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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, and welcome to the Acuity fiscal 2025 fourth quarter and full year earnings call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to Charlotte McLaughlin, Vice President of Investor Relations. Charlotte, please go ahead.

Charlotte McLaughlin - Acuity Inc - Vice President of Investor Relations

Thank you, operator. Good morning, and welcome to the Acuity fiscal 2025 fourth quarter and full-year earnings call. On the call with me this morning, Neil Ashe, our Chairman, President and Chief Executive Officer; and Karen Holcom, our Senior Vice President and Chief Financial Officer. Today's call will include updates on our strategic progress and in our fiscal 2025 fourth quarter and full-year performance. There will be an opportunity for Q&A at the end of this call. As a reminder, some of our comments today may be forward-looking statements.

We intend these forward-looking statements to be covered by the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995, as detailed on slide 2 of the accompanying presentation. Reconciliations of certain non-GAAP financial metrics with their corresponding GAAP measures are available in our 2025 fourth-quarter earnings release and supplemental presentation. Both of which are available on our investor relations website at www.investors.acuityinc.com. Thank you for your interest in Acuity. I will now turn the call over to Neil Ashe.

Neil Ashe - Acuity Inc - Chairman of the Board, President, Chief Executive Officer

Thank you, Charlotte, and thank you all for joining us this morning. Our fiscal 2025 fourth-quarter performance was strong, we grew net sales, expanded our adjusted operating profit and adjusted operating profit margin, and increased our adjusted diluted earnings per share. Throughout fiscal 2025, we have demonstrated our ability to deliver growth and consistent operating performance that created stakeholder value and compounded shareholder wealth.

Acuity Brands Lighting delivered sales growth and improved adjusted operating profit and adjusted operating profit margin in the fourth quarter. This performance was driven by the execution of our strategy and the aggressive actions taken over the last two quarters to manage margins despite the dilutive impact of the combination of higher tariff costs and corresponding price increases.

We have the most dynamic and resilient supply chain in the industry and we have adapted faster and more effectively than our competitors. We have leveraged our multinational footprint to move away from higher tariff environments and optimize our supplier relationships. We accelerated productivity efforts, including the evaluation of operating expenses and our organizational structure and ABL, and we continue to strategically manage price. I have spent the last couple of quarters describing how our electronics portfolio is a unique offering in the marketplace, extending from the drivers that power our luminaires to the sensors, controls, and software which control light in a space and connect with the cloud seamlessly through our Atrius data lab.

We're developing market-leading solutions that drive productivity for us and for our partners. A good example of this is the TLS, Twist-to-Lock sensor by SensorSwitch that offers time-saving solutions to contractors. TLS is an occupancy sensor designed for industrial spaces like warehouses and manufacturing facilities. It gives contractors the ability to easily add controls to any project, saving time and reducing complexity on the job site without the need for wires or separate installation. Our visual suite of applications are automating manual processes across the key phases of a project, design, installation, and optimization. These digital tools are designed to boost productivity, encourage collaboration, and build contractor preference.

Visual Lighting and visual Control help designers create lighting solutions by mapping digital floor plans, automating design audits, and offering smart recommendations. Visual Installer gives installers real-time access to their design plans, enabling collaboration that results in an accelerated install and programming timeline. And Visual Cloud optimizes project management, providing site access and team contacts, leading to simplified collaboration and an overall reduction in costs.

This end-to-end support improves the end user experience through increased productivity and lower costs. As part of our ABL growth algorithm, we are making organic investments for future growth, prioritizing verticals where we have not historically competed or where we are underpenetrated.

This year, we strengthened our offerings across healthcare by launching the Care Collection and developing our Nightingale range of products. Care Collection is a curated portfolio of lighting and lighting control solutions that have been designed for use in a healthcare environment, making it quicker and easier for customers and agents to select the products that they need. We introduced the Nightingale brand to expand our healthcare offering into in-room patient care.

Our team developed a series of lighting solutions that combines the functional needs of our caregivers with the environmental needs of patients. In addition to Nightingale Embrace that we previewed last quarter, we launched Respond and Observe. Respond is a multifunctional patient bed luminaire with ambient, exam, night observation, and reading modes. Respond can be paired with SensorSwitch.

