we restarted that -- we restarted the share repurchase process.

So can you expect us to be -- how programmatic can you expect this to be? It will vary depending on a number of factors, both on our current performance as well as our expected needs of future capital and our access going forward. So we were pleased, as you picked up. And I said in the earlier answer, we were a bit constrained by volume in the fourth quarter. So we'll see where we can go from here.

John Fred Walsh - *Crédit Suisse AG, Research Division - Director*

Got you. And then just going back to this kind of healthy and safe buildings, trying to figure out the market size, I mean, I guess, as you look at the HVAC players, I mean, there's a wide range on what it could ultimately be, but most people are talking about an opportunity in the billions. And I guess, if that's the case, why not get more aggressive around a UVC or a far-UVC kind of portfolio? I understand you're -- it's still relatively new, and you don't have the product launched. But why not make a bigger investment than kind of the partnership strategy you've been executing on thus far?

Neil M. Ashe - *Acuity Brands, Inc. - President, CEO & Director*

Well, I want to highlight kind of where you started to go with this, John, which is that the ultimate solution for healthy buildings is going to be some combination of technologies and all of which require some control. And so both in our building management, so with our Distech assets, with our controls portfolio, all of those which are going to be necessary for whatever decision that any enterprise or any building takes to -- for -- to create a healthy environment.

So with these investments that we've made in the partnership with Ushio and the broad spectrum, we believe we have the -- we have made all the investments we need to in the IP and the technologies. And now we're stitching those together with controls, which we believe are a differentiator for us, and then we'll scale those into the marketplace.

And so I don't want to tamp down the enthusiasm for this other than to say that we're meeting customers where they are right now. And so all -- everyone is trying to establish what exactly the impact that this is going to be. And I believe that our products and the controls portfolio is well positioned to meet that need.

The -- it's -- frankly, I just don't think there's a lot of -- there's not yet a lot in it for us to try and describe the market as bigger than we currently see it right now, but we are definitely positioned to take a disproportionate share of what's out there.

Operator

Our final question comes from the line of Chris Snyder from UBS.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

So I understand there is significant uncertainty in the current market and you guys don't give guidance, but could you just talk about the typical time line between when a nonresidential project starts in lighting sales? I'm just trying to bridge the gap between what we're seeing on the construction start side where the declines are quite significant since COVID hit and when this really starts to flow through into lighting demand.

Richard K. Reece - *Acuity Brands, Inc. - Executive VP & President of Acuity Brands Lighting*

Yes. Chris, this is Ricky. I would say it depends on the size of the project to some extent. But when you look at when a construction project starts, lighting is one of the last to come in. So if it's a smaller project, say under \$50,000, it could be 3, 4 months from when it starts to when we would be receiving the order and delivering the lights for that project. If you get up into the \$0.5 million and larger-type projects, you're typically looking at 9 months to 2 years before that they would be purchasing lighting for a project like that. So it varies.

We certainly look at that lag factor and trace that, but that's the general range of the lag between when a project starts and when we would typically see an order for the lighting.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

That's very, very helpful. And then for my follow-up, just on price/mix. It was down 4% during the quarter. Can you just maybe break out the price/mix components there? And maybe are there any reasons to think this changes meaningfully in either direction over the next couple of quarters?

Neil M. Ashe - *Acuity Brands, Inc. - President, CEO & Director*

I'll just summarize that, so -- and tie back to the things we've already said before. So first, we took price in the fourth quarter of last year and the first quarter of this year. So the price/mix was positive in the fourth quarter of last year, a positive in the first quarter of fiscal '20. And so for the full year, we're about flat on the impact of price.

Second, we mentioned that we were strategic about where we were investing in price to balance our -- to balance the supply and demand and to ensure that we were taking share. You saw success in areas where we invested in things like Contractor Select portfolio.

So as we look forward then, I would expect -- and obviously, this is a cyclical business. That's what we've been talking about for the last hour. That there is a consistent amount of supply and an inconsistent amount of demand. So we want to take a disproportionate share of the demand that does exist out there. And so we will be targeted in our investments in price to try and maintain that, all the while also maintaining our gross profit margin.

So as you see where we've been in the fiscal third quarter, fiscal fourth quarter and in our conversation with Tim at the beginning of the call, we believe that we can manage in that mix, and we will be as aggressive as we feel like we need to be to try and drive our positioning in the market.

Richard K. Reece - *Acuity Brands, Inc. - Executive VP & President of Acuity Brands Lighting*

And Chris, just to come back to your first question. To be clear and I think it's clear, when you were asking about the lag, it's -- I was describing new construction, when it's a new project, a building coming out of the ground. If it's a renovation project, a relight project, then we may get an order and need to ship it within 24, 48 hours. Obviously, much quicker for those types of projects and maintenance-type projects. But the lags I was describing is around new construction, which I believe was what your question was but wanted to make certain.

Christopher M. Snyder - *UBS Investment Bank, Research Division - Analyst*

Yes. No, that was certainly clear on my end, and I appreciate all the color. And then just -- I guess if I could follow up on that, how had -- just it seems like the visibility and the turnaround is much quicker on the renovation side. So how has that trended? I understand that there's -- it's fair to believe that that's going to be more resilient than maybe starts going forward. But at the same time, workplace mobility has been low, and that could maybe discourage renovation. So just given that you do seem like you have more real-time insight into demand there, could you provide any color on that?

Richard K. Reece - *Acuity Brands, Inc. - Executive VP & President of Acuity Brands Lighting*

Yes. The only color is, again, it's very uneven, as I said before, around the country. We have seen a slowdown in the renovation just as we've seen the delay in the new construction, just couldn't get on jobs. Obviously, retailers and others don't want people in their space and so forth. So the trend there has been pretty consistent with our overall trend.

Operator

Thank you. Thank you for participating in today's Q&A. I would like to turn the call back over to Mr. Neil Ashe for closing remarks.

Neil M. Ashe - *Acuity Brands, Inc. - President, CEO & Director*

So again, I'd like to emphasize a couple of things. First, we feel like we performed really well in the quarter. We were able to manage to a 5% net sales decline and a flat gross profit margin. And we -- we are demonstrating consistently the ability to generate cash in all market environments. And so we -- we believe that we are well positioned for however the market shakes out, whether it stays at these levels, and we have a robust product portfolio for the inevitable bounce back that's going to happen, whether that's in the renovation or the new construction starts. And we feel really good.

And the last thing I'd like to say is I'd like to compliment our team on an incredible effort over the course of the last 2 quarters, whether we're talking about the supply chain, the product development folks, the technologists we've brought on board, all of the enabling functions. Everyone has rallied in what is obviously a very demanding environment to deliver what we believe is a very solid performance.

And so we're excited about the future, and we're well positioned for where we think it's going to shake out. So thank you for your investment of time and learning about Acuity, and we appreciate the conversation, and we look forward to talking to you again this time in another quarter.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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