Observe is a skylight that can be used in common areas and patient rooms and can switch between exam, ambient, and sky modes also using SensorSwitch. Nightingale has already received recognition from the industry. In the fourth quarter, it was one of several of our brands that were highlighted by the IES Industry Progress Report Awards that celebrates advancements in lighting products, research publications, and design tools from the past year. Other products recognized include the IVO Cylinders and Deep Regressed Downlights, Holobay by Holophane, REBL Round High Bay, and Wander Pathway Lights by Hydrel.

Now switching to Acuity Intelligent Spaces, which had another strong performance this quarter. Through Atrius, Distech, and QSC, we have unique and disruptive technologies that are driving productivity for people experiencing spaces and for the people who are providing those spaces. Atrius and Distech control the management of the space, and QSC manages the experiences in that space. Over time, we will use the data that they generate to enhance productivity outcomes through data interoperability.

During the quarter, Atrius, Distech, and QSC each delivered strong results and are continuing to collaborate to explore new and interesting ways of working together. QSC is building the industry's most innovative full-stack AV platform that unifies data, devices, and a cloud-first architecture to deliver real-time action, experiences, and insights. The addition of QSC has evolved the geographic footprint of our AIS business, accelerating our multinational expansion. One of the markets where we have already benefited from this is India, where we compete commercially and have an experience center that we expanded during the quarter.

The center includes product demonstrations for various room types in high-impact spaces as well as design workshops and training for our ecosystem partners. This center also serves as a hub for intelligence spaces to develop collaborative use cases for future workspaces, and is the first experience center to feature the integrated Acuity Intelligence Spaces offering.

Now I want to take a moment to review where our business is today and our view of how we are positioned for the future. Acuity Inc., is a leading industrial technology company comprised of Acuity Brands lighting, which is the best-performing lighting and lighting controls company in the world, and Acuity Intelligence Spaces, which is a dynamic and growing building management and full-stack AV business.

We have transformed the company from principally a luminaires business to a data, and controls, and luminaires business, and position ourselves well for long-term growth. Fiscal 2025 was an important year for us. We renamed our company, Acuity Inc., reflecting our evolution and aligning to our strategy of using technology to solve problems and create impactful experiences that shape help people live, work, and connect.

We continue to make our Acuity Brands Lighting business more predictable, repeatable, and scalable. We realigned the business into luminaires and electronics and delivered improved financial performance. ABL is a high-quality strategic asset and a core pillar of our company. In Acuity Intelligent Spaces, we acquired and integrated QSC. We have scaled AIS into a larger part of our overall company. At Acuity, we are doing things differently. Our values are at the core of who we are, guiding how we serve our customers, associates, and communities.

Each of our associates understands how we create value. We grow net sales, we turn profits into cash, and we don't grow the balance sheet as fast. And we are empowered by our better, smarter, faster operating system to work in a structured and consistent way. The combination of these things allows us to operate more productively with greater distribution of responsibility and accountability throughout the company.

It is how we are able to react aggressively to changes in the macro environment this year and how we were able to quickly and successfully integrate QSC. In Acuity Brands Lighting, we are focused on product vitality, elevating service levels using technology to improve and differentiate both our products and how we operate the business and driving productivity.

Our growth algorithm is clear. We will grow with the market, we will take share, and we will enter new verticals, and we have the opportunity to continue to expand margins. In Acuity Intelligent Spaces, we are making spaces smarter, safer and greener. We have unique and disruptive technologies that are driving productivity for people experiencing spaces and for the people who are providing those spaces. Our focus in AIS will continue to be on growth with the opportunity for margin expansion.

We are effective capital allocators. We have grown our business organically and through acquisitions. We have rewarded our shareholders with increased dividends, and we have been opportunistic in repurchasing more of our outstanding shares. Acuity is positioned for long-term growth. We are innovators, disruptors, and builders who are creating stakeholder value and compounding shareholder wealth. Now I'll turn the call over to Karen, who will update you on our fourth-quarter performance.

Karen Holcom - Acuity Inc - Chief Financial Officer, Senior Vice President

Thank you, Neil, and good morning, everyone. We ended fiscal 2025 with strong fourth-quarter performance. We grew net sales, improved our adjusted operating profit, and adjusted operating profit margin, and increased our adjusted diluted earnings per share. For Total Acuity, we generated net sales in the fourth quarter of \$1.2 billion which was \$177 million or 17% above the prior year. This was driven by growth in both business segments and includes three months of QSC sales. During the quarter, our adjusted operating profit was \$225 million, up \$47 million or 26% from last year. This improvement was due to the growth of AIS, including the acquisition of QSC and the result of actions taken at ABL to control operating expenses.

Adjusted operating profit margin during the quarter expanded to 18.6%, an increase of 130 basis points from the prior year. This quarter, there are a few additional non-GAAP adjustments to call out. First, there is a noncash charge of approximately \$31 million, resulting from the derisking of our qualified pension plans in the United States and Mexico. As we said last quarter, over the last few years, we have taken steps to simplify and minimize the future impact of our pension obligations on the company.

Through our investment policies and capital allocation decisions, these pension plans were overfunded. And as a result, we transferred the majority of the related obligations to a third party. Our UK pension plan transfer is anticipated to be completed in the first quarter of fiscal 2026, and we expect to take an additional noncash GAAP charge of around \$10 million at that time. This quarter, we also recognized a one-time tax benefit of \$8 million. After non-GAAP items, our adjusted diluted earnings per share was \$5.20, which was an increase of \$0.90 or 21% over the prior year.

ABL delivered sales of \$962 million, an increase of \$7 million or 1% versus the prior year driven by growth in our independent sales network of \$25 million or 4%, partially offset by declines in corporate accounts and our direct sales network. Adjusted operating profit increased \$22 million to \$194 million, and we delivered adjusted operating profit margin of 20.1% which was up 210 basis points compared to the prior year. This improvement was driven largely by the intentional actions we took in the third quarter to reduce operating costs and our increased focus on productivity.

Now moving to Acuity Intelligent Spaces. Sales for the fourth quarter were \$255 million, an increase of \$171 million. Atrius and Distech combined grew approximately 13%, while QSC grew approximately 15% year-over-year. Adjusted operating profit in Intelligent Spaces was \$55 million with adjusted operating profit margin of 21.4%.

Now turning to our cash flow performance. During the fiscal year, we generated \$601 million of cash flow from operations, which was \$18 million lower than last year, primarily due to the acquisition-related items, the timing of tariff payments, and accelerated inventory purchases driven by the tariff policy. In fiscal 2025, we continue to allocate capital effectively and consistent with our priorities. We invested for growth in our existing businesses, allocating \$68 million to capital expenditures.

We invested over \$1.2 billion in acquisitions and repaid \$200 million of our term loan, including an additional \$100 million this quarter. We increased our dividend by 13% and allocated around \$119 million to repurchase approximately 436,000 shares at an average price of around \$270. Since the beginning of the fourth quarter of fiscal 2020, we have repurchased approximately 10 million shares at an average price of around \$150 per share, which was funded by organic cash flow. This amounts to about 25% of the then outstanding shares.

I now want to spend a few minutes on our outlook for 2026. Consistent with our prior practice, we are going to provide annual guidance anchored around net sales and adjusted diluted earnings per share. We will also provide you with certain assumptions, which you can find in the supplemental presentation available on our website after the conclusion of this call.

For full-year fiscal 2026, our expectation is that net sales will be within the range of \$4.7 billion and \$4.9 billion for total AYI. This is based on the assumption that ABL will deliver low-single-digit sales growth and AIS will generate organic sales growth in the low- to mid-teens. We expect to deliver adjusted diluted earnings per share within the range of \$19 to \$20.50.

In summary, we delivered strong performance in fiscal 2025. We grew net sales, improved margins, and increased adjusted diluted earnings per share. We generated strong cash flow from operations and allocated capital effectively. We are positioned well to deliver another strong year in fiscal 2026.

Thank you for joining us today. I will now pass you over to the operator to take your questions.

QUESTIONS AND ANSWERS

Operator

Chris Snyder, Morgan Stanley.

Christopher Snyder - Morgan Stanley - Analyst

Thank you. Maybe just starting with a bigger-picture question here, Neil. It's been maybe almost eight months since the QSC acquisition. It seems like integration is going really well. Can you kind of just talk about the M&A pipeline? And if there categories within the smart building ecosystem that is attractive to the company.

Neil Ashe - Acuity Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. Thanks, Chris. Well, first off, obviously, we're pleased with the addition of QSC to the portfolio. As you know, we have a different theory of the case for Acuity Intelligent Spaces is that we can consolidate the data state of a built space, how the building operates, the experiences in that building in that building, who's in that building, other elements of that data state. So we have a consistent pipeline of potential acquisitions that would continue to expand that portfolio as well as opportunities to continue to expand organically in that portfolio. So we feel like the path of travel for Intelligent Spaces is pretty clear. Both with the -- with deploying capital as well as organically.

Christopher Snyder - Morgan Stanley - Analyst

Thank you, I appreciate that. And then maybe just following up with more of a near-term one on the quarter itself. If we look at ABL, it seems like the sequential ramp in Q4 came in below seasonality. Despite incremental price, I would imagine quarter-on-quarter coming through. That just a function of the pull forward that you guys highlighted on Q3. Does it signal that some of the end markets are softening? And then just any color or thoughts on the channel inventory level as we start fiscal '26. Thank you.

Neil Ashe - Acuity Inc - Chairman of the Board, President, Chief Executive Officer

I'll start, Karen, add anything that I leave off. So you'll remember back in the last call, we suggested that it would be prudent to evaluate the second half of the year given given the changes in tariff policy, the resulting actions we took to modify the supply chain to reduce operating expenses and then the corresponding price increases as well. So basically, if you take the third quarter plus the fourth quarter, ABL is exactly where we expected it to be. And I think we can be proud of the performance that the unit has delivered through all of these.

As you pick apart the disaggregated revenue, we have remained strong with both the independent sales network, combined with our direct sales network. So really around the project business in the quarter and in the year, the corporate accounts business was down versus last year. So as we've said consistently, that's a really good piece of business, but it's not a very consistent piece of business because it relies on the capital decisions of a concentrated group of customers.

So taken on the whole, I think the ABL performance is really strong, both from a top line as well as from a margin perspective. Our belief is that we have outperformed the industry. So numbers will come out over time, but our belief is that we've outperformed the industry.

Christopher Snyder - Morgan Stanley - Analyst

Thank you, I really appreciate that.

Operator

Tim Wojs, Baird.

Timothy Wojs - *Robert W. Baird & Co Inc - Analyst*

Hey, everybody, good morning, and nice job. Maybe just a bigger question to start off with Neil. Just on AIS. I guess as you've kind of thought about integrating the front of the house with QSC and the back of the house with Distech and Atrius. What are some of the key milestones that we should look for or think about as you maybe develop a more wholesome solution?

Neil Ashe - *Acuity Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. Thanks, Tim. So just to continue to build on the strategy there. Basically, we have outstanding and disruptive technology that is powered both in -- on the Control side and Distech as well as in QSC. Those businesses on a stand-alone basis will continue their path of taking share in their specific pieces of the market. Atrius DataLab then is the data integration effort that we are undertaking to combine those data elements or, as you point out, the front of the house or the back of the house, or IT and OT combination as some others are using so that we can deliver unique experiences and outcomes in those spaces. What's really interesting to us is the power of our Controls platform.

So the build space definition, each building is different. And so having that position in the space is incredibly valuable. So from a milestones perspective, you can expect that each of the three businesses will continue their organic development, number one. Number two, you can look for us to start to comingle some of their products in their implementation and application. And then over time, you'll start to hear end users and customers start to talk about the ability to do things that they didn't realize were possible through the combination of both of these hardware solutions as well as the data and software solutions that we're developing.

Timothy Wojs - *Robert W. Baird & Co Inc - Analyst*

Okay. That's helpful. And then just kind of a two-part around guidance. I guess the first is within the low-single-digit ABL guide, is there a way to just contextualize how much price is just given all the moving pieces with tariffs? And then second, just on margins. I'm kind of backing into kind of an implied adjusted EBIT margin of 17% to 18%. Just -- is that the ballpark level there on margins? Just anything to call up below the line?

Karen Holcom - *Acuity Inc - Chief Financial Officer, Senior Vice President*

Yeah. Let me hit the one on ABL and the price first. So just to take a step back, Tim. Over the past few years, we've been really strategic about pricing at ABL and focusing on the value that our products are bringing to the end user. And yes, we've had several pricing increases over the past couple of quarters to offset the increase in the tariffs. But we didn't take these peanut butter over our portfolio of contractor select, design select, and made to order.

We've taken some prices up and some prices down depending on where we've seen opportunity to be strategic in the marketplace. So I would sum it up by saying all the pricing actions have been about in the low- to mid-single digits, intending to offset the dollar impact of those tariffs.

Neil Ashe - *Acuity Inc - Chairman of the Board, President, Chief Executive Officer*

Okay. And then I want to take, Tim, the opportunity. We like to use the full-year call to contextualize where I think we are on a long-term basis. And so I don't want to miss the opportunity to highlight the dramatic margin improvement in the company and then in the lighting business specifically. So from where we've come from fiscal '19, fiscal '20 to where we are today is pretty dramatic and is significantly in advance of the competition.

As a point of disclosure, we took the decision this -- with the end of this year and then going forward to provide both gross margin and operating profit margin at the segment level, so that you will understand the performance of those businesses even more clearly. And the path of travel is very clear, as I said earlier. The -- we continue to take share. We continue to expand margins in both the lighting, and lighting controls, and on the AIS side. Obviously, expectations will continue to rise and they will converge with our performance over time, and we're -- but we feel really, really good about where we are.

Timothy Wojs - *Robert W. Baird & Co Inc - Analyst*

Okay, okay. That's helpful. Thank you, guys.

Neil Ashe - *Acuity Inc - Chairman of the Board, President, Chief Executive Officer*

Thanks.

Operator

Ryan Merkel, William Blair.

Ryan Merkel - *William Blair Capital Partners - Equity Analyst*

Hey, everyone. Good morning. So Neil, the market has been soft for a while here, flat to down. Any signs that orders and demand is improving? Or do you think we need lower interest rates before you start to see an uplift in the lighting market?

Neil Ashe - *Acuity Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah, Ryan. On the lighting side, so we've been waiting for economic stability for a while now, and we continue to grind out performance in the absence of that economic stability. So -- as you know, we were pretty data intensive. So as we look forward, our expectation from a kind of economic context perspective is that it's really more of the same. And we don't have -- we are not modeling in expectations of improvement at this point.

So I think the -- I'm not an economist, obviously. And so I'm not going to put a finger on what I think the drivers are of that change. But I will emphasize that -- our growth algorithm on the ABL side is really clear. And we're demonstrating that in a tepid economic environment like this one, we can perform.

So with the combination of the market performance, the taking share, and expanding in new verticals, we're generating the -- we're demonstrating rather the ability to consistently grow. As you saw in the third quarter, if we get a little bit of a tailwind through market growth, that just adds obviously to that and would be an accelerant. But -- but it's a -- we're demonstrating, I think the emphasis here is we're demonstrating the ability to continue to deliver these results no matter the context.

Ryan Merkel - *William Blair Capital Partners - Equity Analyst*

All right. So to put it in my own words, it doesn't sound like a lot has changed on the market. And for ABL to be up low-single digits for '26, it assumes the market is flat to down. Is that fair?

Neil Ashe - *Acuity Inc - Chairman of the Board, President, Chief Executive Officer*

I would say that's fair. It's more us than the market in our expectation.

Ryan Merkel - *William Blair Capital Partners - Equity Analyst*

Right. Okay. And then I had a question on gross margins for the outlook. I know you won't give specifics, but I think -- the street is modeling gross margins in '26 down a little bit. Now I know you've done some productivity things. And I think on the last call, you said you thought you could

return gross margins to 50% using productivity. So just any color on gross margins and if 50% is still a reasonable target at some point to get back to?

Neil Ashe - *Acuity Inc - Chairman of the Board, President, Chief Executive Officer*

So let's break that down into its component parts. So there's the whole company, which is -- which will continue to expand on two fronts. One is mix; and two is continued improved performance at ABL. So as I've said, the -- we're moving down that direction. We'll continue to move down that direction.

As Karen indicated in her prepared remarks, the dollar impact of the combination of tariff cost and price increase is neutral. The margin percentage impact is negative. So that takes back the -- some of the margin expansion for a period of time at ABL. So that's in the -- depending on how the periods fall out, that's in the 50 to 100 basis points of impact kind of range. So we need to digest that as we continue to move forward. But the strategy and our longer term expectations remain the same and are clear.

Ryan Merkel - *William Blair Capital Partners - Equity Analyst*

All right. Fair enough. That's (inaudible). Thanks.

Neil Ashe - *Acuity Inc - Chairman of the Board, President, Chief Executive Officer*

Thanks.

Operator

Joe O'Dea, Wells Fargo.

Joseph O'Dea - *Wells Fargo Securities LLC - Analyst*

Hey, good morning. Wanted to start on QSC. Any color on the margins in the fourth quarter? It looks like it could have been around 20% and legacy AIS around 23%. So really, just looking if that's kind of a reasonable expectation and then understanding the steps that you've taken. So it looks like you've already moved those QSC margins from mid-teens to low 20%. And then how you think about the time line on the path to get them to align with legacy margins?

Karen Holcom - *Acuity Inc - Chief Financial Officer, Senior Vice President*

Yeah. Thanks, Joe. As Neil mentioned earlier, we really are pleased with the progress of QSC as they become part of acuity and of AIS. So we've seen really strong performance across all of AIS. And when we did the acquisition, we expected that we would bring QSC's performance more in line with the legacy business, which is really what we've demonstrated over the past two quarters.

They've had strong sales growth this quarter and last quarter. And so that's contributed to the margin improvement. And then they've also benefited from adopting our better, smarter, faster operating system and ways of working, which has helped them drive productivity, not to add additional cost to get that growth. So I think the margin is strong. We're really pleased with where we are. And our focus on AIS is going to continue to be on growth. And over time, we will make some investments to deliver that mid-teens type growth.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

You still see QSC as a margin expansion opportunity in '26?

Karen Holcom - Acuity Inc - Chief Financial Officer, Senior Vice President

Over time, I think it will be. It will continue to expand. But again, the focus will be on growth in AIS in total.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

Okay. And then, Neil, you made some comments around the cost side of things and talked about a dynamic supply chain advantage that you have that, you moved away from higher tariff environments. And also, it sounds like some cost actions, in particular, within ABL. So can you just elaborate on some of the steps that you've taken on the cost side, inclusive of sizing what China as a percent of sourcing now versus where it was previously?

Neil Ashe - Acuity Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. So let's start with material pricing. Obviously, that has -- that's where the impact of the tariff is. So we've moved. I think the majority of that a way to either other Asia or -- and as much of that obviously to within our footprint as we can. So that remains -- so -- and we did that basically within the first month after -- well, in the month of April after the April 2 announcements. So that was that was accelerated and impactful.

I don't have an exact percentage of the material spend that is -- that we currently get from China, but obviously, we've taken that way down. Over the last five years, our total exposure to China is in the range of 20%-ish of what it was at one point. So we've dramatically changed that.

So on the sourcing side, we are as we've indicated, dynamic on how we -- on how we're sourcing. And that really applies to all of our components. And we've got interesting work underway to continue that process, which we're really pleased with. And then on the ABL side, we took the opportunity in the third quarter to reevaluate our operating expenses and our organizational structure as a result of sales not materializing the way that we had predicted that they would for the back half of the year.

So we took the opportunity to accelerate productivity efforts that we had underway, so specific projects, which were intended to deliver productivity. And second, we reevaluated the organizational structure and eliminated a chunk of employees to realize some of those cost savings. So again, as I said earlier, I'm pleased with the work that the team has done there in this environment to deliver these results.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

And then sorry, just a clarification. The pull-forward impact you talked about in Q3, is that isolated to the back half of last year and really no anticipated impact on '26?

Neil Ashe - Acuity Inc - Chairman of the Board, President, Chief Executive Officer

Basically. So I'll just reprise what we said on the last call, which is that when we have an order ahead of that like that happened in Q3, essentially what happens is backlog swells a little bit, and then we ship that on a relatively consistent basis over the following period. So there's a little bit of that that happens between the fourth quarter and the first quarter as well. But on a normalized basis, we are basically where we expect like on a consistent basis to be.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

Thank you.

Operator

Christopher Glynn, Oppenheimer.

Christopher Glynn - *Oppenheimer & Co Inc - Analyst*

Thanks, good morning. Nice to tune in to the continuing exciting story of developments here. So considering markets are relatively listless out there, directionless, you have a pretty confident revenue guide. I understand what you're talking about taking share. It's been a consistent story. But I'm wondering if aside from product, if you could talk about on a more granular level, any angles or zones in the commercial RFP environment where you feel are the most demonstrative of relative competitive momentum.

Neil Ashe - *Acuity Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. Thanks, Chris. So back to the growth algorithm for a second, the market taking share, and new verticals. So the new vertical performance is obviously really strong. And as we look forward, we'll continue to be healthcare refuel and sport lighting are each opportunities for us to continue to add to that. That's probably in the order of, I don't know, 50 to 100 basis points of addition to the top line on a net basis.

Then on the take-share front, our Contractor Select portfolio performed really well in the fourth quarter. And so we're being aggressive with the changes in the marketplace there to press our advantage there. And then I'd highlight something that we haven't talked about in a long time, where we've had real strength, but is in the specifier in our specifier brands, which have also performed well and are taking share.

So -- to your broader context of the overall puzzle, it's -- we're executing pretty effectively across the ABL portfolio. So we're delivering, as we said, these results in a relatively tepid end-market environment.

Christopher Glynn - *Oppenheimer & Co Inc - Analyst*

Great, (inaudible). Thanks.

Operator

Brian Lee, Goldman Sachs.

Brian Lee - *Goldman Sachs Group Inc - Analyst*

Hey, thanks everyone, good morning. A couple of questions. Just first on guidance. I know a lot of questions on the margins. I appreciate you guys breaking out the segment margins here. But I guess it does beg the question. There's a lot of moving pieces, both in ABL and also some of the comments around AIS building for growth, maybe that the margin expansion story in the near term.

So thinking about this directionally, it almost sounds like ABL, you're holding the line on margins, maybe seeing a bit of expansion into '26. And then AIS should be focused on we see a little bit of backsliding on the gross margins just in that segment? And if that is the case, what are some of the moving pieces there? Is it just specific increased investment growth or what are some of the drivers around that margin profile?

Neil Ashe - *Acuity Inc - Chairman of the Board, President, Chief Executive Officer*

Right. I'm not sure what you mean about so many moving pieces. So I'll just break it down pretty simply. So ABL for the last five years and for the next five years, we'll continue to move forward on productivity improvements that are driving margin. The impact there at ABL is the percentage

margin impact of the combination of tariff costs and price increases. So that, as I indicated earlier, on a full year basis would be in the range of 100-ish basis points as we continue to drive dollar margins. And so that's what we were trying to explain pretty clearly. I think, Karen also was really clear on where AIS is growing -- going.

So we're growing in the low- to mid-teens. We have a continued margin expansion opportunity. When faced with the choice between expanding margins or continuing the growth, we will invest for growth. And so when you sum those across the enterprise for FY25, obviously, we had a really strong performance where we demonstrated the dexterity in ABL and the power of QSC joining our enterprise and their margin expansion. And over the next year or years, we would expect that general direction to continue.

Brian Lee - Goldman Sachs Group Inc - Analyst

Okay. Fair enough. But that's triangulating, I mean, obviously, the tariffs are the impact on ABL. But for AIS, the deliberate strategy to focus on growth in the near term, it does sound like we shouldn't necessarily be expecting margin expansion in that segment over the next 12 months. But on a longer-term basis, clearly, direction is still higher. Is that fair?

Neil Ashe - Acuity Inc - Chairman of the Board, President, Chief Executive Officer

Well, Brian, we've added 500 basis points of margin to QSC in eight months. So I feel like we're kind of directionally in a pretty good place. So yes, we will continue to grow AIS, and those margins will continue to grow over time.

Brian Lee - Goldman Sachs Group Inc - Analyst

Okay. And then on the data monetization front, it sounds like there's a lot of opportunity there. I don't know if you've ever anticipate being able to break that out or wanting to break that out at a high level. Can you kind of speak to what data monetization opportunities you either currently have or expecting to be able to execute toward in that AIS again. Is there any quantification, that would be great as well. Thank you.

Neil Ashe - Acuity Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. So short term and long term with AIS as I indicated, both with all of the Atrius Distech and QSC. We're -- our control position and our portfolio are incredibly strong in their respective areas, and those will continue to grow. The initial impact of data will be through the outcomes we are delivering as we expand those experiences. So there are specific software opportunities that we're in the marketplace with now and the more that will be coming over the course of the next 12 to 24 months.

And then finally, the data monetization will over time, manifest in two ways. One will be the continued acceleration of that software-focused revenue and the outcomes that they deliver. And maybe over time, we introduce data-specific products. But in the immediate term, we will continue where we're growing, which is around our control platforms and the increased impact of software on those over the next 12 to 24 months.

Brian Lee - Goldman Sachs Group Inc - Analyst

Appreciate the color..

Neil Ashe - Acuity Inc - Chairman of the Board, President, Chief Executive Officer

Thank you.

Operator

Jeffrey Sprague, Vertical Research Partners.

Jeffrey Sprague - Vertical Research Partners LLC - Analyst

Hey, thank you. Good morning, everyone. Just a couple of loose ends or points of clarification for me, I guess, after all that. First, just on the tariff situation, Neil or Karen, given that you guys have taken so many counteractions, sourcing, and otherwise, are you in a position now relative to your competitors that -- I guess, for lack of a better phrase, your pricing for tariffs, you're no longer exposed to as we roll into 2026? Is there an embedded margin opportunity there?

Neil Ashe - Acuity Inc - Chairman of the Board, President, Chief Executive Officer

Yeah, Jeff, that's a good question. So we've been relatively conservative in our expectations in this. So we're trying to mitigate as much of the tariff impact from either productivity or transitions as you've described first. And we've minimized that in pricing impact. Second, -- so the -- as Karen indicated that when we talk about strategically, that means some places we're taking prices up in some cases, we're taking pricing down.

So what we're balancing is trying to optimize share gain for margin expansion opportunity. The margin expansion opportunity, we are confident in over the foreseeable future. So we'll really trying to dial that as an opportunity to -- if we had a bias there, we would take some more share probably as opposed to add an incremental margin piece at ABL.

Jeffrey Sprague - Vertical Research Partners LLC - Analyst

Right. And then I guess, conversely, you're never going to stop pushing for productivity. But was there anything in these actions in 2025 that are temporary in nature that need to come back from a cost standpoint as we look into '26, particularly if the top line is beginning to pick up?

Neil Ashe - Acuity Inc - Chairman of the Board, President, Chief Executive Officer

So not specifically the actions that we took. Those are accelerated productivity and permanent changes, not short-term band-aids. On the OpEx side, we will continue to invest in technology. So -- and so as I've said on some calls in the past, so the geography of the -- specifically on the ABL side, the income statement may continue to change a little bit as the technology expenses are in OpEx, which drive gross margin impact over time.

So -- but we're -- so that would be the balance. So yes, the changes that we made are effectively permanent. Now we move into the next cycle, merit increases, health care cost increase, all that kind of exciting stuff. But the investment areas, especially on the ABL side, are going to be in technology to drive productivity.

Jeffrey Sprague - Vertical Research Partners LLC - Analyst

And then just finally for me, just on inventories, Neil or Karen. Your days inventories have been moving up, tried to scrape out the QSC impact, but I could. But still seems somewhat elevated, maybe speak to where we're at relative to what normal inventory should be? Is there any absorption benefit or anything that's occurred here that needs to normalize as we look into next year?

Karen Holcom - Acuity Inc - Chief Financial Officer, Senior Vice President

Yeah, Jeff, there's really two things going on with inventory. The first would be just the elevated cost the inventory from the impact of the tariffs. So you're seeing a higher dollar amount of inventory that's impacting the total, but then also and more impactful is we've also had to decided to bring in some of the inventory that we could to protect us from some of the higher cost over time from the increasing tariffs.

So it's really those two things that play a little bit of higher cost of inventory and bringing some more in to deal with the elevated tariff costs. You'll see that play down over the course of this year. So it shouldn't remain at the elevated levels that we are at the end of August.

Jeffrey Sprague - Vertical Research Partners LLC - Analyst

Great. Thank you.

Operator

Thank you. And I'm showing no further questions in queue at this time. I'd like to turn the call back to Neil Ash for any closing remarks.

Neil Ashe - Acuity Inc - Chairman of the Board, President, Chief Executive Officer

Great. Well, first of all, thank you all for joining us today. As we've indicated, we believe fiscal 2025 was a strong year for Acuity. We operated effectively in a relatively dynamic environment. The performance at ABL continues to be, by far, the best in the world and we're confident in its ongoing continuous improvement.

On the AIS side, we're really excited about what we're building here. We -- with Atrius, with Distech, and QSC, and then the combination of those three things, we think we're building an innovative and disruptive business that is -- that has the potential to do some pretty exciting things in the future.

So -- with all that taken together, we're pleased with '25. We're hard at work already on '26. We appreciate your interest, and we look forward to talking to you again in the next quarter.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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